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

Investment Climate in Arab Countries

Dhaman Investment Attractiveness Index

2012 – 2013

خمان

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Headquarters
Arab Organizations Headquarters Building
The intersection of Jamal Abdul Nasser
Street and Airport Road,
Shuwaikh, Kuwait
P.O.Box: 23568 - Safat 13096
Tel: (+965) 24959555
Fax: (+965)   24959597 , 24959591,   24823761
E-mail: info@dhaman.org
Website: www.dhaman.org

Arab Organizations Headquarters Building

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Publisher

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Establishment Date	1/4/1974	1974/4/1	تاريخ التأسيس
Commencement Date	1/4/1975	1975/4/1	تاريخ المباشرة
Director-General	Mr. Fahad Rashid Al Ibrahim	السيد/ فهد راشد الإبراهيم	المدير العام
Paid-up Capital	USD 197.4 million	197.4 مليون دولار أمريكي	رأس المال المدفوع
Reserves	USD 132.5 million	132.5 مليون دولار أمريكي	الاحتياطي
Credit Rating	"AA, Stable", by Standard & Poor's credit rating agency.	"AA، مستقر " من قبل وكالة ستاندرد أند بورز للتصنيف الائتماني.	التصنيف الائتماني
Accumulated Guarantee Contracts 31-12-2012	USD 9.5 billion	9.5 مليار دولار أمريكي	القيمة التراكمية لعمليات الضمان 2012-12-31
Dhaman's Organizational Structure	▪ Shareholder's Council ▪ Board of Directors ▪ Director-General	▪ مجلس المساهمين ▪ مجلس الإدارة ▪ المدير العام	أجهزة المؤسسة
Member Countries	All Arab League member states except Comoros Islands.	كافة الدول الأعضاء في جامعة الدول العربية عدا جمهورية جزر القمر.	الدول الأعضاء
Financial Institutions (shareholders)	▪ Arab Fund for Economic and Social Development ▪ Arab Monetary Fund ▪ Arab Bank for Economic Development in Africa ▪ Arab Authority for Agricultural Investment and Development	▪ الصندوق العربي للإنماء الاقتصادي والاجتماعي ▪ صندوق النقد العربي ▪ المصرف العربي للتنمية الاقتصادية في أفريقيا ▪ الهيئة العربية للاستثمار والإنماء الزراعي	المؤسسات المالية (المساهمة في رأسمال المؤسسة)

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Arab Authority for Agricultural Investment and Development		الهيئة العربية للاستثمار والإنماء الزراعي

المؤسسة العربية لضــمان
الإستثمار وائتمان الصادرات
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Preface

Preface

The world economy has gone through a drastic transformation during the last century, moving away from relatively self-contained national economies, isolated from the outside world in terms of cross-border trade and investments, to a globalized world, where national economies are moving toward a more and more integrated global economic system. This development has both led to a decrease in investment barriers in favour of the entire foreign direct investment (FDI) environment and to a fierce competition to attract capital flows, and to establish knowledge-based economy founded on accurate information through the spread of new technologies in gathering, classifying, and publishing the economic information as one of the main factors of developmental action. Hence, Dhaman has adopted a direction that rests on deploying knowledge on the conditions and developments of investment climate in the Arab countries, so as to raise the level of interaction between the various economies of the region, enhance investment and trade exchange, and empower investors and decision makers, including those in charge of the management of the entities concerned with the encouragement of foreign investment and exports, to cope with such developments. The aim is to exploit the available investment opportunities, enhance the current Arab product markets, and open new markets for exports.

In continuance of this direction, Dhaman is pleased to introduce to its member countries the 28th Annual Report on Investment Climate in the Arab Countries 2012-2013, covering a review and analysis of the data and indices relating to the performance of Arab economies in terms of attracting foreign investment flows by focusing on their attractiveness to such flows according to a set of parameters interpreting the variance between the different countries of the world in this context.

There is a notable methodological enhancement with respect to last year's report edition. Dhaman introduces for the first time a composite index, called "Dhaman Investment Attractiveness Index" (DIAI) covering a total of 114 sub-indicators structured around ten FDI key drivers, which aim to group together the main sources of competitive advantage that internationalization offers to Multinational Enterprises. The sub-indicators belong to two types of group variables; the hard data, published by conventional international organizations, mainly refer to quantitative economic variables; while the soft data are qualitative data based on surveys. The use of soft data was dictated by the necessity to carry out analysis of attractiveness determinants of a qualitative nature, like many of those related to institutional profiles and political framework.

The proposed index excellently tracks the actual Foreign Direct Investment (FDI) activity in the considered sample of countries which has a broad geographic coverage, spreading over 110 countries, representing 95% of the total stock of world's inward FDI. This demonstrates the quality of DIAI composite measure and its value to investors. The high explanatory power of DIAI for FDI activity results from exclusively focusing on those factors which really shape the attractiveness of particular FDI markets, and weighting them reasonably. Also, for the first time, a full version of the report is issued in English to highlight the findings and recommendations contained in the report, so as to facilitate and widen benefit from the information, conclusions, and suggestions in the report.

This year the report reiterates keenness to achieve the largest possible amount of comprehensiveness and geographic coverage of all Arab countries through the data and indices in its various parts, thus reflecting a more credible picture to the readers, including officials, decision makers and private sector entities at country, regional and global levels. The research team gave priority, in data and information, to the authentic national sources, through the official liaison agents in the Arab countries, which are approved by Dhaman, prior to outsourcing the information available about the Arab countries from international authentic sources, if difficult to obtain such information in full from the liaison agents. The purpose is to complete the material of the report in a timely manner, in parallel with the continued development efforts and vast coverage to provide a view as close to the reality as possible about the conditions of investment climate in the Arab countries.

In this context, Dhaman invites all the concerned government entities in the Arab countries to boost their endeavors and efforts in the areas of developing and upgrading their databases in FDI and relevant areas in accordance with international accounting standards, and to foster the existing cooperation with Dhaman by providing it with the accurate updated data and information, which constitute the basis for the issuance of the report.

Readers are also invited for feedback on Dhaman index. In future editions, selected data series may be substituted by newer or more appropriate ones. Additional data could be added, while other series with poor explanatory power can be deleted. The quality of data and the number of countries covered can be increased in future indices and as a result the proposed composite measure remains a dynamic research product that always takes into account the most relevant and recent data. We hope that investors appreciate the information generated to aid their decision-making; while politicians may utilize the index to benchmark their countries and to make improvements to attract international risk capital.

I have the pleasure to extend my profound thanks and appreciation to the various official liaison parties, investment encouragement authorities and the subordinate entities in the Arab countries for their fruitful cooperation in providing Dhaman with the data and information that largely contributed to enriching the material of the report and quantitative knowledge of the readers. I aspire that this constructive cooperation will continue in the future. Special thanks go to the liaison parties who strongly responded with high ratio of coverage, not only for the required data, but also by providing more information available with them.

In conclusion, I would like to extend my thanks to the research team for preparing the report, and to all those who contributed to providing administrative and technical support to accomplish the report in its current format, specifically the Administrative and Financial Affairs and Operations Department.

Dhaman hopes that investors appreciate the information generated to aid their decision-making; while decision makers may utilize the index to benchmark their countries and to make improvements to attract international direct investment. Dhaman welcomes any comments or views that may improve the contents of the report and enhance the role of Dhaman in supporting the foreign and inter-Arab commercial and capital flows to the Arab region.

We pray to Almighty God to bestow benevolence on us.

Fahad Rashid Al-Ibrahim
Dhaman's Director-General
August 2013

Executive Summary

Methodological Preliminaries

1. What is Foreign Direct Investment (FDI)?

FDI reflects the aim of obtaining a *lasting interest* by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The *lasting interest* implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter.

Based on these definitions, equity capital, reinvested earnings and other capital (mainly intra-company loans) are considered as components of FDI. Nevertheless, as countries do not always collect data for each of those components, reported data on FDI are not fully comparable across countries. In particular, data on reinvested earnings, the collection of which depends on company surveys, are often unreported by many countries.

The classification of FDI could be based on three criteria: the direction of investment both for assets or liabilities, the investment instrument used (shares, loans, etc.), and the sector breakdown.

Methods of collecting FDI data can also be classified into three major approaches; the balance of payments, administrative and survey approaches.

Due to its economic significance and social impact, FDI statistics has become an essential parameter for facilitating national policy-makers to set up regulatory policies and development strategies, and for international institutions to monitor global and regional economic trends and globalization process. Nevertheless, collecting, processing and reporting FDI data remains a major challenge for developing countries in general and Arab countries in particular.

2. Why to measure a country's FDI attractiveness?

Along with the deepening international economic and financial integration over the last two decades, the 2000s saw a significant increase in FDI to developing countries. Developing and transition economies, which proved relatively immune to the global turmoil in 2008, did better than developed countries and continued to absorb nearly half and 6 per cent of global FDI flows respectively. In these countries FDI continue to be the most important source of foreign financing, by far surpassing inflows of official development assistance, and other types of private capital inflows. In comparison, the record of FDI in Arab countries is poor. Indeed, the region attracted only 2.8% of global inward FDI flows and 6.3% of the FDI flows to developing countries according to 2012 World Investment Report (UNCTAD, WIR, 2012) in spite of the adoption and implementation of substantial reform programs in most of the Arab countries covering stock market modernization and liberalization, state owned firms' privatization, regulatory and legal improvements. It is, therefore, quite legitimate to ask whether or not Arab countries might be missing out and should include financial and others incentives to attract FDI as part of a development strategy.

3. How Dhaman measures a country's FDI attractiveness?

Drawing out the main conclusions from the existing theoretical and empirical literatures, the aim of Dhaman's modest contribution is to provide an explanation of why some countries are more attractive for foreign investors than others and what underlies the relative attractiveness failure of the Arab countries. Therefore, a composite index that adequately describes a host country's attraction for FDI is constructed. This index, henceforth referred to as *Dhaman Investment*

Attractiveness Index (DIAI), considers all identified foremost, measurable and comparable aspects that affect FDI decision.

The index aggregates and provides the requisite information for FDI allocation decisions. The results shall obviously serve as a support tool in assessing the reasons boosting or slowing down foreign investment in the Arab Region. DIAI could also be considered as a guide for foreign investors to solve the problem of where to allocate their capital. The aim of the index is also to point out the leverage factors to improve FDI attractiveness of Arab countries and constitutes as such a valuable policy tool available for economic policy makers in the region.

The composite index calculation methodology used follows the approach of OECD (2008a) and defines the FDI attractiveness of a considered location as a set of various potentially-related receiving country factors that summarize a country's ability to provide the most competitive benefits for FDI. The degree of attractiveness of each country and its position in the ranking are determined by using weighted averages and linear relations between these variables. The index benchmarks the attractiveness of 110 countries, representing 95% of the world inward FDI stocks respectively (98% of the total inward FDI stocks into the Arab region), to receive FDI allocations and covers a total of 114 sub-indictors structured around 10 FDI key drivers covering the following three axes which aim to group together the main sources of competitive advantage that internationalization offers to foreign investors: **Prerequisites or initial conditions** including 64 different data series covering macroeconomic stability, financial structure and development, political environment and public governance and business environment; **Underlying factors** where 35 factors are detected as adequate proxies to explore the FDI key decisions of MNEs and covering the following considerations: market access and market potential, human and natural resources, cost components and physical infrastructures; **Differentiation and Agglomeration economies** where 15 different factors as proxies are considered to describe the benefits that firms obtain when locating near each other, a concept which is related to the idea of economies of scale and network effects.

In addition to the official data available at national scale, several databases are used with annual data ranging generally from 1980 to 2012 including fundamentally but not exclusively GeoDist database of CEPII, WDI database of the World Bank, Institutional Profiles Database of the DGTPE-France, Worldwide Governance Indicators of the World Bank, The Conference Board Total Economy Database, WIPO database, UNCTAD STAT database, WTO database, ILO database, World Federation of Exchange database, CDIS, DOTS, FAS, IFS and WEO databases of the IMF.

To smooth fluctuation most series or factors are averaged over a period of the last three years. The index structure is based on three levels: the first is the level of the three key driving forces (prerequisites, underlying factors, and positive externalities); the second level consists of data series or sub-factors, which are aggregated from the level three data series.

Part I: The FDI Attractiveness Potential of the Arab Region

1. The Overall Arab Attractiveness Position

The Arab region is characterized by vast demographic, geographic, political and socio-economic diversity. It includes countries with very large populations and countries with small populations. The region is also characterized by extreme differences in land areas. There is also a high degree of disparity in income, wealth and access to social services between Arab states. The Arab region also exhibits diversity in terms of human development achievement and encompasses countries with very high and low mortality, very urbanized and very rural, and countries of emigration and countries of immigration.

1.1 General Attractiveness Index

Results of the general DIAI-2013 at the level of geographic groups indicate that Arab countries claimed fifth place at world level, among 7 geographic groups, with an average 28 points, and average ranking of 68 within the countries of the group. OECD countries claimed the first place, followed by East Asia and the Pacific countries at the second place, Europe and Central Asian countries at the third place, Latin American and Caribbean countries in the fourth place, South Asian countries in the sixth place, after Arab countries, and, finally, African countries in the seventh place.

For the purpose of regional comparison, the report groups economies into the following categories or subgroups:

- GCC states: the Gulf Cooperation Council States namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
- The Levant or Arab Mashreq states: also known as the Eastern Mediterranean countries and consists of Egypt, Lebanon and Jordan.
- The Maghreb states: regrouping Algeria, Libya, Morocco and Tunisia.
- Low FDI performance countries: This is the only non-geographic category, which groups together Mauritania, Sudan, Syria and Yemen.

Results of the general attractiveness index in the Arab countries, by subregions, indicate that GCC countries have topped the list of performance with 34.1 points out of 100 points, during 2013, positioned slightly above the world average of 33.9 points. The Levant subregion ranks second overall close to the world average with 29.2 points. The Maghreb achieves a relatively weak performance being at the third position with 26.9 points. The low FDI performance group comes in at the last position with a very weak performance, with 19 points.

It should be noted that the economic environment facing policymakers in the last three years diverged significantly between major energy exporters of GCC countries and other Arab subregions. Consequently, data indicate a significant divergence in FDI attractiveness performance of Arab countries, ranging between 38th ranking with 37 points (best Arab country), and 106th with 17 points (worst Arab country).

Regarding Arab countries' positions in the three main groups, in general, it is obvious that Arab performance in the set of positive externalities is very poor, comparing the Arab average of 8.4 points to the global average of 14.3 points. Against this, Arab performance was slightly lower than global average in the sets of the prerequisites and underlying factors. The GCC subregion achieved a good performance in terms of underlying factors with 51.1 points, well above the world average performance of 41.6 points.

1.2 Set of Prerequisites

Arab countries claimed the 5th place globally among seven geographic groups on the set of investment attractiveness prerequisites index, with an average of 46 points on the index for Arab countries group, and average ranking of countries within the group of 73rd. OECD countries had claimed the first place, followed by East Asia and the Pacific countries in the 2nd place, Europe and Central Asia at the 3rd place, Latin American and the Caribbean countries in the 4th place, South Asian countries at the 6th place following Arab countries, and finally African countries in the 7th place.

GCC countries outperform other Arab subregions with a score of 54.1 points above the world average which stands at 53.7 points. This good performance is mainly owed to the high

performance in terms of macroeconomic stability with a score of 78.4 points. The Levant and Maghreb states share the second and third position respectively with an almost similar performance around the world average. The Levant states stands out in terms of financial structure and development with 24.2 points score significantly higher than the world average (17.7 points). In contrast, the Low-FDI performance countries realized a very weak result with 36 points.

All Arab subregions are marked by modest or very weak performances in the areas of institutional and business environments. As rightly pointed in the Global Competitiveness Report 2012-2013, *the importance of a sound and fair institutional environment became even more apparent during the recent economic and financial crisis and is especially crucial for further solidifying the fragile recovery given the increasing role played by the state at the international level and for the economies of many countries* (WEF, p.4).

1.3 Underlying Factors Affecting Multinational Enterprises

The Arab countries came at the 4th place at global level, among 7 geographic groups with an average value of Arab countries of 40 points and average ranking of countries within the group of 59. The OECD countries occupy the first place with an average score of 56 points and average rank of 22, followed by Europe and Central Asian countries at the 2nd place, East Asia and the Pacific countries at the 3rd place, while Latin America and the Caribbean countries came at the 5th place after the Arab countries, followed by South East Asian countries at the 6th place, and finally, African countries at the 7th place.

Within the Arab region, the GCC countries receive relatively high ratings in terms of underlying pillar with a score of 51.1 points, significantly above the world average of 41.6 points, due fundamentally to enormous central government gross surplus, a very attractive market size, a good developed infrastructure and highly attractive taxation. The GCC states occupy pole position in the areas of market access and potential, human and natural resources, cost components and physical infrastructures indicators. The performances of the other three subregions are all below the world averages: the Maghreb states are ranked second with 36.9 points slightly ahead the Levant states, ranked third with 36.4 points. Low FDI Performance countries are ranked last with very weak performance (27.7 points).

Results reveal that all Arab subregions achieved a relatively good performance on the cost components index. However, except the GCC states, all other Arab subregions realized a weak to very weak performance on the infrastructure index. Public infrastructure should have a significant (positive) impact on foreign and domestic firms' marginal cost of the MNEs and hence on their location decisions.

1.4 Positive Externalities Factors

Arab countries claimed the 6th place at global level, among 7 geographic groups on the set of positive external factors on investment attractiveness index, with an average value of the index for Arab countries group of 8 points only and an average ranking of countries within the group of 73. OECD countries had claimed the 1st place with an average value of the index of 26 points, and an average ranking of 20, followed by East Asia and the Pacific countries at the 2nd place, Europe and Central Asian countries at the 3rd place, Latin America and the Caribbean countries at the 4th place, South Asian countries at the 5th place, and finally African countries at the 7th place.

The Arab region is one of the weakest regions in terms of differentiation and agglomeration considerations. All Arab subgroups show strong deficits in almost all criteria that affect agglomeration and differentiation-technological performances. The Levant states, ranked first, achieved an average performance with a score of 11.2 below the world average. The GCC states, ranked second, realized a relatively weak performance with a score of 9.8 which is fundamentally

explained by the weakness of the agglomeration economies index; on the other hand the performance of this subgroup is better than the Levant subgroup in terms of technological environment and differentiation with a score of 12.1 closer to the world average. The Maghreb states are ranked third with 8.3 points reflecting a weak performance. Finally, the Low FDI Performance countries achieved a very weak performance with a score of 4.4 points.

2. Arab World's Position on Ten Key Drivers

The ten sub-indices cover about 15 key components observing in more detail the indicators governing the country capacity for attracting investment. Those key components, in turn, consist of about 61 sub-parameters, which, together, contribute to identifying the country's position on the attractiveness index with utmost accuracy.

2.1. Uncertainty and Macroeconomic Stability Index

Arab performance on this index is the best compared to the 10 other indices, as both Arab and global averages are nearly equal, around 69 points. Six Arab countries ranked within the top thirty places at the global level. GCC States topped the list of Arab groups with good performance (over 13% higher than global average) with index value of 78.4 points. This performance is mainly explained by very good scores of the macroeconomic stability components: 71.6 points for current account deficit to GDP ratio index, 63.6 points for fiscal balance to GDP ratio index and 94.1 points for general government gross debt to GDP ratio index. The Maghreb states have achieved the second best performance among Arab subgroups with 70.1 points exceeding the world average. However, the countries of this subgroup suffer from a relatively weak performance in terms of real GDP growth volatility.

2.2. Financial Structure and Development Index

Despite the weak global performance in this area, with an average of 17.7 points, several Arab countries are below this score. Only the Levant States subgroup achieved a performance better than the world average with 24.2 points, occupying the first rank. Generally, Arab performance was poor in terms of providing the private sector with credit as evaluated by domestic credit to private sector to GDP ratio. Arab average on this index (15.5 points) is much lower than the global average (25 points), while the performances achieved in terms of financial size and market capitalization of listed companies are closed to the world averages.

The results show a wide divergence between the Levant and GCC states subgroups, on the one hand, and the low FDI Performance countries, on the other hand, which achieved a very weak performances in terms of financial size and financial depth. It is important to note that non-oil Arab countries perform better than the oil Arab countries, which indicates that raising a country's financing capacity and improving its ranking on the index is not necessarily associated with the country's overall financial situation.

2.3. Institutional Environment Index

In general, the Arab countries achieved very modest performance in this area with an average score of 38.9 significantly lower than the world average of 55.5 points. This result is attributable in particular to a very weak performance in terms of quality of political institutions and public governance, while the performance in terms of social cohesion and social mobility index approaches the world average.

GCC States topped the list of Arab subgroups with an average performance score (48.7) close to the world average, followed by Maghreb States in the 2nd place with a score of 37.2 indicating a weak performance. The Levant States subgroup is at the third place very close to the Maghreb subgroup

with 36 points and thus achieving a weak performance. The low FDI performance subgroup is in last rank with 27.9 points indicating a very weak performance.

2.4. Business Performance Environment Index

Arab countries are among the poorly performing countries with an average score of 39.7 points significantly below the world average score of 51.5 points. Compared to the world average performance, the most significant deficiencies or gaps concern the regulations and degree of competition in the markets (gap of 17.7 points) and the degree of safety in transactions and contracts in goods and services markets (gap of 16.7 points).

GCC States topped the Arab subgroups with a score of 47.1 points, followed by the Levant States at the 2nd place with 46.7 points, and the Maghreb States at the 3rd place with 35.9 points. The low FDI performance countries occupy the last place with a very weak score of 27 points.

The business environment in most Arab countries is hampered by the lack of freedom of market functioning, the low degree of safety in transactions and contracts in goods and services markets and the poor quality of regulations and degree of competition in the markets.

2.5. Market Size and Accessibility Index

Arab countries average performance is close to world average with a score of 30.7 points. This proximity is particularly noteworthy in three dimensions: domestic demand volatility, PPP adjusted GDP per capita and trade to GDP ratio. However, deficiencies appear to be significant in terms of access to world market and the openness to the outside world index.

GCC States topped the list of Arab subgroups with a score of 39.1 points exceeding by almost 16% the world average and thanks to a very good performance in terms of PPP adjusted GDP per capita and a good performance in the areas of real per capita domestic demand and trade to GDP ratio. However, GCC States perform weakly in terms of openness to the outside World Index which covers four components: trade openness and convertibility of current transactions, organizations openness to capital, foreigner access to land and financial openness.

2.6. Human and Natural Resources Index

Arab performance on this index was almost in line with the world average performance, whit an average score of 45.6 points compared to world average of 46.7 points. This average performance is supported by a relatively high score compared to the world average on two sub-indices: total natural resources rents to GDP ratio and GDP PPP per employee. However, performance of Arab countries on the other parameters of human resources was relatively far from the world average, especially on the quality of educational system and social mobility, with average of 31.9 points, compared to world average of 43.1 points.

GCC States, relying on vast natural resources and increasing oil prices, topped the list of Arab subgroups with 60.7 points, followed by the Maghreb States at the 2nd place with 45.6 points, and the Levant States at the 3rd place with 41 points. Low FDI Performance countries, at the end of the ranking, achieved a weak performance with 26.3 points and this despite a very good performance in terms of total natural resources rents to GDP ratio.

2.7. Cost Elements Index

Arab performance on this index was close to the already high world performance, where Arab countries achieved an average score of 69.1 points, compared to a global average of 67.5 points. It is important to note the relatively weak performance of the Arab region in terms of labor market conditions with a score of 44.5 points compared to the world average of 51.2 points. We remind that

the labor market conditions sub-index aggregates the following three components: flexibility in the formal labor market, weak employment contract rigidity, strikes frequency and relationships between employee representation and employers.

GCC States lead the Arab subgroups with 74.6 points and a particularly good performance in terms of taxes (93.9 points compared to the world average of 65.5 points), followed by the Levant States at the 2nd rank with 68.2 points and the Maghreb States at the 3rd rank with 67.3 points.

At the level of the three parameters forming the index, Arab countries had a performance better than world average on both taxes and trade costs components, while Arab performance was lower than world average on labor market conditions.

2.8. Infrastructure Index

Arab performance on this index was close to the already low world average performance. Arab countries achieved an average score of 22.1 points, below the world average of 26.3 points. The most significant gap refers to the Internet component of the index and reaches 9.4 points.

GCC States topped again the Arab subgroups with a score that exceeds twice the second best Arab performance (the Maghreb States) of 36.8 points. Infrastructure constitutes the spine of GCC economies and the sector is primed to further grow. According to a recent Qatar National Bank group report, the GCC governments spent an estimated US$ 112 billion on infrastructure projects in 2012, totaling about 7.1 percent of the region's GDP, up from just 4.2 percent in 2004. Effective public capital expenditure is even larger than the budget as government agencies sometimes spend off budget and because of the usage of public-private partnerships for some megaprojects.

The performance of the other three Arab sub-groups is below the world average for all the considered components.

2.9. Agglomeration Economies Index

Arab average performance on this index is clearly lower than the already low world average performance, where Arab countries achieved an average index value of 6.5 points, compared to world average of 11.8 points. Few MNEs are localized in Arab countries which explains the low scores of the first three components of the index.

The Levant States topped the list of Arab subgroups with 10.6 points, followed by Maghreb States with 7.1 points at the 2nd rank, and the GCC States at the 3rd rank with 6.1 points. Low FDI Performance countries, in last position, have only 3.2 points.

2.10. Differentiation and Technological Environment Index

Arab average performance on this index is clearly lower than the already low world performance with an average score of 9.6 points, compared to world average of 15.9 points.

Arab region is one of the weakest regions in terms of differentiation and agglomeration considerations. All Arab countries show relatively strong deficits in almost all criteria that affect differentiation-technological performance. This deficiency is particularly debilitating for attracting technology seeking or sourcing FDI. It limits the positive externalities and productivity effects expected from MNEs investment decision.

GCC States topped the list of Arab subgroups with a score of 12.1 points followed by Levant States ranked 2nd with 11.6 points, and Maghreb States ranked 3rd with 9 points. Low FDI performance countries, ranked 4th, do not even reach the third of the world average score.

3. FDI Attractiveness Gap and Balance

3.1. Attractiveness Gap between Arab Economies and OECD Countries

DIAI provides the possibility of performing detailed strength and weakness analyses for both countries and regions. The ranking provides the evidence for which factors a particular region or country stands behind and has to improve them in order to close the existing attractiveness gap. The latter reflects the institutional, infrastructural, technological and environmental challenges facing a considered host country or region to improve its competitive position in attracting FDI and to narrow the existing gap. It's defined as the difference in the availability of prerequisites and possession of underlying factors and positive external determinants required for attracting FDI between the considered host country and the reference country or region, expressed as a percentage of the reference country/region performance. The attractiveness gap may also express the difference between the performance expected by a host country in terms of attracting FDI inflows and its actual performance; such a situation refers rather to a performance gap.

The global attractiveness gap ranks Arab countries on their ability to close the FDI attractiveness gap in three key areas: prerequisites, underlying factors and positive externalities in the considered host country. By comparison with the OECD's DIAI global average value (49.1 points) as a benchmark, the attractiveness gap in the Arab region, where the average value of the global index is 28 points, is evaluated at 43%.

The Arab region is ranked third with a global attractiveness gap standing at 43%. In terms of prerequisites, the Arab region is also in the third place but with a reduced gap evaluated at 32.4%. In terms of underlying factors' gap score, the Arab region performs relatively better with a gap of 29.7%. However, the gap in terms of positive externalities and technological progress reaches 68% positioning the Arab region just after Africa. It is obvious that this component is driving the regional attractiveness gap in general and the Arab attractiveness gap in particular. These results clearly highlight the challenges facing the Arab economies in the area of FDI attractiveness.

The GCC countries lead the way with the lowest attractiveness gaps (24.3%, 27.1%, 27.9%, 31.3%, 36% and 36.3% for United Arab Emirates, Kuwait, Bahrain, Qatar, Oman and Saudi Arabia respectively), while Sudan, Mauritania and Yemen are the lowest performing countries with the highest attractiveness gaps (64.8%, 64.1% and 60.2% for Sudan, Mauritania and Yemen respectively).

3.2. FDI Attractiveness Balance in Arab Countries

In observance of the FDI attracting and impeding factors, the performance of a given country is termed as strength if its ranking falls on the top third as for the parameter included in the attractiveness sub-index, and weakness if its ranking falls on the bottom third of the values of parameter in question. Based on the results of total scale measured by subtracting the total weaknesses from the total strengths, countries may be ranked according to this scale, which constitutes an information system that may serve as guide to reduce liabilities of weaknesses and turn them into assets of strengths.

The highest ratio of assets, or strengths to the total potential points (i.e. total points of data, which equal the number of countries in the geographic region multiplied by the number of main parameters) are achieved by OECD countries in the three main sets forming the general index, with 64.4%, 66.3% and 72.3% for prerequisites, inert factors, and positive external factors sets, respectively. Each country of East Asia and the Pacific, and Europe and Central Asia, claim the second highest ratio of assets, noting that the former group outperforms at the level of prerequisites (40.4% for first group, against 22.6% for the second group), and the second group outperforms at

the level of positive external factors or diversity, innovation and development factors (55.45 for second group, against 36.8% for the first group). Results show that Arab countries performed low on the attractiveness scale with ratios of assets of 21.7%, 25.1% and 5.9% for prerequisites, inert factors, and positive external factors sets, respectively.

A glance at the prerequisites reveals that only six Arab countries have positive balance (the difference between total assets and total liabilities greater than zero). In a downward order, these are: Bahrain, Kuwait, Tunisia, Qatar, Oman, and UAE. At the inert factors set, there are a greater number of countries with positive balance, including, in addition to the above countries, Saudi Arabia, and Jordan. At the level of positive external factors or diversity, innovation and development set, only one country, i.e. UAE, could achieve positive attractiveness balance.

The majority of Arab countries suffer from weaknesses, mainly in the following areas:

- **Factors relating to macro-economic stability:**
  - ✓ **Fluctuation of Real GDP growth rate**: Such fluctuation mainly arises from over dependence on the revenues of oil and petroleum products in the formation of GDP in a large number of Arab countries. This is associated with the fact that fluctuations in GDP growth rates were, in many cases, reflected in oil price fluctuations. Also, oil countries, specifically GCC countries, depend on manpower imported from non-oil Arab countries, thus creating a sort of inter-dependence between manpower importing oil countries, on one part, and non-oil countries benefiting from manpower remittances, on the other hand, which contributes to transferring economic shocks.

  - ✓ **Rate of Inflation**: It is established that inflation lessens the real value of all non-wage sources of income, which are identified within a nominal framework, such as pensions and grants. In the absence of financial instruments, such as price measuring or hedging, the segments of society the income of which is determined within a nominal framework are more exposed to inflation risk. Population segments whose income is determined nominally are usually medium-income classes in most of the Arab countries. Inflation also causes increase in the accrued interest when investors request compensation for impairment of currency purchasing power, thus increasing the level of uncertainty. Levels and causes of inflation vary among Arab countries. Data indicate that such phenomenon mainly refer to oil Arab countries. In GCC countries, inflation is attributable to higher prices of commercial commodities in general, and food prices in particular, higher levels of domestic demand as a result of higher income due to oil price boom, pegging local currencies to US dollar, at a time when the US dollar retreated, and the unprecedented increase of domestic liquidity levels to finance the various needs of local demand.

  - ✓ **Ratio of budget deficit to GDP**: Slow growth in non-oil Arab countries caused an increasing deficit in the budget, which constitutes one of the investment repellent factors, and contributed to increasing the inflation rates, hence uncertainty. A group of Arab countries are facing the immediate challenge of restoring, or maintaining, macro-economic stability in a climate of political instability and social unrest, which sharpened the budget deficit.

- **Factors relating to institutional environment:** The term governance refers to the approach of practicing the authority of sound management that is based on depicting the main dimensions of the governance roles, including building the institutional state, achieving public administration efficiency by applying the principles of integrity, transparency, accountability, anti-corruption, and realizing social coherence and movement. Over the past decade, very limited efforts were exerted in the Arab region towards boosting the practices

of good governance. This explains the meager performance and negative position of attractiveness balance with regard to the following components:

- ✓ Political institutions and political stability.
- ✓ Security, law and order, and control over violence.
- ✓ Performance of government administration.
- ✓ Degree of safety in dealings and contracts with the government and the community.
- ✓ Social coherence and movement.

− **Components relating to business performance environment:** While several Arab countries were able to improve the efficiency of government procedures over the last few years, they were unable, on the other hand, to achieve a positive attractiveness balance in the following areas:

- ✓ **Freedom of market operability.**
- ✓ **Degree of safety of businesses and contracts in the commodity and service markets.**
- ✓ **Degree of market competition.**

− **Component of market size and accessibility:** Despite the relatively good position of attractiveness balance in the Arab countries, in general, and GCC countries, in particular, in terms of the market size and accessibility component, a large number of countries in the region suffer from a negative balance of openness to outer world index, which consists of the following four parameters: commercial openness and freedom of remittances, free flow of capital to local institutions, freedom of foreigners ownership of land, and financial sector openness to outer world.

− **Components relating to human resources or quality of human capital:** A number of reports and studies indicate that the increase in Arab human capital over the past three decades has not been accompanies with an increase in overall rates of productivity of the factors of production, as in the world countries, in general, and emerging economies, in particular. Such performance is attributable to lack of improvement in the quality of education, in all its stages, especially the basic stages. This situation is confirmed by the negative attractiveness balance of the following three parameters, which are directly or indirectly related to the education quality and scope:

- ✓ **Average school years for adults.**
- ✓ **Education index on human development index.**
- ✓ **Quality of education system and social movement coverage index.**

− **Components of cost elements relating to labor market conditions:** Reference should be made to the fact that most of the Arab countries suffer from acute shortage in the collection, utilization and dissemination of data relating to labor markets, and measurement of cost and productivity. This obstacle explains the scarcity of studies in this area, and the difficulty in diagnosing the structural gaps based on the linear cost and productivity, which impedes leverage of competitiveness at the levels off commercial and FDI flows in general. According to the data we were able to observe, the majority of Arab countries suffer from a negative attractiveness balance with regard to labor market conditions (indirect costs), which include formal labor market flexibility, solidity of employment agreements, repeated laborer strikes, and the relations between trade unions and employers.

– **Overland transport infrastructure index:** Overland transport is a vital tool of productivity for any modern economy. It provides a distinct, quality, door-to-door transport service. It is one of the components of sub-indices that contribute to attracting investment flows. Several Arab countries suffer from a negative attractiveness balance at the level of overland transport, which covers two parameters: Road density (lengths of roads per 100km^2 of land space) and number of railroad passengers (in million passengers per km).

– **In the positive external factors, agglomeration economics index:** Results indicate that most of the Arab countries have a negative attractiveness balance at the level of the following two parameters:

   ✓ **Number of European multi-national companies within the country.**

   ✓ **Number of American multi-national companies within the country.**

– **In the positive external factors, distinction and technological advancement factors index**: It is not a coincidence that the Arab countries, where clear plans in technology, research and development (R&D) are absent, and which allocate very low portions of their GDP for scientific research, suffer an increasing gap against advanced and emerging countries in the area of technology. This is evident in the results that refer to a negative attractiveness balance at the level of the following parameters :

   ✓ **Technological environment index.**

   ✓ **Patent applications index.**

   ✓ **International cooperation treaty on patents index.**

   ✓ **Industrial models applications index.**

   ✓ **Industrial models registration index.**

   ✓ **Trademarks registration index.**

   ✓ **E-government index.**

Part II: The FDI Attractiveness Performance of the Arab Region

1. Global Inward FDI Flows and Share of the Arab Region

1.1. Global Inward FDI Flows

At a global level FDI declined by 18% between 2011 and 2012 to about US$ 1.3 trillion in 2012, against US$ 1.6 trillion in 2011. Obviously, on the contrary of UNCTAD projections, the recovery of capital flow levels will take longer than expected. This is mainly attributable to structural weakness of global financial and banking system, and possible global economic environment degradation, causing slow growth and increasing uncertainty with regard to public policy in issues affecting investors' confidence. These factors may lead to more reduction in global FDI.

For the first time ever, developing countries group outperformed developed countries group in attracting FDI. It claimed a share of about 52% of global FDI flows, despite the lower inflows to developing countries group by 3% to US$ 680.4 billion in 2012. Against this, developed countries group witnessed a notable decline in FDI inflows by over 32% to US$ 1 billion in the same year. Due to uncertain future economic conditions, cross-national companies in developed countries were even more conservative, liquidating foreign assets, instead of moving towards new expansionary investment at a global level.

1.2. Share of the Arab Countries

FDI inflows to Arab countries rose by 9.5%, from US$ 43 billion in 2010 to US$ 47.1 billion in 2012. However, the value of flows is poor, compared to US$ 76.3 billion in 2009 and US$ 96.3 billion in 2008, and an average of US$ 66.2 billion during the period 2005-2007.

Investment inflows to Arab countries represented 3.6% of total global investments of US$ 1.3 trillion, and 6.9% of total developing countries of US$ 680 billion. The share of Arab countries of global flows had witnessed fluctuation over the past period, slightly increasing from an average of 4.5% during the period 2005-2007 to 5.4% in 2008, then 6.4% in 2009, before receding to 5.2% in 2010, then to 2.8% in 2011.

FDI inflows to Arab countries had four main features:

1. **FDI inflows to Arab countries witnessed a notable increase at rates exceeding the growth rates of FDI inflows to all countries:** FDI inflows to Arab countries averaged a growth rate of 29.1% over the past ten years, compared to an average growth rate of 10.7% for the world and 16.3% for developing countries group over the same period.
2. **Other geographic groups outperformed Arab countries in the value of FDI attraction:** Over the past ten years average FDI inflows to Arab countries was 4.3% of total global flows, compared to an average of 4.9% for the economies in transit group, and 38.4% for the developing countries group. During 2003-2012 these flows constituted 11.5% of total inflows to developing countries group, compared to averages of 8.2%, 29.2% and 62.2% for African countries, Latin America, and Asia, respectively.
3. **Concentration of FDI Inflows to Arab Region in a few Countries and Sectors:** Data indicate a relatively high geographic concentration of FDI inflows to Arab region over the period 2003-2012. Only three countries (Saudi Arabia, UAE and Egypt and Lebanon, as per the downward order of the share in total) out of 21 countries claim nearly two-thirds of total inflows to the region (63%). As for inward FDI balance up to 2012, the share of these countries of 21 countries of total balance of inward FDI balance registered 29%, 14%, 11%, and 6% for Saudi Arabia, UAE, Egypt and Lebanon, respectively. As per official country data, and by observing the inflows to ten Arab countries: Egypt, Jordan, UAE, Kuwait, Algeria, Morocco, Libya, Yemen and Djibouti, by the end of 2012, with total inflows of about US$ 411.5 billion, the service sector was the largest recipient of foreign and Arab direct investment in the ten countries, with US$ 7.12 billion, or by 62% of total, followed by Industrial sector at the 2nd place, with US$ 4.4 billion, a share of 38.2% of total. Agriculture only claimed US$ 26 million, or 0.22%.
4. **Concentration of Foreign Investors from Outside the Arab Region on a Limited Number of Countries:** According to official country data, and by observing the balances of inflows to ten Arab countries: Saudi Arabia, UAE, Qatar, Kuwait, Morocco, Tunisia, Jordan, Libya, Palestine and Djibouti, from non-Arab foreign countries, by the end of 2012, the inflows were about US$ 197.6 billion, distributed by foreign country investing in those country: France (a share of 19.9%), USA (13.5%), UK (11.7%), Japan (10.7%), Holland (5.2%), Spain (3.6%) and Germany (2.7%).

1.3. Inward FDI Flows in Arab Countries

Despite the events and developments witnessed by the Arab region over the recent years, initial statistics refer to an increase in FDI inflows to Arab countries by 9.8%, from about US$ 42.9 billion in 2011 to US$ 47.1 billion in 2012. Saudi Arabia, UAE and Lebanon topped the list of Arab countries in terms of investment attraction in 2012, with shares of 25.8%, 20.4%, and 7.8% respectively, followed by Algeria at 4th place with a share of 6.25%, Morocco at 5th place with US$ 2887 million, a share of 6.1%, Egypt at 6th place with US$ 2798 million, a share of 5.9%,

Sudan at 7th place at Arab level with US$ 2488 million, a share of 5.3%, Tunisia at 8th place with US$ 1944 million, a share of 4.1%, Kuwait at 9th place with US$ 1864 million, a share of 4%, Oman at 10th place with US$ 1484 million, a share of 3.1%, and Jordan at 11th place with US$ 1405 million, a share of 3% of total investments attracted to Arab countries. Iraq claimed 12th place at Arab level, with US$ 1275 million, a share of 2.7%, Bahrain at 13th place with US$ 891 million, a share of 1.9%, Libya at 14th place with US$ 720 million, a share of 1.5%, Qatar at 15th place with US$ 327 million, a share of 0.7%, and finally, Palestine, Mauritania, Djibouti, Somalia and Yemen, respectively.

2. Inter-Arab FDI Flows

Given the importance of data and information in observing the development of investment climate in Arab countries, especially via inter-Arab FDI statistics, which are observed exclusively by Dhaman by relying on country data incoming from official entities in the Arab countries, Dhaman considers that it is its duty to draw the attention, once more, to the obstacles they face in this respect, mainly:

- Scarcity of data relating to inter-Arab direct investments.
- The work team in charge of reporting the data finds several technical points of criticism, specifically on the data of balances, mainly that the accounting methodology does not take into consideration the investment flows withdrawn from hosting Arab countries to the Arab investor's country of residence. Also, no depreciation rates are applied to the existing investments during the period from 1985 and the following years.
- Methodology of arriving at the balance that was adopted by Dhaman is similar to the methodology that was adopted by UNCTAD, which depends on cumulative aggregation of annual flows since 1970, which was abandoned by UNCTAD, who pulled out the time series of such balances from their website in 2010. In addition, they participated in the International Monetary Fund's (IMF) survey, among several international institutions, including the European Central Bank, OECD, and Statistical Bureau of the European Commission.
- IMF conducted the first coordinated survey of FDI Data at a global level to improve the availability and quality of such data on the basis of existing balances, and by hosting country. IMF survey covered the data with effect from end of 2009. Such survey is to be regularly repeated on an annual basis.
- Connotations, extend of coverage, and approaches of evaluation and classification of data collected in line with the IMF survey, are in agreement with the recommendations and standards set forth in the sixth edition of Balance of Payments Statistics Preparation manual and International Investment Center, issued by IMF in January 2010, as well as the international standard on defining FDI as stated in the 4th edition issued by OECD.
- By the end of 2012, a total of 105 countries supported the IMF initiative in this context, including 6 Arab countries: Bahrain, Jordan, Kuwait, Morocco, Saudi Arabia and Palestine. Notable improvements were made with regard to quality of FDI data in those countries.

Inter-Arab investments constitute one of the factors of success of rapid pace for economic integration, in addition to the legal and institutional framework and inter-trade flows. Prior to exhibiting the data received by Dhaman with regard to inter-Arab direct investment flows in 2012, which were again limited to a small number of Arab countries (8 countries this year, and 5 countries last year), the Report highlights the potential inter-Arab investment flows, against Arab Countries Performance Index, being exporters of capital, which measures a country's share of outward foreign investment globally, to the country's share of GDP at a global level, as compared to the value of DIAI, which, as previously discussed, measures the potential of the concerned countries to attract

foreign investment. The value higher than one of the performance index indicates that the concerned country exports capital with a relative size exceeding its global economic size.

According to the data received by Dhaman, which were limited this year to 8 Arab countries, including Morocco, Egypt, Tunisia, Kuwait, Jordan, Bahrain, Algeria, and Yemen, inter-Arab direct investment flows in 2012 totaled about US$ 3.4 billion. Focusing on the same group of countries that disclosed their data for last year (Egypt, Tunisia, Jordan, Algeria and Yemen), it is noted that inter-Arab direct investment inflows have largely declined from US$ 6.8 billion in 2011 to US$ 1.8 billion in 2012, i.e. by 73.3%.

Morocco topped the list of inter-Arab investment hosting countries for 2012, with flows amounting to US$ 1.12 billion, a share of 33.3% of the total, followed by Egypt with about US$ 984 million, a share of 29.2%, Tunisia with about US$ 623 million, a share of 18.5%, Kuwait with about US$ 393 million, a share of 11.55%, and Jordan with about US$ 197 million, a share of 5.95%.

UAE topped the list of inter-Arab investment exporting countries in 2012, with flows amounting to about US$ 1.3 million, or by 39% of the total inter-Arab outward investments, mostly concentrated in Morocco (US$ 846 million), Egypt (US$ 418 million). Qatar was ranked 2nd largest inter-Arab investment exporting country with about US$ 664 million, or by 19.7% of total, mostly concentrated in Tunisia (US$ 509 million), and Egypt (US$ 86 million). Saudi Arabia claimed the 3rd place, with outward inter-Arab investments amount to nearly US$ 360 million), or by 10.7% of total, mostly concentrated in Egypt (US$ 202 million), and Morocco (US$ 134 million).

At the level of sectoral distribution of inward inter-Arab direct investments in 2012, same data incoming from 8 Arab countries indicate that most of the inter-Arab investment were concentrated in services and industrial sectors, with a share of 99.7%, as services sector claimed 69.4% of total, while the industrial sector claimed 30.3% of total. Meanwhile, the share of agricultural sector was as low as 0.3% of total.

3. Performance Gap in the Arab Region

Measuring countries' performance in the area of foreign investment attraction depends on three parameters:

- Algorithm of average FDI balance over the past three years: Resorting to average value of parameter mitigates the effects of fluctuations in data resulting from shocks (positive or negative), which may temporarily keep certain parameters out of their normal level. Conversion of average value using the algorithm enables mitigation of the variance in the scope of data values relating to balances. Considering the importance of this parameter in observing the actual performance, it was given a weighted average of 75%.
- Average size of mergers and acquisitions deals as a seller over the past three years with a weighted average of 12.5%.
- Average number of projects classified under constituent FDI (which means construction of new production facilities) in the hosting country, with a weighted average of 12.5%.

Upon identifying patterns of sub-components of performance index, gathering was made according to previously declared weighted averages, using the geometric gathering method, to avoid the principles of full implicit compensation between the three components, considering the differences in their sub-averages, and based on their hypothetical importance in the formation of the compound performance index.

Arab countries claimed next to last place with 24.2 points, equally with Latin America group countries and the Caribbean, on the actual performance index, in attracting foreign investments,

while OECD countries topped the list of groups, followed by East Asia and the Pacific, with a difference of 2.7 points.

On the contrary of outperformance achieved by all GCC countries in terms of value of DIAI, the standing of these countries, as per the actual performance index, is extremely varied. UAE and Saudi Arabia topped the list of Arab countries group (Figure 32), while Qatar claimed 5th place, Bahrain 8th place, Oman 10th place, and Kuwait 14th place.

Relying on the crossing of both actual performance index and potential, as observed by DIAI, Arab countries are classified as follows:

- Proactive countries group (relatively high performance and relatively high attractiveness potential): only one Arab country: UAE.
- Group of countries below potential (relatively high potential and low actual performance: including 3 Arab countries: Kuwait, Bahrain and Qatar.
- Group of countries with higher potential (relatively high performance and relatively low potential): two countries: Saudi Arabia and Egypt.
- Group of countries with low performance (poor actual performance and low potential): including 11 other Arab countries: Tunisia, Jordan, Oman, Lebanon, Morocco, Algeria, Libya, Syria, Sudan, Yemen, and Mauritania.

Concluding Remarks and Recommendations

Although several amendments were made to the laws and legislation, coupled with various exemptions in the Arab countries to encourage and attract international investors, Arab economies remain unsuccessful in becoming significant locations for attracting FDI, compared to other developing economies. Data confirm the small share of Arab region of FDI flows, which amounted to about US$ 43 billion in 2011, representing 6.3% of the share of developing countries, and about 2.8% of total global direct investment flows, of US$ 1.6 trillion. Meanwhile, Brazil and Singapore had about US$ 66.6 billion, and US$ 64 billion of flows, respectively. Data also refer to varied performance and a high geographic concentration in the total FDI inflows to the Arab region during the period 2009-2011, where only three countries (Saudi Arabia, UAE and Lebanon) claim about 58% of total flows to the region. These inputs drive more discussion and investigation on the structural factors that impair leverage of FDI attraction to the aspired level. Exploring and pursuing evaluation of such elements would allow drawing a road map, at local and regional levels, to enhance Arab countries' capacity to attract foreign capital flows.

Obviously, the policies adopted by the majority of the countries in the region, mainly representing either the utilization of natural resources or granting various exemptions to attract international investors, were not as effective as expected. Global developments over the past two decades led to a change in the globally prevailing perspectives of the nature of the desired local and foreign investment policies. Successive financial crises that took place in Latin American and South East Asian countries in the late 1990s, the economic collapse in Argentina at the outset of this century, and the credit crisis arising from the fragile real estate mortgage system in the US, and the extension of its episodes since 2008, due to the extreme financial overlap across the world map, to EU and other countries, revealed that the apparently "prudent" financial strategies could be the reason for the outbreak of such crises. Evident focus of the international community on achieving the millennium development goals, and the need to secure adequate and stable finance for the development processes, gave rise to a change in the macro-economic management approaches, and the development of investment policies in the open developing economies.

Based on the above, and according to the findings of the Report, we draw the following recommendations:

- The past few years have certainly been full of investment policies that realized a lot of achievements for some Arab countries, which rendered them a foothold greater than being developing countries, such as the UAE, the only Arab countries classified as a country attaining the development and innovation dependence stage, Bahrain, Oman and Lebanon, who exceeded the stage of reliance on efficiency and effectiveness. However, this requires reviewing the investment policies in light of the fluctuations and variations prevailing in today's world, and in light of the positive achievements realized in this area, as well as the negative points and shortcomings arising, as opposed to the expected objectives. Whereas the goal of investment policies adopted or disclosed is to diversify the productive structure of national economy, it should be verified in this context that those policies would affect the investment decision-makers, and those policies should be regulated within an overall consistent economic framework, enabling achievement of the planned goals, especially the policies relating to foreign investments for their significant magnitude. The matter often requires setting forth a strategy suitable to those investments, enabling verification of the possibility to benefit from technology, administrative and technical expertise, to enhance productive capacity and competitiveness for national projects, and contribution to productive diversification for the economy in general. On the other hand, if the goal of adopted investment policies is to exploit natural resources in their various forms, the decision-maker must adopt a sustainable developmental model to foster harmony between the achievement of developmental goals, from one part, and environmental conservation and sustainability, from the other hand. This can be done when countries adopt an integrated and coordinated approach to their developmental planning, to ensure consistence of development with the need to protect and improve the environment. In the medium and long terms, it is essential that the decision-maker frame the investment policy within a general road map for economic growth and sustainable development. The road map should exhibit the relationship between the developed objectives within the official developmental, economic and industrial strategies, and the adopted investment policy.

- In the same context, macro-economic policies must be developed within a coordinated framework, whereby the financial and monetary policies, exchange rate policies industrial policies, which provide carefully studied incentives to encourage investment, and manage capital account in the balance of payments, will be homogeneous. It is also essential to identify the role of direct public, private and local investment, especially foreign investment, in developmental strategy. Owing to the huge gaps that largely characterize the development in most of the Arab countries, foreign investment constitutes an essential complementary factor for local investment. It may be particularly useful when supportively interacting with public and private investment.

- Investment encouragement covers all activities and measures aimed at creating limitations that are favorable to foreign investment in the hosting country. These limitations include a framework for foreign investment policies, economic limitations and business management. Each of these elements may operate as an incentive or obstacle to investment. In fact, the quality of coordination between these elements is critical to investment decision in a given country. Investment authorities are not exclusively responsible for marketing a country, as an investment attracting destination, but responsibility extends to cover all other parties concerned with investment encouragement and attraction of FDI in the given country. Roles and responsibilities of those parties and are equally important and effective to operate under one system that is responsible for drawing and improving the features of the full picture of the country, covering all institutional, economic and social aspects.

- Arab countries dependent on natural resources, or those in the process of depending on efficiency and effectiveness, i.e. 10 out of 17 Arab countries covered by the Report, must upgrade their performance on the indices of the set of prerequisites, in general, and the factors relating to macro-economic stability, governance, public administration, institutional and social environment, and business performance environment, in particular. The major recommendations in this context are to give more attention to productive efficiency, as it is directly and closely related to incentives, socio-economic stability, and the components relating to human capital, per-capita living standards, and the society at large, in addition to the importance of focusing on the institutional framework motivating efficiency, transparency, coherence, and social movement, on one hand, and positive and stable business performance environment, which is supportive of free market operability, degree of competition, and safety of transactions and contracts, on the other hand.

- Bridging the gap of factors of technological environment and differentiation may not be included in the list of priorities within the strategies aimed at attracting FDI, unless for a very limited number of Arab countries, without excluding the development of a clear vision and medium and long term plans, which carefully draw the framework that identifies the scope of change in the areas of technological development, research and development (R&D). The aim is to motivate scientific research within the list of national priorities, award the results of research, and utilize the research output in serving the economic development, while fostering innovation and technological advancement. Considering the high cost and limited profitability, in the short term, of investment in this area, joint regional Arab action would be feasible in creating technological blocks, or a set of agglomerated spaces prepared to serve as incubators for activities in the areas of scientific and technological research, on one part, and the developing areas of technological production, on the other part, into a group of disciplines, for the purpose of upgrading production efficiency and developing the technological factors for the Arab economies, by motivating technological innovation and supporting integration and mergers between the various economic activities, and the public/private sectors, within a list of priorities to be identified at the regional level.

- Considering the weak components relating to human resources and quality of human capital in most of the Arab countries, these countries must re-plan and restructure the educational system (public and private) towards upgrading the quality and developing the student capacity to interpret phenomena and analyze data, in addition to developing their research capabilities and innovation, while providing other means of acquiring skills, apart from educational curricula. These countries must also encourage the private sector to invest in education and finance scientific certificates and research that are consistent with their economic disciplines.

- To sponsor and direct FDI towards productive business sectors that may maximize contribution to national development, Arab countries must be capable of building, managing, and analyzing a vast and accurate database relating to local installations, and existing foreign institutions in the various sectors (Investment Observatory). The aim is to be able to extract feasible strategies to promote investment, covering the following components: Factors of targeting and supporting investors who possess latent capacity to influence the national economy, and adapting the services extended to them, as needed, assessing the effectiveness of facilities and guidelines pertinent to investors' decisions and actions, linking the promotion with government policies, in general, and investment policies, in particular, rationalizing the utilization of rare resources available for promoting investment, and developing the self-assessment of the effectiveness of the promoters, in addition to the effectiveness of other cooperating entities and institutions, within a framework that ensures consistence between the various national entities concerned, around a joint strategy for investment promotion.

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

Methodological Preliminaries

Methodological Preliminaries

1. What is Foreign Direct Investment (FDI)?

Defining FDI

According to the IMF Balance of Payments Fifth Edition Manual (BPM5) (International Monetary Fund, 1993) and the Organization for Economic Co-operation and Development (OECD) Third Edition Detailed Benchmark Definition of Foreign Direct Investment (BD3) (1996), FDI reflects the aim of obtaining a *lasting interest* by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The *lasting interest* implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter.

Some degree of equity ownership is almost always considered to be associated with an effective influence on the management of an enterprise; the BPM5 defines the owner of 10% or more of a company's capital as a direct investor. This guideline is not a fast rule, as it acknowledges that smaller percentage may entail a controlling interest in the company and, conversely, that a share of more than 10% may not signify control. However the IMF recommends using this percentage as the basic dividing line between direct investment and portfolio investment in the form of shareholdings. Accordingly, when a non-resident who previously had no equity in a resident enterprise purchases 10% or more of the shares of that enterprise from a resident the price of equity holdings acquired should be recorded as direct investment. From this moment, any further capital transactions between these two companies should be recorded as a direct investment. When a non-resident holds less than 10% of the shares of an enterprise as portfolio investment, and subsequently acquires additional shares resulting in a direct investment (10% of more), only the purchase of additional shares is recorded as direct investment in the Balance of Payments. The holdings that were acquired previously should not be reclassified from portfolio to direct investment in the Balance of Payments but the total holdings should be reclassified in the International Investment Position.

The most important characteristic of FDI, which distinguishes it from foreign portfolio investment, is that it is undertaken with the intention of exercising control over an enterprise. However, there are many other ways in which foreign investors may acquire an effective voice other than having 10% or more of an enterprise shares. Those include subcontracting, management contracts, turnkey arrangements, franchising, leasing, licensing and production-sharing. Therefore, the OECD treats financial leases between direct investors and their branches, subsidiaries or associates as if they were conventional loans; such relationships will therefore be included in its revised definition of FDI.

Based on these definitions, equity capital, reinvested earnings and other capital (mainly intra-company loans) are considered as components of FDI. Nevertheless, as countries do not always collect data for each of those components, reported data on FDI are not fully comparable across countries. In particular, data on reinvested earnings, the collection of which depends on company surveys, are often unreported by many countries.

Similarly, it should be noted that countries differ in the threshold value for foreign equity ownership which they take as evidence of a direct investment relationship. The threshold value usually applied for FDI is 10%, for data on the operations of Multinational Enterprises (MNEs), it involves chosen ranges of between 10% and 50%. Some countries do not specify a threshold point, but rely entirely on other evidence, including companies´ own assessments as to whether the investing company has an effective voice in the foreign firm in which it has an equity stake. The quantitative impact of differences in the threshold value used is relatively small, owing to the large proportion of FDI which is directed to majority-owned foreign affiliates.

Classifying FDI

The classification of FDI could be based on three criteria: the direction of investment both for assets or liabilities, the investment instrument used (shares, loans, etc.), and the sector breakdown:

- **As for the direction**, FDI can be looked from the home and the host perspectives. From the home perspective, financing of any type extended by the resident parent company to its nonresident affiliated would be included as direct investment abroad. By contrast, financing of any type extended by non-resident subsidiaries, associates or branches to their resident parent company are classified as a decrease in direct investment abroad, rather than as a foreign direct investment. From the host perspective, the financing extended by non-resident parent companies to their resident subsidiaries, associates or branches would be recorded, in the country of residence of the affiliated companies, under foreign direct investment, and the financing extended by resident subsidiaries, associates and branches to their non-resident parent company would be classified as a decrease in foreign direct investment rather than as a direct investment abroad. This directional principle does not apply if the parent company and its subsidiaries, associates or branches have cross-holdings in each other's share capital of more than 10%.

- **As for the instruments**, FDI includes the capital provided (either directly or through other related enterprises) by a direct investor to a direct investment enterprise and the capital received by a direct investor from a direct investment enterprise. Direct investment capital transactions are made up of three basic components:

  i. Equity capital: comprising equity in branches, all shares in subsidiaries and associates (except non-participating, preferred shares that are treated as debt securities and are included under other direct investment capital) and other capital contributions such as provisions of machinery, etc.

  ii. Reinvested earnings: consisting of the direct investor's share (in proportion to direct equity participation) of earnings not distributed, as dividends by subsidiaries or associates and earnings of branches not remitted to the direct investor. If such earnings are not identified, all branches' earnings are considered, by convention, to be distributed.

  iii. Other direct investment capital or inter-company debt transactions: covering the borrowing and lending of funds, including debt securities and trade credits, between direct investors and direct investment enterprises and between two direct investment enterprises that share the same direct investor. As it has been mentioned before, deposits and loans between affiliated deposit institutions are recorded as other investment rather than as direct investment.

- Finally, there are **several sector breakdowns** of FDI flows. The IMF has chosen a breakdown by four institutional sectors (Monetary Authority, Banks, General Government and Other resident sector), defined according to the sector to which the resident party belongs. However, reporting on this sector breakdown is not compulsory in the Fifth IMF Manual. In national statistics, some countries publish their FDI data providing this breakdown. Nevertheless, in practice the only relevant breakdown is Banks and other sectors and it is blurred by the fact that national banks often invest in foreign enterprises via resident non-banking holding companies. Such transactions would be recorded as being carried out by other sectors rather than by Banks, thus distorting both categories. By contrast to the classification according to the institutional sector, the OECD Benchmark definition favors an industrial breakdown, which includes nine economic sectors. The OECD specifically recommends, for the purpose of this classification, that FDI carried out via a resident holding company be classified according to the industrial sector to which the parent

company belongs. Under this criterion, when the parent company is a bank, FDI transactions carried out by a non-banking holding company would be attributed to the Banks.

Due to its economic significance and social impact, FDI statistics has become an essential parameter for facilitating national policy-makers to set up regulatory policies and development strategies, and for international institutions to monitor global and regional economic trends and globalization process. Nevertheless, collecting, processing and reporting FDI data remains a major challenge for developing countries in general and Arab countries in particular.

Some Arab countries have found it difficult to follow their strict guidelines in reporting FDI stocks and flows for their economies. It is probably due to the lack of human and institutional capacity or reflects the disagreement with certain aspects in IMF and OECD's manuals. It is further complicated by the fact that different countries have different FDI regulatory frameworks and reporting standards, therefore follow different FDI data gathering approaches. All this has resulted in inconsistency incomparability and poor quality of FDI statistics, as well as large discrepancies at the aggregate level.

Collecting FDI Data

Methods of collecting FDI data can be classified into three major approaches; the balance of payments, administrative and survey approaches:

– **Balance of payments approach**: Most countries today collect their FDI data primarily from foreign exchange records of the central bank. The focus of such data is mainly for balance of payments statistics. The commonly used foreign exchange system is called the International Transactions Reporting System (ITRS). It involves taking data from forms for cash transactions submitted by companies to the central bank. This method is convenient for many countries that are already using this method to collect other balance of payments statistics. The information is also readily available in the central banks' records and requires little or no further research. However, a significant portion of FDI does not involve cross-border capital transactions, such as reinvested earnings, equity provided in the form of machinery and intra-company indebtedness. Reinvested earning involves investing into a company using its own profits made from past investments in the same host country. This means that there are no cross-border transactions, and may therefore not be traced under the ITRS method. Furthermore, information from central banks often lacks the level of details that is internationally recommended. For example, these transaction records cannot specifically determine the industry or the geographic location of foreign investments. **These factors greatly affect the precision of FDI statistics**, and are the main reasons against the use of ITRS as the primary source of information for FDI data.

– **Administrative approach**: A different way to collect FDI statistics is through a country's administrative sources. These come in the form of approvals for investment projects from foreign enterprises, tax revenue forms, or even information from securities exchange offices and statistical authorities. In some countries, approved investments values are the only source available for a breakdown of FDI inflows by region or industry, providing experts and policy makers the crucial information they need. However, most of the data collected by these entities are not intended for balance of payments purposes, therefore may lack the level of detail required to match international standards. Also, when a country compiles FDI flow data through the recording of approval of investment projects, the values are usually inaccurate for two main reasons: the timeliness and the underperformance of the projects' funding. At times, the approved quantity of foreign investment on a specific project may be completed through periodic transactions that exceed a calendar or fiscal year. Sometimes, the investment implemented is significantly smaller than that which was approved. In addition, the approval documents may only relate to inflows of above a certain value, neglecting the smaller direct investments made. Furthermore, some of the approved investment projects may not eventually be implemented at all due to the changing

circumstance of either the business or the host country. For these considerations, FDI inflows data collected through this process would be imprecise, jeopardizing accordingly the integrity of collecting FDI statistics from administrative data and lowering its popularity among the recommended methods of FDI data collection.

– **Survey approach**: The use of surveys and census are implemented to collect information that foreign exchange records and administrative sources cannot provide. The information surveys cover includes areas such as reinvested earnings, revaluation of capital goods due to depreciation, equity capital and intra-company loans – these fluctuate from year to year, and the central bank does not have the necessary data to readjust past figures. These are all factors that are critical in the accurate assessment of investment stock. Moreover, these surveys provide better information on FDI stocks, since companies report values that are revised yearly. Such data also has the advantage of being recorded in actual value, compared to the historical costs/book value used by a significant number of countries worldwide. Historical costs give the value of assets at the time of purchase, hence not reflecting the current value due to exchange rate fluctuation, inflation, and depreciation. This holds surveys as the best FDI statistics collection method. However, a significant obstacle that often impedes the effectiveness of surveying is the inability to track all companies that pursue FDI transaction. This process is also very expensive for countries which previously have used different methods, since new regulatory framework and institutional arrangements must be set up in order to guarantee the quality of these surveys.

2. Why to measure a country's FDI attractiveness?

Along with the deepening international economic and financial integration over the last two decades, the 2000s saw a significant increase in FDI to developing countries. The upward trend has been reversed in 2008, following the global economic slowdown that started in the end of 2007. However, developing and transition economies, which proved relatively immune to this global turmoil, did better than developed countries and continued to absorb nearly half and 6 per cent of global FDI flows respectively. In these countries FDI continue to be the most important source of foreign financing, by far surpassing inflows of official development assistance, and other types of private capital inflows.

In comparison, the record of FDI in Arab countries is poor. Indeed, the region attracted only 2.8% of global inward FDI flows and 6.3% of the FDI flows to developing countries according to 2012 World Investment Report (UNCTAD, WIR, 2012) in spite of the adoption and implementation of substantial reform programs in most of the Arab countries covering stock market modernization and liberalization, state owned firms' privatization, regulatory and legal improvements. It is, therefore, quite legitimate to ask whether or not Arab countries might be missing out and should include financial and others incentives to attract FDI as part of a development strategy.

FDI has an axial role in the process of sustainable development, which exceeds merely filling the current account deficit or local financial resources requirements. This role extends to cover supporting the movement and sustainability of integration and trade exchange between the world countries, giving this type of investment a strategic importance as a momentum for developing economies, including Arab countries, so as to improve their ability to grow and interact with global economy and efficiently contribute to international production.

Accordingly, attracting FDI has become a vast field for competition between most of the developed and developing countries. Several countries, irrespective of their stage of development, are in the process of setting out full-fledged strategies to attract desirable forms of FDI, encourage exports, and support the national product to enter into more foreign markets. Countries' increasing interest in the competitiveness of their exports in global markets provides an extra reason for seeking to attract

FDI, as it has a direct impact on upgrading the level of exports, improving production and acquiring technical and marketing knowledge, thus supporting the integration between world countries.

3. How Dhaman measures a country's FDI attractiveness?

Without being familiar with the socioeconomic environment in various host countries, an investor cannot make rational FDI allocation decisions. Investors overcome potential knowledge deficits and gather data to analyze the determinants they consider important before allocating to a particular country. However, this country due diligence is time-consuming and costly. Additionally, the pace of economic development of many emerging and developing countries makes the selection of those that support foreign direct investment activity more and more cumbersome.

A review of the empirical literature on FDI determinants suggests that expected positive externalities of FDI depends on a multitude of factors, such as the level of technology used in domestic production in the host country, the level of education of the host country workforce, the level of financial sector and institutional development, etc. All these factors and more contribute to whether the host country in question can attract and hence benefit from FDI. Obviously this multitude of factors is impossible to capture in a single economic model or regression analysis.

Drawing out the main conclusions from this empirical literature, the aim of Dhaman's modest contribution is to provide an explanation of why some countries are more attractive for foreign investors than others and what underlies the relative attractiveness failure of the Arab countries. Therefore, a composite index that adequately describes a host country's attraction for FDI is constructed. This index, henceforth referred to as *Dhaman Investment Attractiveness Index* (DIAI), considers all identified foremost, measurable and comparable aspects that affect FDI decision.

More precisely, the purpose of DIAI is to measure and study, in an ongoing manner, Arab region's attraction as an FDI destination by means of quantitative indicators, while at the same time comparing it with an extended group of different countries and relevant geographical areas. This study shall be carried out on a yearly basis, thus enabling the monitoring of each Arab country's development with respect to different categories considered to cover the most important axes that MNEs bear in mind when making investment decisions. The index aggregates and provides the requisite information for FDI allocation decisions. Of course, this information should not be considered as a substitute for investors' own efforts to build up country knowledge and experience; it can only facilitate this process and support the initial due diligence stage. The results shall obviously serve as a support tool in assessing the reasons boosting or slowing down foreign investment in the Arab Region.

DIAI could also be considered as a guide for foreign investors to solve the problem of where to allocate their capital. The aim of the index is also to point out the leverage factors to improve FDI attractiveness of Arab countries and constitutes as such a valuable policy tool available for economic policy makers in the region.

The composite index calculation methodology used follows the approach of OECD (2008a) and defines the FDI attractiveness of a considered location as a set of various potentially-related receiving country factors that summarize a country's ability to provide the most competitive benefits for FDI. The degree of attractiveness of each country and its position in the ranking are determined by using weighted averages and linear relations between these variables (see Appendix). More precisely, the index benchmarks the attractiveness of 110 countries (Table 1 and Figure 1), representing 95% of the world inward FDI stocks respectively (98% of the total inward FDI stocks into the Arab region), to receive FDI allocations and covers a total of 114 sub-indictors structured around 10 FDI key drivers covering the following three axes which aim to group together the main sources of competitive advantage that internationalization offers to foreign investors:

Axe 1. Prerequisites or initial conditions: including 64 different data series covering macroeconomic stability, financial structure and development, political environment and public governance and business environment;

Axe 2. Underlying factors: 35 factors are detected as adequate proxies to explore the FDI key decisions of MNEs and covering the following considerations: market access and market potential, human and natural resources, cost components and physical infrastructures.

Axe 3. Differentiation and Agglomeration economies: The term "economies of agglomeration" is used in urban economics to describe the benefits that firms obtain when locating near each other. This concept relates to the idea of economies of scale and network effects. These effects are considered by detecting 15 different factors as proxies to the differentiation and agglomeration economies affects.

Figure 1: Each Region's Share of the Total Geographical Representation
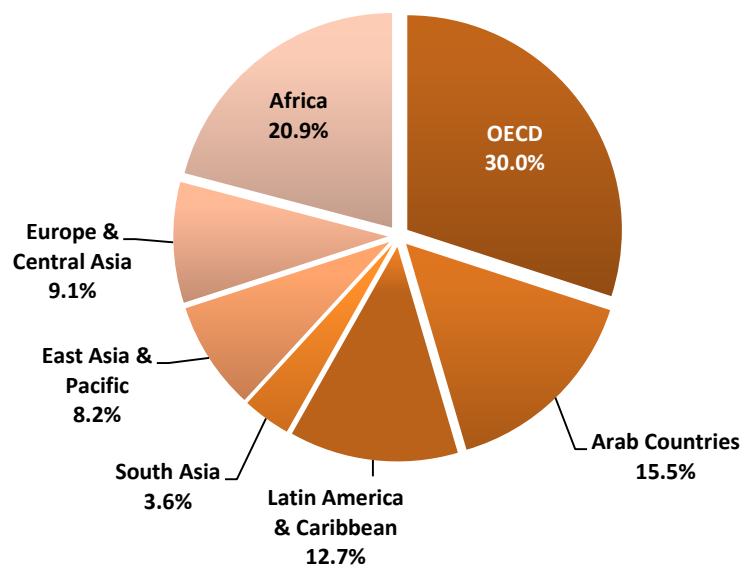
Table 1: Countries covered in DIAI *(ordered alphabetically within region)*		
OECD (33)	**Arab Countries (17)**	**Latin America & Caribbean (14)**
Australia	Algeria	Argentina
Austria	Bahrain	Bolivia
Belgium	Egypt	Brazil
Canada	Jordan	Columbia
Chile	Kuwait	Dominican
Cyprus	Lebanon	Ecuador
Czech Republic	Libya	Guatemala
Denmark	Mauritania	Honduras
Estonia	Morocco	Nicaragua
Finland	Oman	Panama
France	Qatar	Paraguay
Germany	Saudi Arabia	Peru
Greece	Sudan	Uruguay
Hungary	Syria	Venezuela
Ireland	Tunisia	**Africa (23)**
Israel	UAE	Angola
Italy	Yemen	Benin
Japan	**Europe & Central Asia (10)**	Botswana
Mexico	Azerbaijan	Burkina Faso
Netherlands	Bulgaria	Cameroon
New Zealand	Kazakhstan	Central Africa
Norway	Latvia	Chad
Poland	Lithuania	Cote d'Ivoire
Portugal	Malta	Ethiopia
Slovakia	Romania	Gabon
Slovenia	Russia	Ghana
South Korea	Serbia	Kenya
Spain	Ukraine	Madagascar
Sweden	**East Asia & Pacific (9)**	Mali
Switzerland	Cambodia	Mauritius
Turkey	China	Mozambique
United Kingdom	Hong Kong	Namibia
United States of America	Indonesia	Nigeria
South Asia (4)	Malaysia	Senegal
India	Philippines	South Africa
Iran	Singapore	Tanzania
Nepal	Thailand	Togo
Pakistan	Vietnam	Uganda

The data series selection process does not depend only on the question of what is necessary and most adequate to assess FDI attractiveness, data availability is also considered as a constraint in order to maximize our country sample.

In addition to the official data available at national scale, several databases are used with annual data ranging generally from 1980 to 2012 including fundamentally but not exclusively GeoDist database of CEPII, WDI database of the World Bank, Institutional Profiles Database of the DGTPE-France, Worldwide Governance Indicators of the World Bank, The Conference Board Total Economy Database, WIPO database, UNCTAD STAT database, WTO database, ILO database, World Federation of Exchange database, CDIS, DOTS, FAS, IFS and WEO databases of the IMF. The series gathered from these databases belong to two types of group variables: the *hard data* mainly refer to quantitative economic variables; while the *soft data* are qualitative data based on surveys. The use of *soft data* was dictated by the necessity to carry out analysis of attractiveness determinants of a qualitative nature, like many of those related to institutional profiles and political framework.

To smooth fluctuation most series or factors are averaged over a period of the last three years. The index structure is based on three levels: the first is the level of the three key driving forces (prerequisites, underlying factors, and positive externalities), the second level consists of data series or sub-factors, which are aggregated from the level three data series.

Figure 2: DIAI Structure

Dhaman Investment Attractiveness Index (DIAI)

Prerequisites

Macroeconomic Stability
- Real GDP growth volatility
- Inflation Rate
- Real effective exchange rate volatility
- Number of exchange rate crisis
- Current account deficit to GDP ratio
- Fiscal balance to GDP ratio
- General government gross debt to GDP ratio

Financial Structure and Development
- Ratio of broad money to GDP
- Domestic credit to private sector
- Market capitalization of listed companies to GDP

Institutional environment
- Functioning of public administration (market perception)
- Free operation of markets
- Security of transactions and contracts in goods & services markets
- Regulations and Social dialogue

Business Environment

Underlying Factors

Market Access and Market Potential
- Real per capita domestic demand
- Domestic demand volatility
- PPP-adjusted GDP per capita
- Trade to GDP ratio
- Access to world market
- Openness to the Outside World Index

Human and Natural Resources
- Total natural resources rents (% of GDP)
- GDP PPP per employee
- Average years of schooling of adults
- The Education Index of HDI
- Expected Years of Schooling of children (years)
- Education System Quality and Social Mobility index

Cost Components
- Labor Market Conditions (indirect cost)
- Taxes
- Export and Import Costs

Physical Infrastructures
- Land transport
- Air transport
- Internet
- Telephone

Positive Externalities

Agglomeration Economies
- Per capita Turnover of Multinationals from EU27
- No. of Multinational firms from EU27
- No. of Multinational firms from USA
- Stock of inward FDI to GDP ratio
- Total Number of BITs accumulated

Technological environment and Differentiation
- Technological environment index
- Patent applications index
- Patent Cooperation Treaty international index
- Industrial design applications index
- Industrial design registrations index
- Trademark registrations index
- Quality of universities index
- E-Government Index

The three axes or pillars, shown in Figure 2, are described below. The ranking provides the evidence for which factors Arab region stands behind and has to improve them in order to become more attractive.

Axe1: Prerequisites

The prerequisites or required prior conditions axe includes those basic features that enable investors to identify and exploit the sources of competitive advantage of the other two axes. It consists of 64 variables grouped into the following categories:

A.   Uncertainty and Macroeconomic Stability:

Uncertainty Factors:

In macroeconomic applications, the term uncertainty is used mainly in two senses: there is the statistical meaning of uncertainty in a measurement or value due to the dispersion of repeated occurrences in the face of the same prediction, and then there is the epistemological meaning of uncertainty in the opposite sense from likelihood or from strength of belief. Used in the second sense, uncertainty is a measure of doubt about a single event being true or real. More precisely, in the context of attractiveness analysis, uncertainty limits and casts doubt on what stabilization policies and defense mechanisms of an economy can accomplish. Given the irreversible nature of FDI, macroeconomic uncertainty also causes an increase in uncertainty about future profits, raising the value of waiting and thus delaying investment decision. It's approximated by 4 indicators:

1. Real GDP growth volatility;
2. Inflation Rate;
3. Real effective exchange rate volatility;
4. Number of exchange rate crisis, crisis being defined as in Frankel and Rose (1996): a depreciation of the (average) nominal exchange rate that exceeds 25 percent, and exceeds the preceding year's rate of nominal depreciation by at least 10 percent.

Macroeconomic Stability:

Macroeconomic stability basically means a mix of external and internal balance approximated by the following indicators:

5. Current account deficit to GDP ratio;
6. Fiscal balance to GDP ratio;
7. General government gross debt to GDP ratio.

B.   Financial Structure and Development:

The evaluation of financial structure and development covers the following indicators of financial size and depth:

1. Ratio of broad money to GDP (M2 to GDP);
2. Domestic credit to private sector (% of GDP);
3. Market capitalization of listed companies to GDP.

C.   Institutional Environment

The quality of institutional environment is evaluated by using the Institutional Profiles Database constructed by the French Ministry of Finance network in 123 countries for year 2009. The evaluation covers 33 indicators fundamentally concerned with the functioning of public administration (transparency of public economic action, transparency of economic policy, effectiveness of the fiscal system, government capacity to decide on and really implement reforms)

and the security of transactions and contracts (security of property rights, security of contracts between private actors, effectiveness of commercial courts, effectiveness of bankruptcy law).

D.   Business Environment:

The business environment is covered by the following set of 4 factors grouping 21 variables:

1. Functioning of public administration

    1.1.   Start-up procedures to register a business (number)
    1.2.   Time required to start a business (days)
    1.3.   Cost of business start-up procedures (% of GNI per capita)
    1.4.   Time required to register property (days)
    1.5.   Time required to enforce a contract (days)
    1.6.   Time required to build a warehouse (days)
    1.7.   Time required to get electricity (days)
    1.8.   Time to resolve insolvency (years)

2. Free operation of markets

    2.1.   Privatizations in the non-financial sector since 2006
    2.2.   Implementation of the privatization program
    2.3.   Freedom of prices

3. Security of transactions and contracts in goods and services markets

    3.1.   Information on firm situation
    3.2.   Information on the quality of goods and services: national and international norms and standards
    3.3.   Intellectual property protection
    3.4.   Effectiveness of arrangements for the protection of intellectual property
    3.5.   Public land tenure policies
    3.6.   Security of land tenure rights

4. Regulations and Social dialogue

    4.1.   Competition: ease of market entry for new firms
    4.2.   Competition in distribution (household consumption)
    4.3.   Competition regulation arrangements
    4.4.   Information on the structure of shareholdings in firms

Axe 2: The Underlying Factors

This pillar includes the key aspects that MNEs take into account when making investment decision conditional upon fulfilling the prerequisites factors. These aspects have been grouped in 4 categories: Market access and potential, Human and natural resources, costs components and physical infrastructures.

A. Market Access, Size and Potential

One of the reasons behind FDI is access to new markets that enables the increase of MNEs' turnovers. Investments in a particular country can represent an attempt to gain access to its internal market, or to facilitate access to other markets of other countries. These are the factors shown by means of the following indicators:

1. Real per capita domestic demand,
2. Domestic demand volatility,
3. PPP-adjusted GDP per capita,
4. Trade to GDP ratio,

5. Access to world market measured by GDP weighted by the inverse of the sum of distances to all countries,
6. Openness to the Outside World Index covering:
    6.1. Trade openness and convertibility of current transactions
    6.2. Organizations openness to capital
    6.3. Foreigner access to land
    6.4. Financial openness

B. Human and Natural Resources

Natural resources:

1. Total natural resources rents (% of GDP)

Human resources:

1. GDP PPP per person employed,
2. Average years of schooling of adults,
3. The Education Index of HDI,
4. Expected Years of Schooling of children (years),
5. Education System Quality and Social Mobility index covering:

    5.1. Existence of adaptive education system,
    5.2. Openness to employment of non-nationals market,
    5.3. Quality of public education and health care,
    5.4. Social mobility, recruitment and promotion.

C. Cost Components

1. Labor Market Conditions (indirect cost) :

    1.1. Flexibility in the formal labor market,
    1.2. Weak employment contract rigidity,
    1.3. Strikes frequency,
    1.4. Relationships between employee representation and employers.

2. Taxes:

    2.1. Total tax rate (% of commercial profits)
    2.2. Labor tax and contributions (% of commercial profits)
    2.3. Tax Payments number

3. Export and Import Costs:

    3.1. Cost to export (US$ per container)
    3.2. Cost to import (US$ per container)

D. Physical Infrastructures
1. Land transport:

    1.1. Road density (km of road per 100 sq. km of land area)
    1.2. Railways, passengers carried (million passenger-km)

2. Air transport:

    2.1. Air transport, passengers carried
    2.2. Air transport, freight (million ton-km)

3. Internet

| | 3.1. | Fixed broadband Internet subscribers (per 100 people) |
| | 3.2. | Internet users (per 100 people) |

4. Telephone

| | 4.1. | Telephone lines (per 100 people) |
| | 4.2. | Mobile cellular subscriptions (per 100 people) |

Axe 3: Agglomeration Economies and Differentiation

The term "agglomeration economies" is used, as in urban economics, to describe the benefits that MNEs obtain when locating near each other (agglomerating). This concept relates to the idea of economies of scale and network effects. While the differentiation axe refers to the factors that provide MNEs access to scarce resources enabling them to differentiate their products, strategies or process from the competition and, , as a result, to develop or sustain a competitive advantage in the markets in which they operate.

A. Presence of Multinationals

1. Per capita Turnover of Multinationals from EU27
2. Number of Multinational firms from EU27 in the country
3. Number of Multinational firms from USA in the country
4. Stock of inward foreign direct investment to GDP ratio
5. Total Number of BITs accumulated to the considered year

B. Differentiation

1. Technological environment index covering:

   1.1. Business technological environment,
   1.2. Public aid for R&D
   1.3. Density of sub-contracting relations.

2. Total patent applications index (United States = 100),
3. Total Patent Cooperation Treaty international index (United States = 100),
4. Total industrial design applications index (United States = 100),
5. Total industrial design registrations index (United States = 100),
6. Total trademark registrations index (United States = 100),
7. Quality of universities index (United States = 100),
8. E-Government Index.

The Arab Investment & Export Credit Guarantee Corporation

Part I: The FDI Attractiveness Potential of the Arab Region

How to read the tables

Part One of the report reviews the position of the Arab Region as a geographic group, and details a country's position relative to the other countries included in Dhaman Investment Attractiveness Index (DIAI), with two levels of analytical scales:

- **Level 1**: focuses on the position of geographic groups and countries on the general attractiveness index in terms of value attained out of the gross total of 100 points, as well as the rank at Arab and international levels.

- **Level 2**: addresses the detailed position of countries in relation to the three main groups of attractiveness index, representing:

  1. The set of prerequisites.

  2. The Underlying factors affecting the MNEs.

  3. The set of positive externalities.

To give details of the countries' positions on the general index and sub-indices of DIAI, the levels of performance compared to global average were divided into five main levels. Five color codes and descriptions were used in the tables to identify the relative performance of each country, compared to the global average of the value of each index, as follows:

1. Very good performance: adding a dark green circle (●), indicating that the value is over 30% higher than global average.

2. Good performance: adding a light green circle (●), indicating that the value is 10% - 30% better than global average.

3. Average performance: adding a yellow circle (●), indicating that the value is 10% higher/lower than global average.

4. Poor performance: adding an orange circle (●), indicating that the value is 10% - 30% worse than global average.

5. Very poor performance: adding a red circle (●), indicating that the value is over 30% lower than global average.

1. The Overall Arab Attractiveness Position

The twenty-one Arab States, along with the Palestinian Autonomous Territories, share a common language, culture, history and a sense of belonging to one nation. However, when it comes to socio-economic perspectives and challenges, in general, and to an assessment of the FDI attractiveness challenges, in particular, the similarity ends because of the great disparity in development levels.

Indeed, the Arab region is characterized by vast demographic, geographic, political and socio-economic diversity. It includes countries with very large populations, led by Egypt with a population of 84 million, and countries with small populations, such as Djibouti at 865 thousand. The region is also characterized by extreme differences in land areas. For example, Algeria, the largest country in the region with 2.4 million km^2, is the eleventh largest country in the world. In contrast, the region's smallest country, Bahrain, covers just 760 km^2. There is also a high degree of disparity in income, wealth and access to social services between Arab states. For example, Qatar is the world's richest country with its per capita GDP soaring to US$ 102,211. In comparison, Mauritania have a mere US$ 2,122 GDP per capita making the ratio between the richest and the poorest about 50 to 1. The Arab region also exhibits diversity in terms of human development achievement and encompasses countries with very high and low mortality, very urbanized and very rural, and countries of emigration and countries of immigration.

1.1   General Attractiveness Index

Performance at Regional Level

Results of the general DIAI-2013 at the level of geographic groups indicate that Arab countries claimed fifth place at world level, among 7 geographic groups, with an average 28 points, and average ranking of 68 within the countries of the group. Organization for Economic Cooperation and Development (OECD) countries claimed the first place, followed by East Asia and the Pacific countries at the second place, Europe and Central Asian countries at the third place, Latin American and Caribbean countries in the fourth place, South Asian countries in the sixth place, after Arab countries, and, finally, African countries in the seventh place (Table 2 and Figure 3).

Rank	Group	Average Score	Average Rank
Table 2: Regional Performance in DIAI 2013			
1	OECD	49.1	02
2	East Asia & Pacific	35.9	84
3	Europe & Central Asia	33.3	15
4	Latin America & Caribbean	28.1	84
5	**Arab Countries**	**28.0**	**86**
8	South Asia	24.3	42
7	Africa	21.0	15
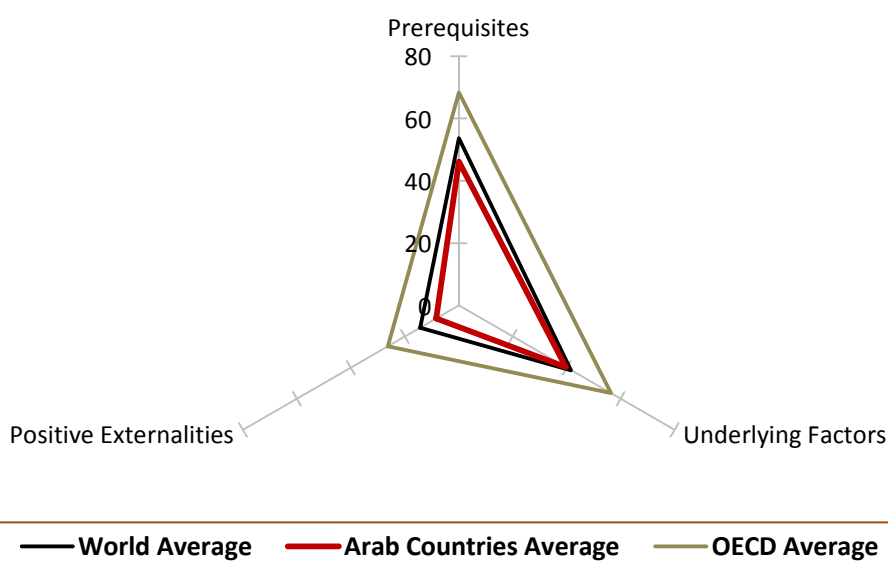
Arab Groups Performances

For the purpose of regional comparison, the report groups economies into the categories below:

- GCC states: the Gulf Cooperation Council States namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
- The Levant or Arab Mashreq states: also known as the Eastern Mediterranean countries and consists of Egypt, Lebanon and Jordan.
- The Maghreb states: regrouping Algeria, Libya, Morocco and Tunisia.
- Low FDI performance countries: This is the only non-geographic category, which groups together Mauritania, Sudan, Syria and Yemen.

Results of the general attractiveness index in the Arab countries, by subregions, indicate that GCC countries have topped the list of performance with 34.1 points out of 100 points, during 2013, positioned slightly above the world average of 33.9 points (Table 3). The Levant subregion ranks second overall close to the world average with 29.2 points. The Maghreb achieves a relatively weak performance being at the third position with 26.9 points. The low FDI performance group comes in at the last position with a very weak performance, with 19 points.

It should be noted that the economic environment facing policymakers in the last three years diverged significantly between major energy exporters of GCC countries and other Arab subregions. Consequently, data indicate a significant divergence in FDI attractiveness performance of Arab countries, ranging between 38th ranking with 37 points (best Arab country), and 106th with 17 points (worst Arab country).

Table 3: Arab Groups' Performance in DIAI 2013			
Rank	**Group**	**Score**	
1	GCC states	34.1	🟡
2	The Levant	29.2	🟡
3	The Maghreb	26.9	🟠
4	Low FDI Performance countries	19.0	🔴
	Arab average	**28.0**	
	World average	**33.9**	

Performance: ●Very good ●Good
●Average ●Weak ●Very weak

Regarding Arab countries' positions in the three main groups, in general, it is obvious that Arab performance in the set of positive externalities is very poor, comparing the Arab average of 8.4 points to the global average of 14.3 points. Against this, Arab performance was slightly lower than global average in the sets of the prerequisites and underlying factors. The GCC subregion achieved a good performance in terms of underlying factors with 51.1 points, well above the world average performance of 41.6 points (Table 4).

Table 4: Arab Groups' Performance in the three DIAI axes								
Rank	**Groups**	**Score**	**Prerequisites**		**Underlying Factors**		**Positive Externalities**	
1	GCC states	34.1	54.1	🟡	51.1	🟢	9.8	🟡
2	The Levant	29.2	45.5	🟠	36.4	🟡	11.2	🟡
3	The Maghreb	26.9	45.1	🟠	36.9	🟡	8.3	🟠
4	Low FDI Performance countries	19.0	36.0	🔴	27.7	🔴	4.4	🔴
	Arab average	**28.0**	**46.2**		**39.6**		**8.4**	
	World average	**33.9**	**53.7**		**41.6**		**14.3**	

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

1.2 Set of Prerequisites

The prerequisites refer to a set of factors that should essentially be available for the state to act towards attracting investment. Without those factors, it is impossible, or at least difficult, to attract investors. Lack of such factors also means that other elements for attracting investment cannot be provided. The set includes four out of the ten sub-indices forming the general attractiveness index. These are: macroeconomic performance index, financial brokerage and Financing Capacity index, governance, public administration, institutional and social environment Index, and finally business environment index.

Performance at Regional Level

Arab countries claimed the 5th place globally among seven geographic groups on the set of investment attractiveness prerequisites index, with an average of 46 points on the index for Arab countries group, and average ranking of countries within the group of 73rd. OECD countries had claimed the first place, followed by East Asia and the Pacific countries in the 2nd place, Europe and Central Asia at the 3rd place, Latin American and the Caribbean countries in the 4th place, South Asian countries at the 6th place following Arab countries, and finally African countries in the 7th place (Table 5 and Figure 4).

Table 5: Regional Performance in Prerequisites			
Rank	Group	Average Score	Average Rank
1	OECD	68	20
2	East Asia & Pacific	55	51
3	Europe & Central Asia	52	58
4	Latin America & Caribbean	48	69
5	**Arab Countries**	**46**	**73**
6	South Asia	45	79
7	Africa	43	81

Figure 4: Arab, World and OECD Performances in Prerequisites
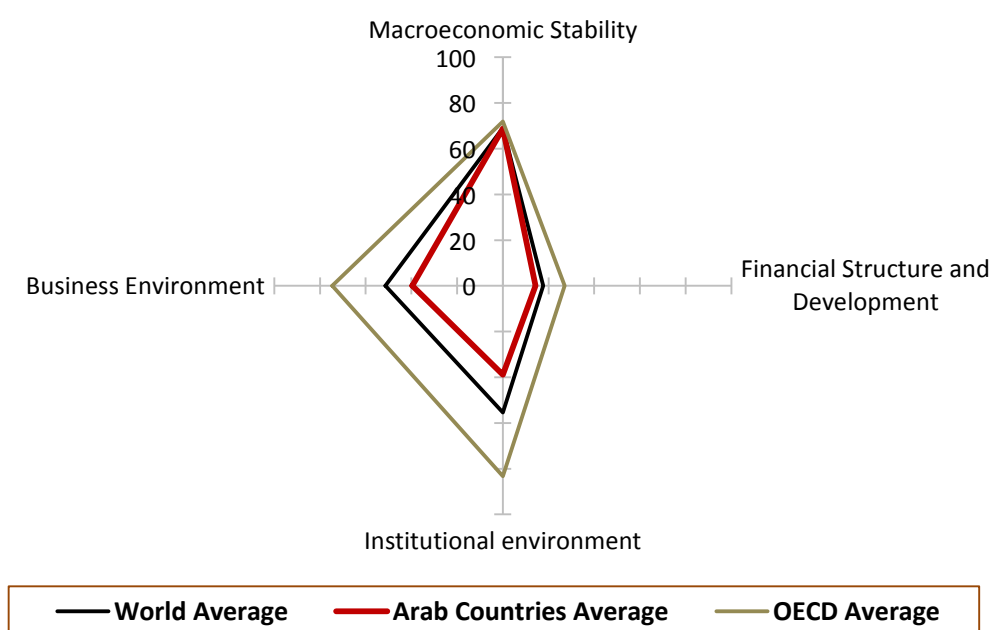
Arab Groups Performances

Regarding the Arab countries' performance in the set of prerequisites, it is notable that GCC countries outperform other Arab subregions with a score of 54.1 points above the world average which stands at 53.7 points. This good performance is mainly owed to the high performance in terms of macroeconomic stability with a score of 78.4 points (Table 6). The Levant and Maghreb states share the second and third position respectively with an almost similar performance around the world average. The Levant states stands out in terms of financial structure and development with 24.2 points score significantly higher than the world average (17.7 points). In contrast, the Low-FDI performance countries realized a very weak result with 36 points.

It is important to note that all Arab subregions are marked by modest or very weak performances in the areas of institutional and business environments. As rightly pointed in the Global Competitiveness Report 2012-2013, *the importance of a sound and fair institutional environment became even more apparent during the recent economic and financial crisis and is especially crucial for further solidifying the fragile recovery given the increasing role played by the state at the international level and for the economies of many countries* (WEF, p.4).

Rank	Groups	Score	Macroeconomic Stability		Financial Structure and Development		Institutional environment		Business Environment	
1	GCC states	54.1	78.4	●	15.7	●	48.7	●	47.1	●
2	The Levant	45.5	60.7	●	24.2	●	36.0	●	46.7	●
3	The Maghreb states	45.1	70.1	●	12.7	●	37.2	●	35.9	●
4	Low FDI Performance countries	36.0	59.4	●	6.6	●	27.9	●	27.0	●
	Arab average	**46.2**	**68.9**		**14.3**		**38.9**		**39.7**	
	World average	**53.7**	**69.0**		**17.7**		**55.5**		**51.5**	

Table 6: Arab Groups' Performance in Prerequisites

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

1.3　Underlying Factors Affecting Multinational Enterprises

The underlying factors affecting FDI include a set of factors or fundamentals that guide the decisions of major investors, especially the MNEs, to invest in a specific country. There is an increasing importance of such factors considering that those companies are huge industrial organizations having a wide network of branches and subsidiaries spread over a number of countries. Their operations extend beyond their own countries, and cover not only the advanced countries but also the LDCs. In addition, their presence in a specific country constitutes a major incentive for the entry of more companies and investments for their huge marketing and productive capabilities, enabling them to control over three quarters of the global trade (the Top 500 MNEs account for nearly 70% of the worldwide trade).

The Underlying Factors pillar has 4 out of the 10 sub-indices forming the DIAI general attractiveness index. These are: market size and accessibility index, human and natural resources index, cost elements index, and finally, infrastructure index.

Performance at Regional Level

The Arab countries came at the 4th place at global level, among 7 geographic groups with an average value of Arab countries of 40 points and average ranking of countries within the group of 59. The OECD countries occupy the first place with an average score of 56 points and average rank of 22, followed by Europe and Central Asian countries at the 2nd place, East Asia and the Pacific countries at the 3rd place, while Latin America and the Caribbean countries came at the 5th place after the Arab countries, followed by South East Asian countries at the 6th place, and finally, African countries at the 7th place (Table 7).

Rank	Group	Average Score	Average Rank
Table 7: Regional Performance in Underlying Factors			
1	OECD	56	22
2	Europe & Central Asia	42	49
3	East Asia & Pacific	42	57
4	**Arab Countries**	**40**	**59**
5	Latin America & Caribbean	35	68
6	South Asia	28	91
7	Africa	28	90

Arab Groups Performances

Within the Arab region, the GCC countries receive relatively high ratings in terms of underlying pillar with a score of 51.1 points, significantly above the world average of 41.6 points, due fundamentally to enormous central government gross surplus, a very attractive market size, a good developed infrastructure and highly attractive taxation. The GCC states occupy pole position in the areas of market access and potential, human and natural resources, cost components and physical infrastructures indicators (Table 8 and Figure 6). The performances of the other three subregions are all below the world averages: the Maghreb states are ranked second with 36.9 points slightly ahead the Levant states, ranked third with 36.4 points. Low FDI Performance countries are ranked last with very weak performance (27.7 points).

Results reveal that all Arab subregions achieved a relatively good performance on the cost components index. However, except the GCC states, all other Arab subregions realized a weak to very weak performance on the infrastructure index. Public infrastructure should have a significant (positive) impact on foreign and domestic firms' marginal cost of the MNEs and hence on their

location decisions. The presence of quality public infrastructure is likely to affect the location decisions of foreign firms in multiple ways. The presence of a good infrastructure can significantly reduce firms' output costs, providing a positive incentive for vertical FDI or investment where MNEs base their location decisions purely on a cost basis. Public infrastructure could also enhance access to intermediate goods suppliers in neighboring regions, providing a positive incentive for complex FDI location strategies, where MNEs locate different production activities in separate geographic regions.

Rank	Groups	Score	Market Access and Market Potential		Human and Natural Resources		Cost Components		Physical Infrastructures	
1	GCC states	51.1	39.1	●	60.7	●	74.6	●	36.8	●
2	The Maghreb states	36.9	25.9	●	45.6	●	67.3	●	17.6	●
3	The Levant	36.4	28.7	●	41.0	●	68.2	●	17.3	●
4	Low FDI Performance countries	27.7	24.2	●	26.3	●	63.2	●	8.2	●
	Arab average	**39.6**	**30.7**		**45.6**		**69.1**		**22.1**	
	World average	**41.6**	**33.8**		**46.7**		**67.5**		**26.3**	

Table 8: Arab Groups' Performance in Underlying Factors

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

Figure 5: Arab, World and OECD Performances in Underlying Factors
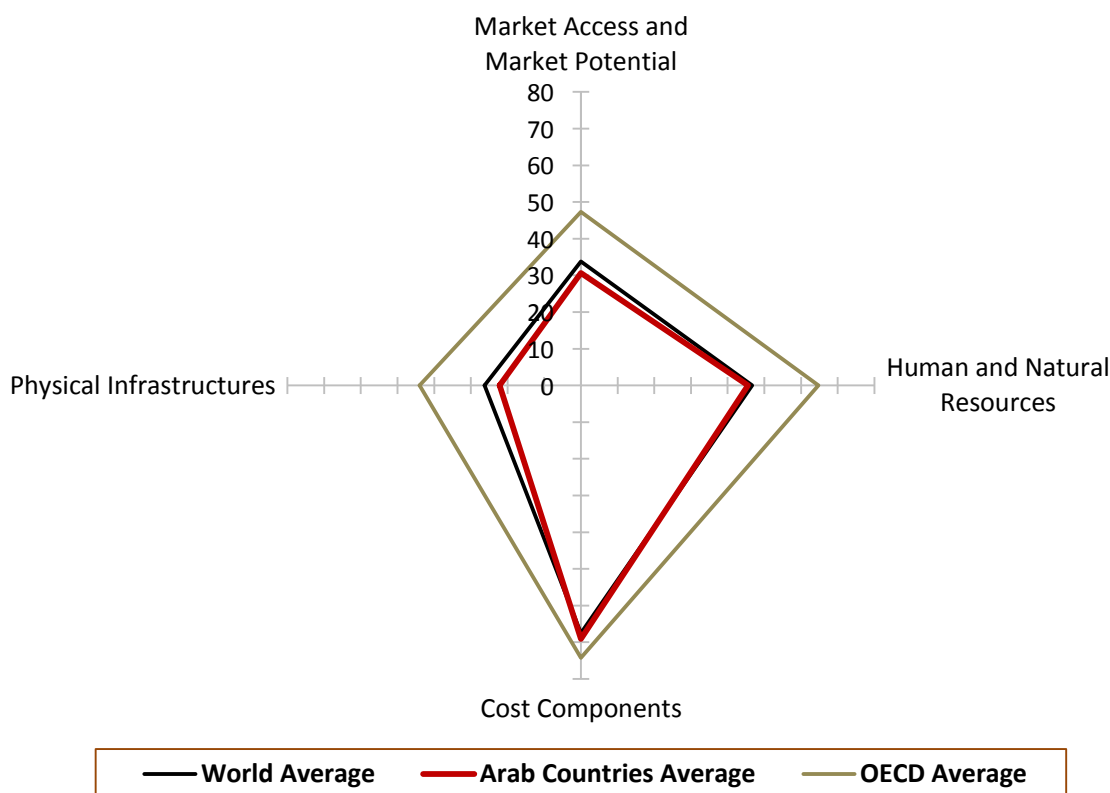
1.4 Positive Externalities Factors

Economically speaking, positive externalities exist when the marginal social benefit of production and or consumption exceeds the marginal private benefit i.e. production and/or consumption generate external benefits that may go under-valued by the market. In this report, positive external factors represent the various components that enhance a country's strengths for its integration into global economy, its possession of technological advancement potential, as well as other features distinguishing it from other countries of the world. Two principal components are supposed to generate positive externalities in terms of FDI attractiveness:

- Agglomeration economies: which reflect the benefits that MNEs obtain when locating near each other (agglomerating); this concept relates to the idea of economies of scale and network effects.

- Differentiation and technological environment: which refer to the factors that provide MNEs access to scarce resources enabling them to differentiate their products, strategies or process from the competition, to develop or sustain a competitive advantage in the markets in which they operate.

Performance at Regional Level

Arab countries claimed the 6th place at global level, among 7 geographic groups on the set of positive external factors on investment attractiveness index, with an average value of the index for Arab countries group of 8 points only and an average ranking of countries within the group of 73. OECD countries had claimed the 1st place with an average value of the index of 26 points, and an average ranking of 20, followed by East Asia and the Pacific countries at the 2nd place, Europe and Central Asian countries at the 3rd place, Latin America and the Caribbean countries at the 4th place, South Asian countries at the 5th place, and finally African countries at the 7th place (Table 9).

Table 9: Regional Performance in Positive Externalities Factors			
Rank	Group	Average Score	Average Rank
1	OECD	26	20
2	East Asia & Pacific	17	46
3	Europe & Central Asia	12	49
4	Latin America & Caribbean	10	64
5	South Asia	9	71
6	**Arab Countries**	**8**	**73**
7	Africa	5	93

Arab Groups Performances

The Arab region is one of the weakest regions in terms of differentiation and agglomeration considerations. All Arab subgroups show strong deficits in almost all criteria that affect agglomeration and differentiation-technological performances. The Levant states, ranked first, achieved an average performance with a score of 11.2 below the world average. The GCC states, ranked second, realized a relatively weak performance with a score of 9.8 which is fundamentally explained by the weakness of the agglomeration economies index; on the other hand the performance of this subgroup is better than the Levant subgroup in terms of technological environment and differentiation with a score of 12.1 closer to the world average. The Maghreb states are ranked third with 8.3 points reflecting a weak performance. Finally, the Low FDI Performance countries achieved a very weak performance with a score of 4.4 points (Table 10).

Rank	Groups	Score	Agglomeration Economies		Technological environment and Differentiation	
1	The Levant	11.2	10.6	🟢	11.6	🟡
2	GCC states	9.8	6.1	🟡	12.1	🟡
3	The Maghreb states	8.3	7.1	🟡	9.0	🟠
4	Low FDI Performance countries	4.4	3.2	🟠	5.1	🔴
	Arab average	**8.4**	**6.5**		**9.6**	
	World average	**14.3**	**11.8**		**15.9**	

Table 10: Arab Groups' Performance in Positive Externalities Factors

Performance: 🟢Very good 🟢Good 🟡Average 🟠Weak 🔴Very weak

2. Arab World's Position on Ten Key Drivers

General attractiveness index encompasses ten sub-indices, which, together, reflect the country's attractiveness to foreign investment, with more details. These are uncertainty and macroeconomic stability index, financing capacity, political, institutional and social environment index, business performance environment index, market size and accessibility index, human and natural resources index, cost components index, infrastructure index, impact of agglomeration economies and multi-national companies' index, and differentiation and technological advancement factors index.

It should be noted that the ten sub-indices cover about 15 key components observing, in more detail, the parameters governing the country capacity for attracting investment. Those key components, in turn, consist of about 61 sub-parameters, which, together, contribute to identifying the country's position on the attractiveness index with utmost accuracy.

2.1 Uncertainty and Macroeconomic Stability Index

A quick look at the position of Arab countries on the ten sub-indices forming the investment attractiveness index reveals a number of main observations:

Foreign investors are very vigilant when entering a national economy, the limited uncertainty and macroeconomic stability being a precondition of the arrival and generally creating an interest in investing in a considered country and sector. Therefore, the control of uncertainty and macroeconomic stability constitute one of the important determinants of foreign direct investment. They can be traced through a series of relevant indicators (7 key parameters):

– **Uncertainty:** In macroeconomic applications, the term uncertainty is used mainly in two senses: there is the statistical meaning of uncertainty in a measurement or value due to the dispersion of repeated occurrences in the face of the same prediction, and then there is the epistemological meaning of uncertainty in the opposite sense from likelihood or from strength of belief. Used in the second sense, uncertainty is a measure of doubt about a single event being true or real. More precisely, in the context of attractiveness analysis, uncertainty limits and casts doubt on what stabilization policies and defense mechanisms of an economy can accomplish. Given the irreversible nature of FDI, macroeconomic uncertainty also causes an increase in uncertainty about future profits, raising the value of waiting and thus delaying investment decision. It's approximated by 4 indicators: real GDP growth volatility, inflation rate, real effective exchange rate volatility and number of exchange rate crisis (crisis being defined as in Frankel and Rose (1996), a depreciation of the average nominal exchange rate that exceeds 25 percent, and exceeds the preceding year's rate of nominal depreciation by at least 10 percent).

– **Macroeconomic Stability:** This component basically means a mix of external and internal balance approximated by the following indicators: current account deficit to GDP ratio, fiscal balance to GDP ratio and general government gross debt to GDP ratio.

According to this index, a set of main significant findings may be extracted, mainly as follows (Table 11 and Figure 6).

- Arab performance on this index is the best compared to the 10 other indices, as both Arab and global averages are nearly equal, around 69 points. Six Arab countries ranked within the top thirty places at the global level.

- GCC States topped the list of Arab groups with good performance (over 13% higher than global average) with index value of 78.4 points. This performance is mainly explained by very good scores of the macroeconomic stability components: 71.6 points for current account deficit to GDP ratio index, 63.6 points for fiscal balance to GDP ratio index and 94.1 points for general government gross debt to GDP ratio index.

- The Maghreb states have achieved the second best performance among Arab subgroups with 70.1 points exceeding the world average. However, the countries of this subgroup suffer from a relatively weak performance in terms of real GDP growth volatility.

- Over the past 10 years, with the exception of a few countries, Arab countries have not witnessed crises in the exchange rates.

Table 11: Arab Groups' Performance in the Macroeconomic Stability Index

Rank	Groups	Score	Real GDP growth volatility		Inflation Rate		Real effective exchange rate volatility		Number of exchange rate crisis		Current account deficit to GDP ratio		Fiscal balance to GDP ratio		General government gross debt to GDP ratio	
1	GCC states	78.4	76.1	●	62.5	●	81.1	●	100.0	●	71.6	●	63.6	●	94.1	●
2	The Maghreb states	70.1	67.4	●	71.3	●	81.6	●	93.8	●	50.2	●	37.9	●	88.3	●
3	The Levant	60.7	85.7	●	71.7	●	67.0	●	91.8	●	26.0	●	22.7	●	59.9	●
4	Low FDI Performance countries	59.4	64.1	●	57.6	●	62.5	●	93.8	●	33.1	●	29.6	●	75.3	●
	Arab average	**68.9**	**72.9**		**65.0**		**49.5**		**42.3**		**82.3**		**74.3**		**95.6**	
	World average	**69.0**	**79.3**		**77.0**		**42.9**		**37.1**		**80.8**		**74.4**		**91.9**	

Performance: ● Very good ● Good ● Average ● Weak ● Very weak

Figure 6: Arab, World and OECD Performances in the Macroeconomic Stability Index
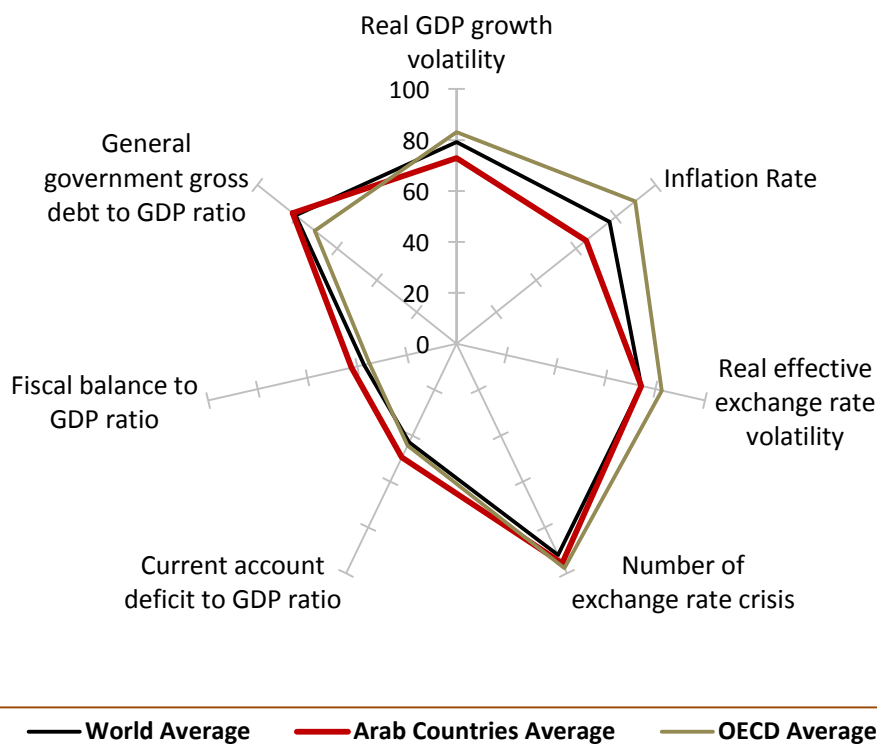
2.2 Financial Structure and Development Index

The importance of the domestic financial structure and development as a precondition for attracting FDI and the positive growth impact of FDI has been frequently stressed in the literature. The availability and quality of domestic financial markets may influence FDI and its effect on the diffusion of technology in the host country. The diffusion process may be more competent once financial markets in the host country are better developed and allows the foreign investor to expand their investment once it has entered the country.

In DIAI methodology and given the constraint of data availability for all considered countries, the evaluation of financial structure and development covers the following indicators of financial size and depth:

- Ratio of broad money to GDP (M2 to GDP);
- Domestic credit to private sector (% of GDP);
- Market capitalization of listed companies to GDP.

Table 12 and Figure 7 illustrate the following set of findings regarding the Arab subgroups performances in this area:

- Despite the weak global performance in this area, with an average of 17.7 points, several Arab countries are below this score. Only the Levant States subgroup achieved a performance better than the world average with 24.2 points, occupying the first rank.

- Generally, Arab performance was poor in terms of providing the private sector with credit as evaluated by domestic credit to private sector to GDP ratio. Arab average on this index (15.5 points) is much lower than the global average (25 points), while the performances achieved in terms of financial size and market capitalization of listed companies are closed to the world averages.

- The results show a wide divergence between the Levant and GCC states subgroups, on the one hand, and the low FDI Performance countries, on the other hand, which achieved a very weak performances in terms of financial size and financial depth.

- It is important to note that non-oil Arab countries perform better than the oil Arab countries, which indicates that raising a country's financing capacity and improving its ranking on the index is not necessarily associated with the country's overall financial situation.

Table 12: Arab Groups' Performance in the Financial Structure Index

Rank	Groups	Score	Ratio of broad money to GDP		Domestic credit to private sector		Market capitalization of listed companies to GDP	
1	The Levant	24.2	43.9	🟢	21.8	🟡	7.0	🟢
2	GCC states	15.7	19.2	🟢	20.4	🟡	7.4	🟢
3	The Maghreb states	12.7	21.2	🟢	13.5	🟠	3.2	🟡
4	Low FDI Performance countries	6.6	12.9	🟠	5.6	🔴	1.1	🟠
	Arab average	**14.3**	**22.6**		**15.5**		**4.9**	
	World average	**17.7**	**21.4**		**25.0**		**6.7**	

Performance: 🟢Very good 🟢Good 🟡Average 🟠Weak 🔴Very weak

Figure 7: Arab, World and OECD Performances in the Financial Structure Index

Legend: World Average — Arab Countries Average — OECD Average
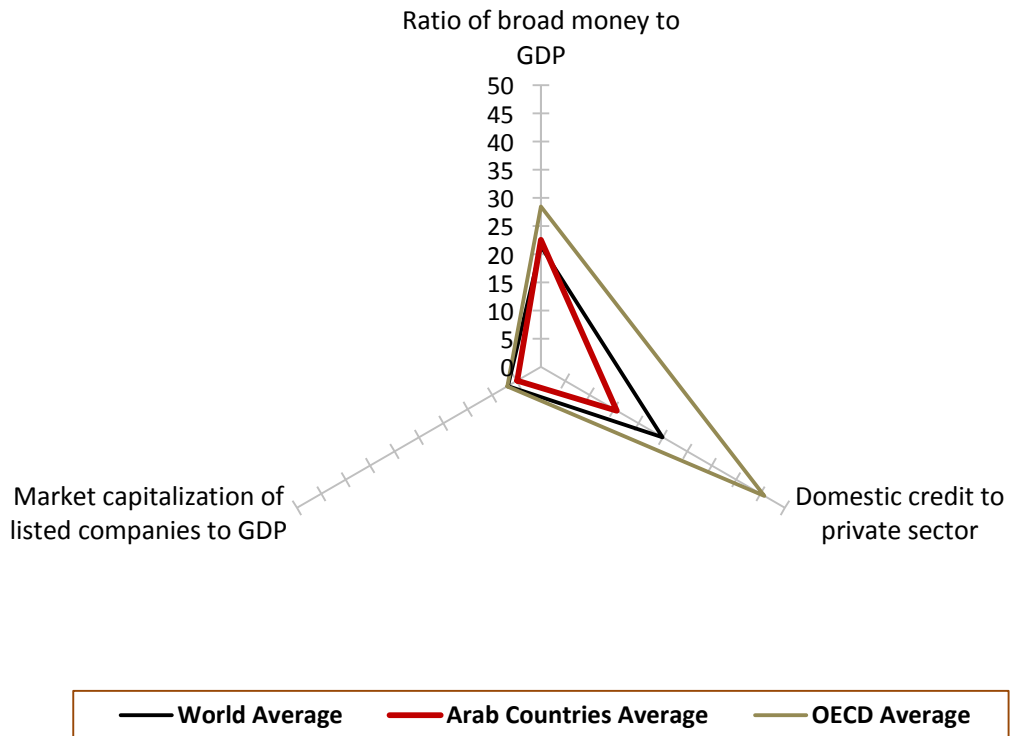
2.3 Institutional Environment Index

Stability of political and social conditions in the hosting country is one of the major factors affecting the country's attractiveness to investment. This is proven by previous experience around the globe, and is viewed by international financial and developmental organizations as one of the main challenges that will face the Arab countries in promoting or restoring foreign investor's confidence. The quality of public environment and governance is evaluated by using the Institutional Profiles Database constructed by the French Ministry of Finance network in 123 countries for the year 2009. The evaluation covers 33 indicators grouped into the following 5 categories: Political institutions; Security, Law & Order, Control of the violence; Functioning of public administration; Security of transactions and contracts in public institutions and society and Social cohesion and social mobility.

It should be noted here that the data of the table reflect a set of classified sub-parameters as per the latest update by the end of 2009, taking into account that the majority of those sub-parameters observe structural changes that normally are not largely affected by the following developments.

Table 13 and Figure 8 describe the Arab subgroups performance in the field and lead to the following findings:

- In general, the Arab countries achieved very modest performance in this area with an average score of 38.9 significantly lower than the world average of 55.5 points. This result is attributable in particular to a very weak performance in terms of quality of political institutions and public governance, while the performance in terms of social cohesion and social mobility index approaches the world average.

- GCC States topped the list of Arab subgroups with an average performance score (48.7) close to the world average, followed by Maghreb States in the 2nd place with a score of 37.2 indicating a weak performance. The Levant States subgroup is at the third place very close to the Maghreb subgroup with 36 points and thus achieving a weak performance. The low FDI performance subgroup is in last rank with 27.9 points indicating a very weak performance.

Table 13: Arab Groups' Performance in the Institutional Environment Index			
Rank	Groups	Score	
1	GCC states	48.7	●
2	The Maghreb states	37.2	●
3	The Levant	36.0	●
4	Low FDI Performance countries	27.9	●
	Arab average	**38.9**	
	World average	**55.5**	

Performance: ●Very good ●Good ●Average
●Weak   ●Very weak

Figure 8: Arab Groups' Performance in the Institutional Environment Index

World Average)55.5(

Arab Countries average)38.9(

48.7	37.2	36.0	27.9
GCC states	The Maghreb states	The Levant	Low-income countries
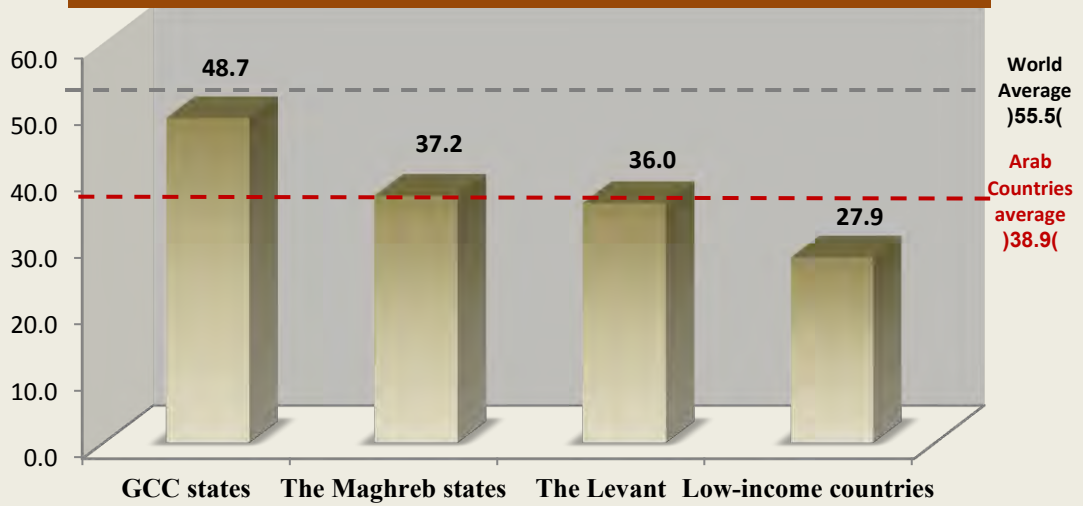
2.4 Business Performance Environment Index

The focus on the business environment is a response to disappointing experiences with direct support measures to firms, including finance and business development services, and the finding that the positive effects of direct support measures are damaged if the wider environment is characterized by burdensome regulations, poor service delivery, corruption and a weak competition. The term Business Environment, as used in this report, refers to all those factors external to businesses that either constrain or favor their development. It is covered by the following set of four factors grouping 21 variables: functioning of public administration from a market perception, freedom of markets functioning, degree of safety in transactions and contracts in goods and services markets and regulations and degree of competition in the markets.

It should be noted that the business environment index, within the global attractiveness index, has different components compared to the business environment index issued annually by the World Bank Group, although it depends on the same source of data.

Table 14 and Figure 9 summarize the performances of Arab subgroups and lead to the following conclusions:

- Arab countries are among the poorly performing countries with an average score of 39.7 points significantly below the world average score of 51.5 points. Compared to the world average performance, the most significant deficiencies or gaps concern the regulations and degree of competition in the markets (gap of 17.7 points) and the degree of safety in transactions and contracts in goods and services markets (gap of 16.7 points).

- GCC States topped the Arab subgroups with a score of 47.1 points, followed by the Levant States at the 2nd place with 46.7 points, and the Maghreb States at the 3rd place with 35.9 points. The low FDI performance countries occupy the last place with a very weak score of 27 points.

- The business environment in most Arab countries is hampered by the lack of freedom of market functioning, the low degree of safety in transactions and contracts in goods and services markets and the poor quality of regulations and degree of competition in the markets.

Rank	Groups	Score	Functioning of public administration (market perception)		Free operation of markets		Security of transactions and contracts in goods & services markets		Regulations and Social dialogue	
1	GCC states	47.1	67.6	●	33.1	●	48.6	●	39.0	●
2	The Levant	46.7	57.2	●	58.1	●	39.3	●	32.1	●
3	The Maghreb states	35.9	56.0	●	21.0	●	34.3	●	32.2	●
4	Low FDI Performance countries	27.0	54.0	●	27.4	●	11.7	●	14.8	●
	Arab average	**39.7**	**59.8**		**33.3**		**34.9**		**30.5**	
	World average	**51.5**	**57.6**		**48.5**		**51.6**		**48.2**	

Table 14: Arab Groups' Performance in the Business Environment Index

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

Figure 9: Arab, World and OECD Performances in the Business Environment Index

Functioning of public administration (market perception)

Regulations and Social dialogue

Free operation of markets

Security of transactions and contracts in goods & services markets

— World Average — Arab Countries Average — OECD Average
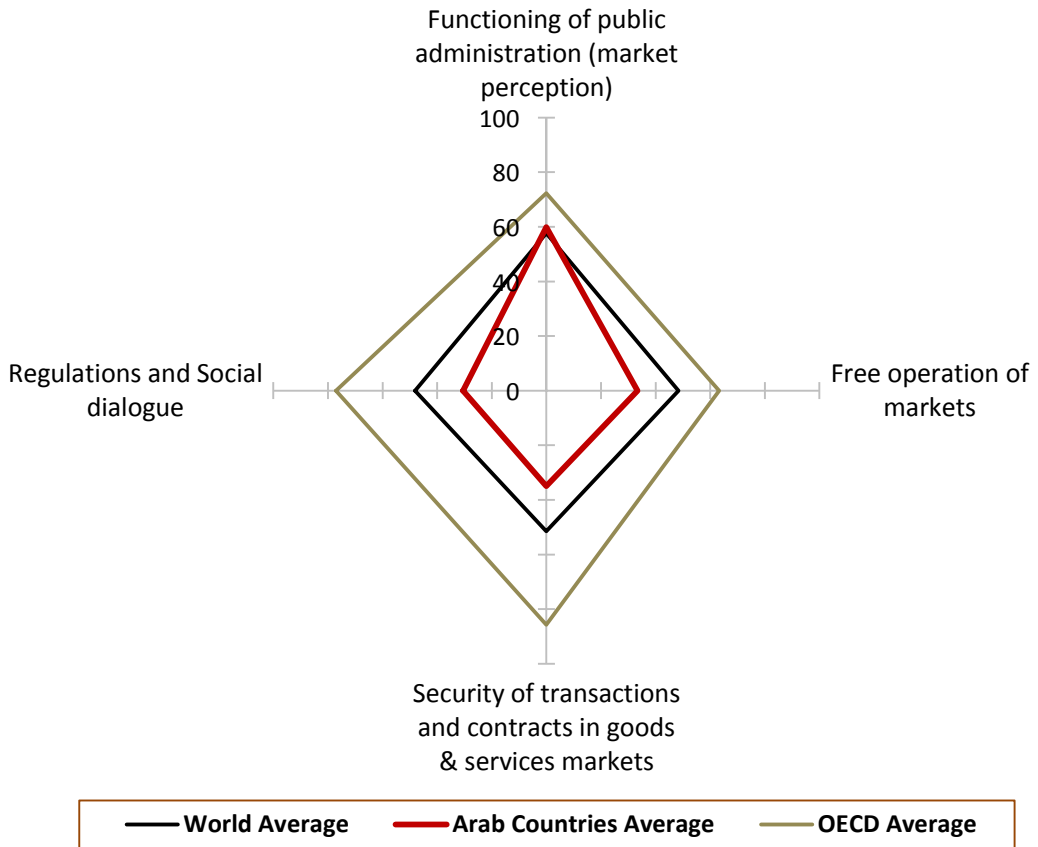
2.5 Market Size and Accessibility Index

The market size, prospects for market growth, and the degree of development of host countries are very important location factors for FDI in general and market-oriented FDI in particular. Thereby, host countries with larger market size, faster economic growth and higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and, therefore, will attract more market-oriented FDI. Even for export-oriented FDI, the market size of host countries is important because larger economies can provide larger economies of scale and spillover effects.

This key aspect is approximated by six indicators: real per capita domestic demand, domestic demand volatility, PPP-adjusted GDP per capita, trade to GDP ratio, access to world market measured by GDP weighted by the inverse of the sum of distances to all countries and openness to the outside World Index.

Table 15 and Figure 10 summarize the performance of Arab subgroups and suggest the following comments:

- Arab countries average performance is close to world average with a score of 30.7 points. This proximity is particularly noteworthy in three dimensions: domestic demand volatility, PPP adjusted GDP per capita and trade to GDP ratio. However, deficiencies appear to be significant in terms of access to world market and the openness to the outside world index.

- GCC States topped the list of Arab subgroups with a score of 39.1 points exceeding by almost 16% the world average and thanks to a very good performance in terms of PPP adjusted GDP per capita and a good performance in the areas of real per capita domestic demand and trade to GDP ratio. However, GCC States perform weakly in terms of openness to the outside World Index which covers four components: trade openness and convertibility of current transactions, organizations openness to capital, foreigner access to land and financial openness.

Table 15: Arab Groups' Performance in the Market Size and Accessibility Index								
Rank	**Groups**	**Score**	**Real per capita domestic demand**	**Domestic demand volatility**	**PPP-adjusted GDP per capita**	**Trade to GDP ratio**	**Access to world market**	**Openness to the Outside World Index**
1	GCC states	39.1	31.8 ●	75.1 ●	53.5 ●	19.6 ●	3.1 ●	51.6 ●
2	The Levant	28.7	8.5 ●	64.3 ●	10.8 ●	14.8 ●	2.8 ●	70.7 ●
3	The Maghreb states	25.9	6.5 ●	69.8 ●	12.9 ●	14.2 ●	2.5 ●	49.5 ●
4	Low FDI Performance countries	24.2	2.2 ●	68.6 ●	3.7 ●	12.4 ●	1.6 ●	56.9 ●
	Arab average	**30.7**	**14.8**	**70.4**	**24.7**	**15.8**	**2.6**	**55.7**
	World average	**33.8**	**20.3**	**69.2**	**23.0**	**16.9**	**6.1**	**67.5**

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

Figure 10: Arab, World and OECD Performances in the Market Size and Accessibility Index
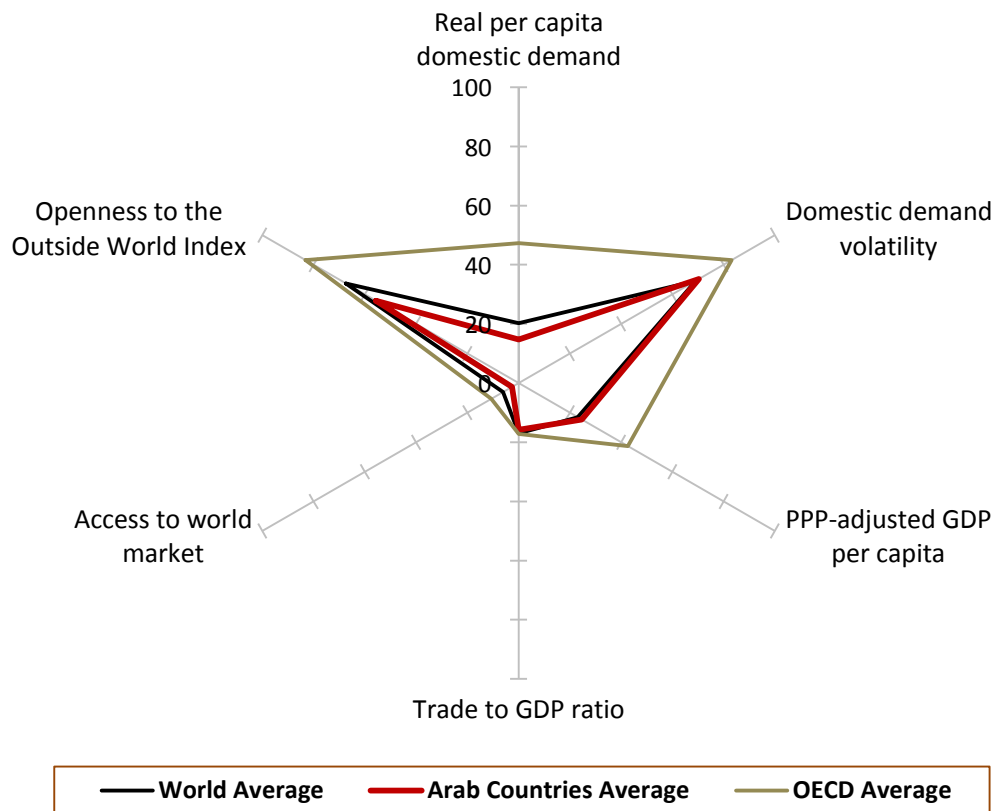
2.6 Human and Natural Resources Index

There are several patterns of investment in the world that target natural resources and/or give priority to the existence of efficient and well trained human resources in the host country. In this context, an index was created for human and natural resources to measure those factors according to six qualitative and quantitative indicators: total natural resources rents to GDP ratio, GDP PPP per employee, average years of schooling of adults, education index of the HDI, expected years of schooling of children, and finally the education system quality and social mobility index.

Table 16 and Figure 11 summarize the performance of Arab subgroups in this area:

- Arab performance on this index was almost in line with the world average performance, whit an average score of 45.6 points compared to world average of 46.7 points. This average performance is supported by a relatively high score compared to the world average on two sub-indices: total natural resources rents to GDP ratio and GDP PPP per employee. However, performance of Arab countries on the other parameters of human resources was relatively far from the world average, especially on the quality of educational system and social mobility, with average of 31.9 points, compared to world average of 43.1 points.

- GCC States, relying on vast natural resources and increasing oil prices, topped the list of Arab subgroups with 60.7 points, followed by the Maghreb States at the 2nd place with 45.6 points, and the Levant States at the 3rd place with 41 points. Low FDI Performance countries, at the end of the ranking, achieved a weak performance with 26.3 points and this despite a very good performance in terms of total natural resources rents to GDP ratio.

Rank	Groups	Score	Total natural resources rents (% of GDP)		GDP PPP per employee		Average years of schooling of adults		The Education Index of HDI		Expected Years of Schooling of children (years)		Education System Quality and Social Mobility index	
1	GCC states	60.7	74.7	🟢	73.1	🟢	55.0	🟡	57.7	🟡	61.8	🟡	42.0	🟡
2	The Maghreb states	45.6	43.8	🟢	28.7	🟡	49.8	🟠	53.6	🟠	69.1	🟡	28.3	🟠
3	The Levant	41.0	11.9	🟢	26.9	🟡	57.8	🟡	58.0	🟡	60.9	🟡	30.4	🟠
4	Low FDI Performance countries	26.3	49.5	🟢	11.3	🟠	25.5	🔴	22.6	🔴	27.9	🔴	21.3	🔴
Arab average		**45.6**	**50.4**		**40.0**		**47.3**		**48.5**		**55.4**		**31.9**	
World average		**46.7**	**19.4**		**35.3**		**58.8**		**60.2**		**63.5**		**43.1**	

Title row: **Table 16: Arab Groups' Performance in the Human and Natural Resources Index**

Performance: 🟢Very good 🟢Good 🟡Average 🟠Weak 🔴Very weak

Figure 11: Arab, World and OECD Performances in the Human and Natural Resources Index

Total natural resources rents (% of GDP)

GDP PPP per employee

Average years of schooling of adults

The Education Index of HDI

Expected Years of Schooling of children (years)

Education System Quality and Social Mobility index

—— World Average —— Arab Countries Average —— OECD Average
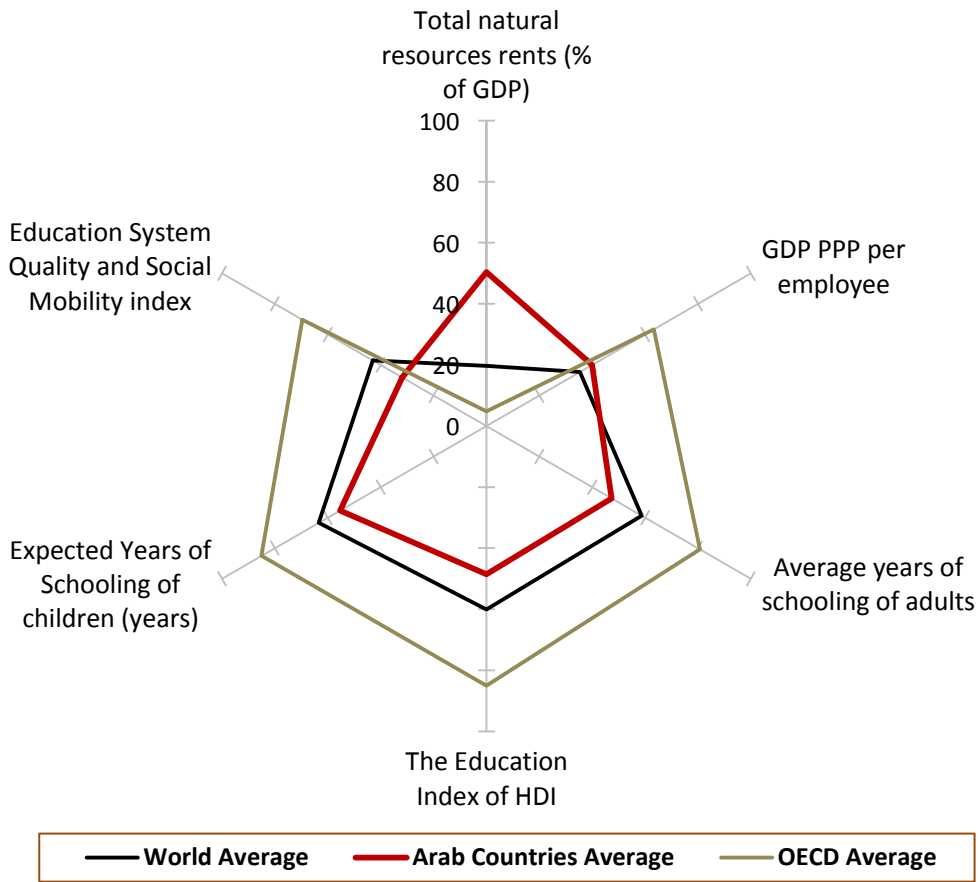
2.7 Cost Elements Index

Production factors costs, taxes and trade costs for any investment project vary from one country to another and represent a major leading indicator in terms of FDI attraction, especially with the existence of wide differences between the countries of the world in this area, and for its direct connection with the expected profitability of any considered investment project. Cost components index encompasses 3 sub-indexes: labor market conditions (reflecting the indirect costs), taxes and trade costs.

Table 17 and Figure 12 resume the main findings in this area:

- Arab performance on this index was close to the already high world performance, where Arab countries achieved an average score of 69.1 points, compared to a global average of 67.5 points. It is important to note the relatively weak performance of the Arab region in terms of labor market conditions with a score of 44.5 points compared to the world average of 51.2 points. We remind that the labor market conditions sub-index aggregates the following three components: flexibility in the formal labor market, weak employment contract rigidity, strikes frequency and relationships between employee representation and employers.

- GCC States lead the Arab subgroups with 74.6 points and a particularly good performance in terms of taxes (93.9 points compared to the world average of 65.5 points), followed by the Levant States at the 2nd rank with 68.2 points and the Maghreb States at the 3rd rank with 67.3 points.

- At the level of the three parameters forming the index, Arab countries had a performance better than world average on both taxes and trade costs components, while Arab performance was lower than world average on labor market conditions.

Rank	Groups	Score	Labor Market Conditions (indirect cost)		Taxes		Export and Import Costs	
Table 17: Arab Groups' Performance in the Cost Elements Index							
1	GCC states	74.6	36.2	●	93.9	●	93.7	●
2	The Levant	68.2	42.9	●	69.5	●	92.2	●
3	The Maghreb states	67.3	57.4	●	50.6	●	93.8	●
4	Low FDI Performance countries	63.2	45.2	●	62.1	●	82.3	●
	Arab average	**69.1**	**44.5**		**71.9**		**90.7**	
	World average	**67.5**	**51.2**		**65.5**		**85.8**	

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

Figure 12: Arab, World and OECD Performances in the Cost Elements Index
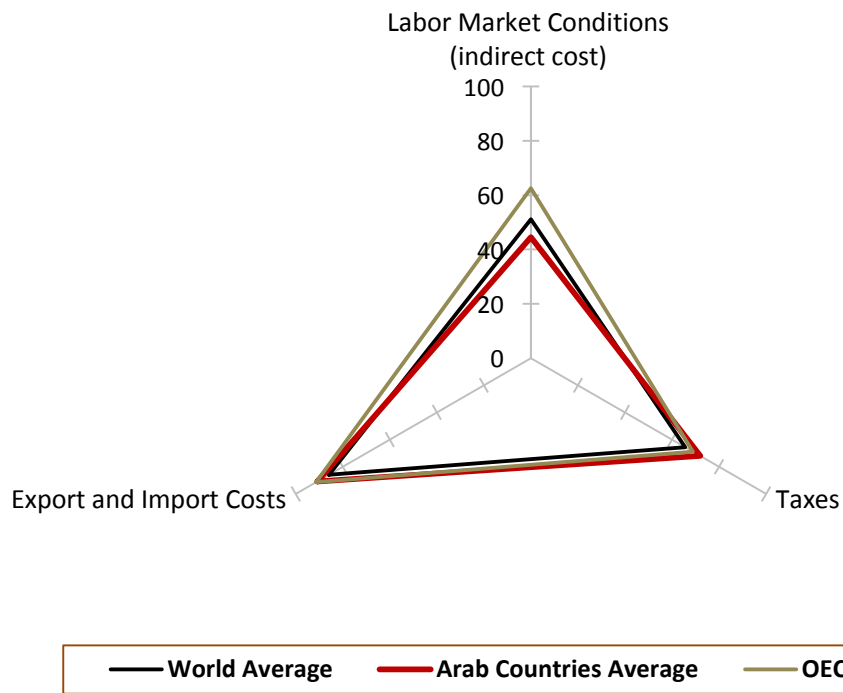
2.8   Infrastructure Index

More FDI is likely to occur in countries with good physical infrastructure such as bridges, ports, roads, highways and telecommunication. It also seems likely that there are some diminishing returns in infrastructure, at least in infrastructure of a specified type. Consequently, especially for countries with poor infrastructure, investing in improvements in infrastructure may be important for attracting FDI. The considered infrastructure index measures 4 main types of components: overland transport, air transport, e-communications, and telephone communications.

Table 18 and Figure 13 summarize the Arab subgroups performances and lead to the following remarks:

- Arab performance on this index was close to the already low world average performance. Arab countries achieved an average score of 22.1 points, below the world average of 26.3 points. The most significant gap refers to the Internet component of the index and reaches 9.4 points.

- GCC States topped again the Arab subgroups with a score that exceeds twice the second best Arab performance (the Maghreb States) of 36.8 points. Infrastructure constitutes the spine of GCC economies and the sector is primed to further grow. According to a recent Qatar National Bank group report, the GCC governments spent an estimated US$ 112 billion on infrastructure projects in 2012, totaling about 7.1% of the region's GDP, up from just 4.2% in 2004. Effective public capital expenditure is even larger than the budget as government agencies sometimes spend off budget and because of the usage of public-private partnerships for some megaprojects.

- The performance of the other three Arab sub-groups is below the world average for all the considered components.

Rank	Groups	Score	Land transport		Air transport		Internet		Telephone	
	Table 18: Arab Groups' Performance in the Infrastructure Index									
1	GCC states	36.8	14.5	●	23.3	●	46.3	●	63.1	●
2	The Maghreb states	17.6	2.0	●	2.8	●	20.3	●	45.4	●
3	The Levant	17.3	4.4	●	5.0	●	25.2	●	34.8	●
4	Low FDI Performance countries	8.2	2.3	●	1.5	●	8.7	●	20.4	●
	Arab average	**22.1**	**6.9**		**10.1**		**27.6**		**43.9**	
	World average	**26.3**	**9.9**		**12.9**		**37.0**		**45.4**	

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

Figure 13: Arab, World and OECD Performances in the Infrastructure Index

Legend: World Average — Arab Countries Average — OECD Average

Axes: Land transport, Air transport, Internet, Telephone

Scale: 0, 10, 20, 30, 40, 50, 60, 70, 80
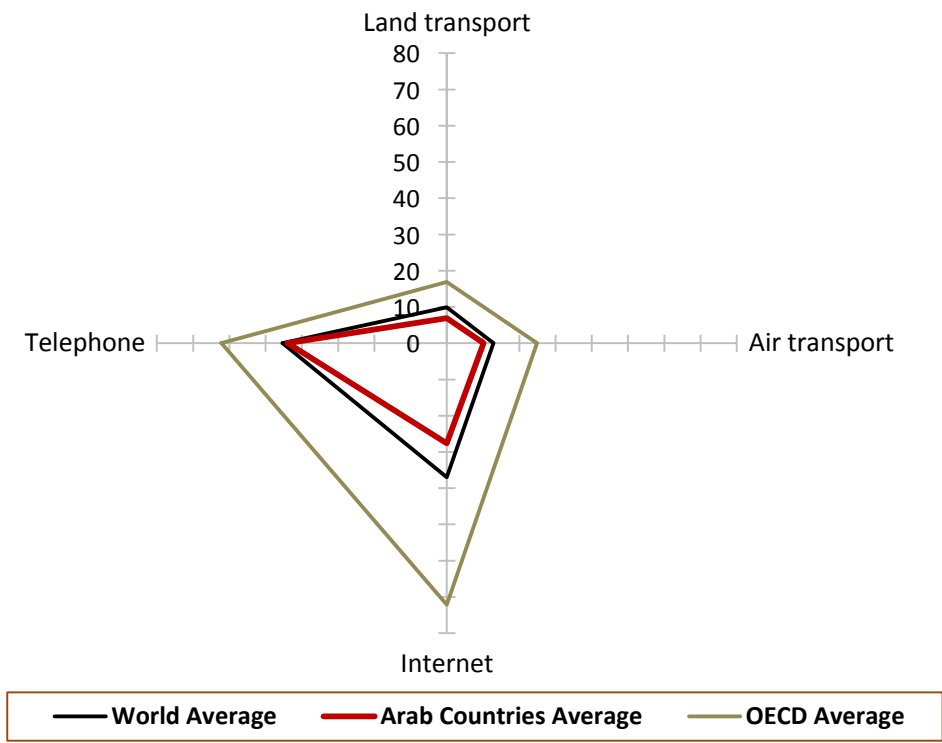
2.9   Agglomeration Economies Index

A country's ability to attract FDI varies partly according to the nature of their foreign relations and connection with MNEs around the world, as they play a major role in the FDI movement in the world. The presence of MNEs in a considered country or region brings not only resource and capital but it also creates opportunities for knowledge spillover. The existence of MNEs makes the actors more inter-exchanges within a region so that higher innovative productivity comes out and agglomeration economies phenomenon thus follow.

Agglomeration economies index approximates the benefits that MNEs obtain when locating near each other; It aggregates the following five indicators: Per capita turnover of Multinationals from EU27, Number of Multinational firms from EU27 in the country, Number of Multinational firms from USA in the country, Stock of inward foreign direct investment to GDP ratio, Total number of BITs accumulated to the considered year.

Table 19 and Figure 14 resume the performance of Arab subgroups in this area:

- Arab average performance on this index is clearly lower than the already low world average performance, where Arab countries achieved an average index value of 6.5 points, compared to world average of 11.8 points. Few MNEs are localized in the Arab countries which explains the low scores of the first three components of the index.

- The Levant States topped the list of Arab subgroups with 10.6 points, followed by Maghreb States with 7.1 points at the 2nd rank, and the GCC States at the 3rd rank with 6.1 points. Low FDI Performance countries, in last position, have only 3.2 points.

Table 19: Arab Groups' Performance in the Agglomeration Economies Index											
Rank	Groups	Score	Per capita Turnover of Multinationals from EU27		No. of Multinational firms from EU27		No. of Multinational firms from USA		Stock of inward FDI to GDP ratio		Total Number of BITs accumulated	
1	The Levant	10.6	1.4	●	1.9	●	1.7	●	3.8	●	44.2	●
2	The Maghreb states	7.1	3.6	●	3.2	●	1.5	●	2.2	●	25.0	●
3	GCC states	6.1	3.7	●	2.0	●	1.9	●	7.1	●	16.1	●
4	Low FDI Performance countries	3.2	1.0	●	1.0	●	1.1	●	1.3	●	11.6	●
	Arab average	6.5	2.63		2.04		1.58		4.01		22.08	
	World average	11.8	9.18		8.90		8.79		7.39		24.76	

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

Figure 14: Arab, World and OECD Performances in the Agglomeration Economies Index
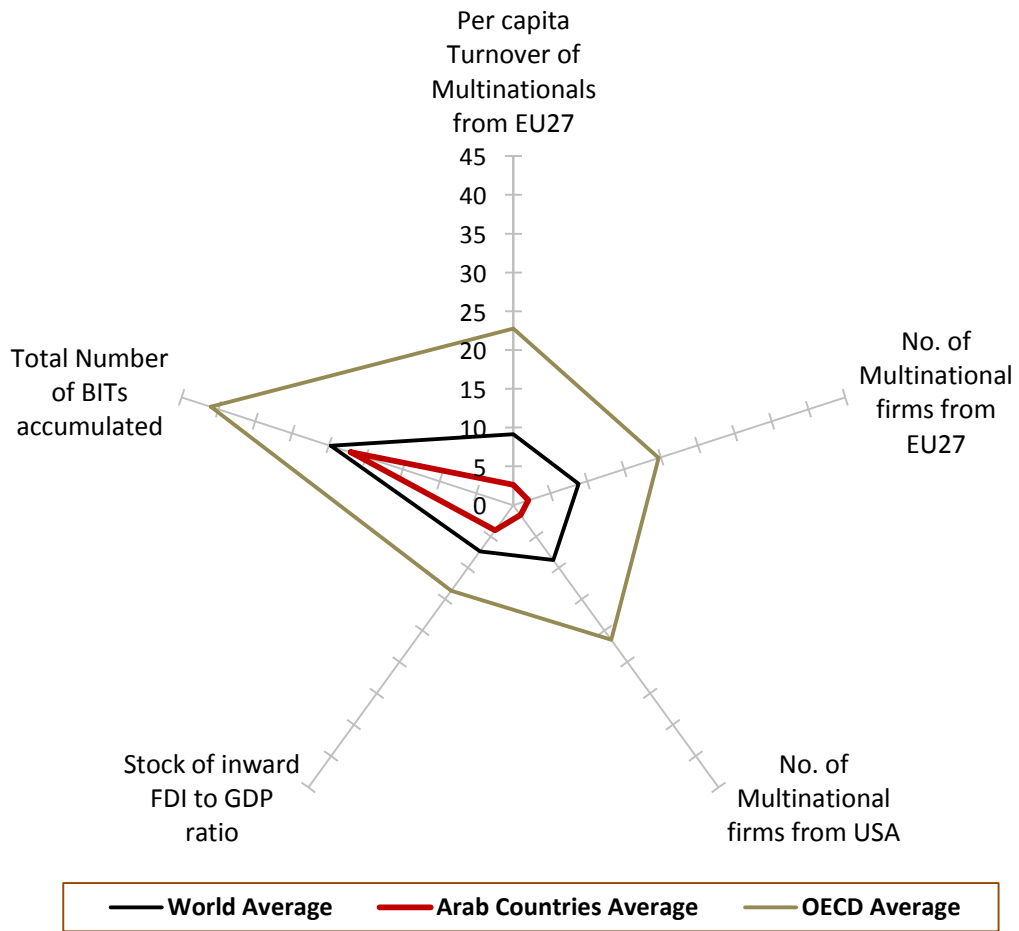
2.10 Differentiation and Technological Environment Index

Product differentiation and technological improvement are particularly sought by MNEs which, through their investments in the area of R&D in a certain country, seek strategic assets that enable them to attain a competitive advantage and adopt diversification and distinction of a product as a channel to sustain high profitability. The considered index includes eight indicators or components: Technological environment index, Total patent applications index, Total Patent Cooperation Treaty international index, Total industrial design applications index, Total industrial design registrations index, Total trademark registrations index, Quality of universities index and E-Government Index.

Table 20 and Figure 15 resume the Arab subgroups performance in this area and lead to the following remarks:

- Arab average performance on this index is clearly lower than the already low world performance with an average score of 9.6 points, compared to world average of 15.9 points.

- Arab region is one of the weakest regions in terms of differentiation and agglomeration considerations. All Arab countries show relatively strong deficits in almost all criteria that affect differentiation-technological performance. This deficiency is particularly debilitating for attracting technology seeking or sourcing FDI. It limits the positive externalities and productivity effects expected from MNEs investment decision.

- GCC States topped the list of Arab subgroups with a score of 12.1 points followed by Levant States ranked 2nd with 11.6 points, and Maghreb States ranked 3rd with 9 points. Low FDI performance countries, ranked 4th, do not even reach the third of the world average score.

Rank	Groups	Score	Technological environment		Patent applications		Patent Cooperation Treaty international		Industrial design applications		Industrial design registrations		Trademark registrations		Quality of universities		E-Government	
1	GCC states	12.1	29.10	●	1.02	●	1.03	●	1.01	●	1.01	●	1.10	●	1.10	●	61.11	●
2	The Levant	11.6	37.24	●	1.16	●	1.03	●	1.01	●	1.01	●	1.11	●	1.09	●	49.45	●
3	The Maghreb states	9.0	31.62	●	1.07	●	1.01	●	1.09	●	1.08	●	1.15	●	1.00	●	33.70	●
4	Low FDI Performance countries	5.1	15.33	●	1.01	●	1.00	●	1.01	●	1.01	●	1.09	●	1.00	●	19.73	●
	Arab average	**9.6**	**27.89**		**1.06**		**1.02**		**1.03**		**1.03**		**1.11**		**1.05**		**42.87**	
	World average	**15.9**	**44.58**		**4.39**		**3.78**		**4.75**		**6.19**		**6.89**		**3.83**		**52.96**	

Table 20: Arab Groups' Performance in the Differentiation and Technological Environment Index

Performance: ●Very good ●Good ●Average ●Weak ●Very weak

Figure 15: Arab, World and OECD Performances in the Differentiation and Technological Environment Index

Technological environment index

Patent applications index

Patent Cooperation Treaty international index

Industrial design applications index

Industrial design registrations index

Trademark registrations index

Quality of universities index

E-Government Index

90
80
70
60
50
40
30
20
10
0

— World Average — Arab Countries Average — OECD Average

3. FDI Attractiveness Gap and Balance

3.1 Attractiveness Gap between Arab Economies and OECD Countries

DIAI provides the possibility of performing detailed strength and weakness analyses for both countries and regions. The ranking provides the evidence for which factors a particular region or country stands behind and has to improve them in order to close the existing attractiveness gap. The latter reflects the institutional, infrastructural, technological and environmental challenges facing a considered host country or region to improve its competitive position in attracting FDI and to narrow the existing gap. It's defined as the difference in the availability of prerequisites and possession of underlying factors and positive external determinants required for attracting FDI between the considered host country and the reference country or region, expressed as a percentage of the reference country/region performance. The attractiveness gap may also express the difference between the performance expected by a host country in terms of attracting FDI inflows and its actual performance; such a situation refers rather to a performance gap.

The global attractiveness gap ranks Arab countries on their ability to close the FDI attractiveness gap in three key areas: prerequisites, underlying factors and positive externalities in the considered host country. By comparison with the OECD's DIAI global average value (49.1 points) as a benchmark, the attractiveness gap in the Arab region, where the average value of the global index is 28 points, is defined as follows:

$$Attractiveness\ gap = \frac{49.1 - 28}{49.1} = 43\%$$

Table 21 provides the regional gap on the overall attractiveness, taking the OECD region as useful benchmark for international comparisons, while Figure 16 displays regional gaps on each of the three major components or subindexes. The Arab region occupies the third place with a global attractiveness gap standing at 43%. In terms of prerequisites, the Arab region is also in the third place but with a reduced gap evaluated at 32.4%. In terms of underlying factors' gap score, the Arab region performed relatively better with a gap of 29.7%. However, the gap in terms of positive externalities and technological progress reaches 68% positioning the Arab region just after Africa. It is obvious that this component is driving the regional attractiveness gap in general and the Arab attractiveness gap in particular. These results clearly highlight the challenges facing the Arab economies in the area of FDI attractiveness.

Table 21: Regional Gap on the Overall Attractiveness in Comparison to the OECD				
Region	**DIAI's Axes**			**DIAI**
	Prerequisites	Underlying Factors	Positive Externalities	
Africa	36.4	51.0	80.6	**57.2**
South Asia	34.4	50.5	67.4	**50.6**
Arab Region	**32.4**	**29.7**	**68.0**	**43.0**
Latin America & Caribbean	30.3	37.1	63.8	**42.8**
Europe & Central Asia	24.2	24.7	52.5	**32.3**
East Asia & Pacific	19.0	25.7	34.1	**26.8**

Figure 16: Regional Gap on the Overall Attractiveness in Comparison to the OECD

	Dhaman Index	Positive Externalities	Underlying Factors	Prerequisites
East Asia & Pacific	26.8	34.1	25.7	19.0
Europe & Central Asia	32.3	52.5	24.7	24.2
Latin America & Caribbean	42.8	63.8	37.1	30.3
Arab Region	43.0	68.0	29.7	32.4
South Asia	50.6	67.4	50.5	34.4
Africa	57.2	80.6	51.0	36.4
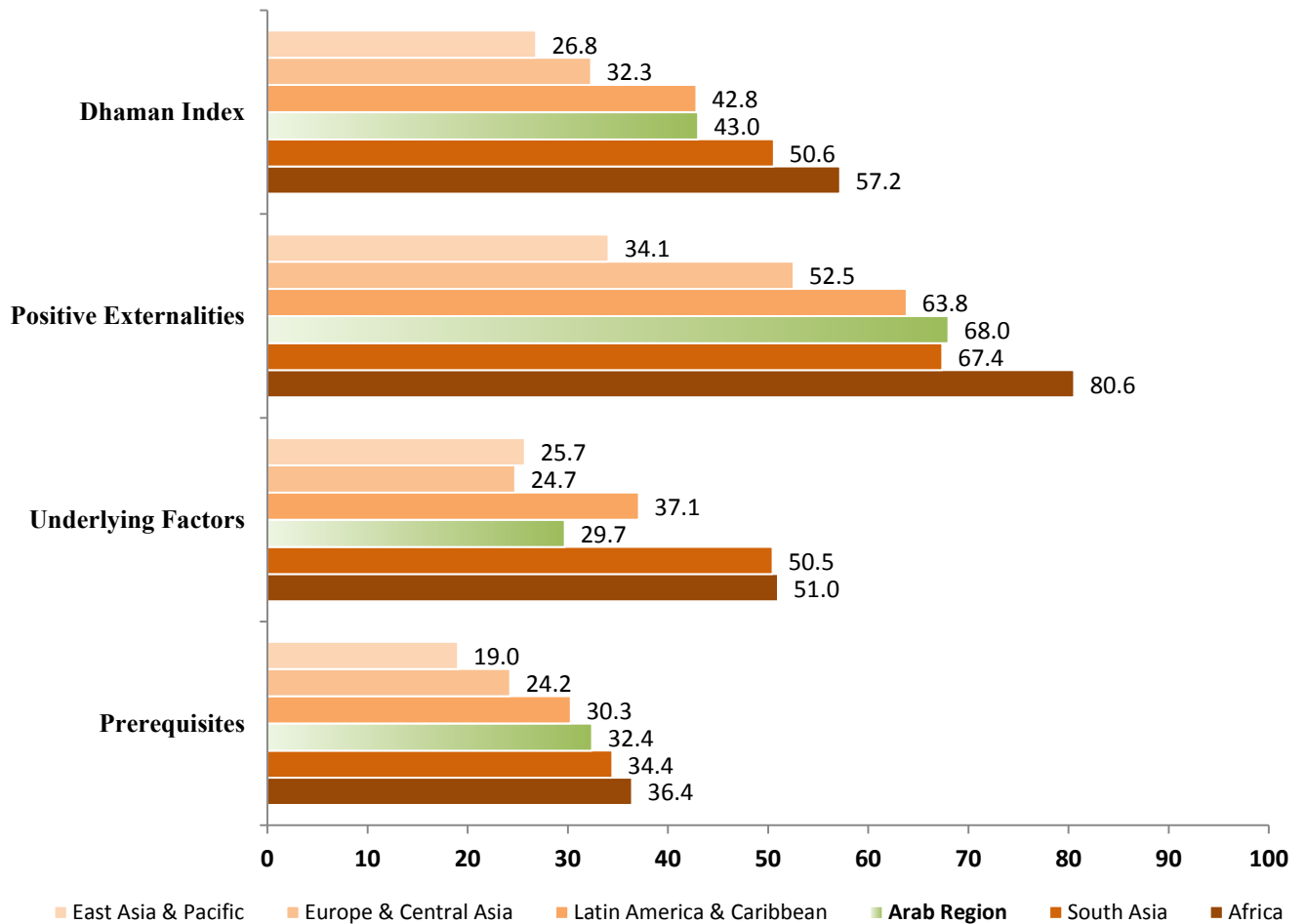
Based on these results and on the detailed country profiles, it's possible to identify country's internal resource strengths or competitive capabilities (competitive assets) and weaknesses or deficiencies (competitive liabilities) in each of the three FDI attractiveness area. Indeed, the proposed composite measure DIAI covers a total of 114 sub-indicators structured around ten FDI key drivers clustered by three axes (Prerequisites; Underlying Factors; Positive Externalities). The host country's FDI competitive assets (strengths) and competitive liabilities (weaknesses) identification is based on the ranking for each FDI attractiveness component: a specific component is considered as an asset for the concerned host country if its ranking is among the top 33% (rank 1 to 37) and as a liability or area of improvement if its ranking is in the lower 33% (rank 74 to 110). The table summarizing these assets and liabilities is called FDI attractiveness balance.

3.2   FDI Attractiveness Balance in Arab Countries

In observance of the FDI attracting and impeding factors, the performance of a given country is termed as strength if its ranking falls on the top third as for the parameter included in the attractiveness sub-index, and weakness if its ranking falls on the bottom third of the values of parameter in question. Based on the results of total scale measured by subtracting the total weaknesses from the total strengths, countries may be ranked according to this scale, which constitutes an information system that may serve as guide to reduce liabilities of weaknesses and turn them into assets of strengths.

Figures 17-19 show that the highest ratio of assets, or strengths to the total potential points (i.e. total points of data, which equal the number of countries in the geographic region multiplied by the number of main parameters) are achieved by OECD countries in the three main sets forming the general index, with 64.4%, 66.3% and 72.3% for prerequisites, underlying factors, and positive external factors sets, respectively. Each country of East Asia and the Pacific, and Europe and Central Asia, claim the second highest ratio of assets, noting that the former group outperforms at the level of prerequisites (40.4% for first group, against 22.6% for the second group), and the second group outperforms at the level of positive external factors or diversity, innovation and development factors (55.4% for second group, against 36.8% for the first group). Results show that Arab countries performed low on the attractiveness scale with ratios of assets of 21.7%, 25.1% and 5.9% for prerequisites, underlying factors, and positive external factors sets, respectively.

Figure 17: Regional FDI Attractiveness Balance Prerequisites

Region	Liabilities	Assets
OECD	11.0%	64.4%
East Asia & Pacific	29.8%	40.4%
Europe & Central Asia	32.6%	22.6%
Arab Region	45.8%	21.7%
Latin America & Caribbean	41.0%	21.4%
South Asia	47.4%	18.4%
Africa	53.1%	17.8%
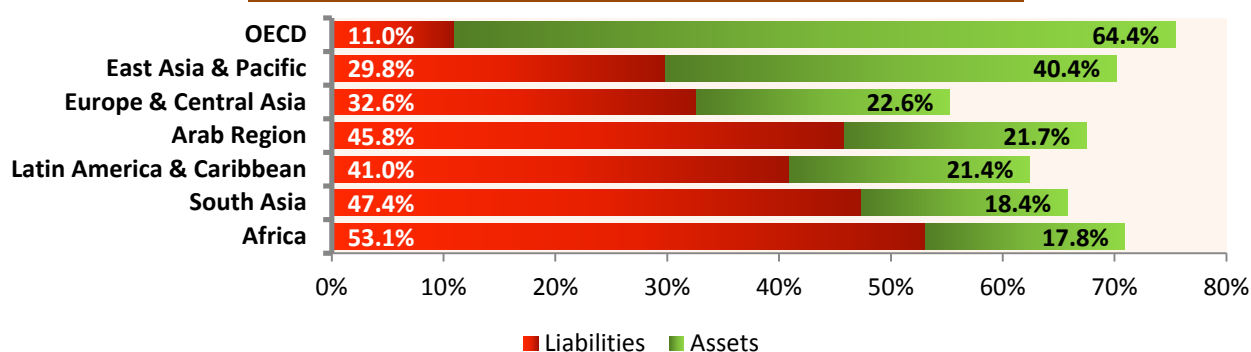
Figure 18: Regional FDI Attractiveness Balance Underlying Factors

Region	Liabilities	Assets
OECD	10.7%	66.3%
East Asia & Pacific	33.3%	32.2%
Europe & Central Asia	24.2%	31.1%
Arab Region	36.2%	25.1%
Latin America & Caribbean	39.5%	12.0%
Africa	63.8%	8.5%
South Asia	64.5%	7.9%
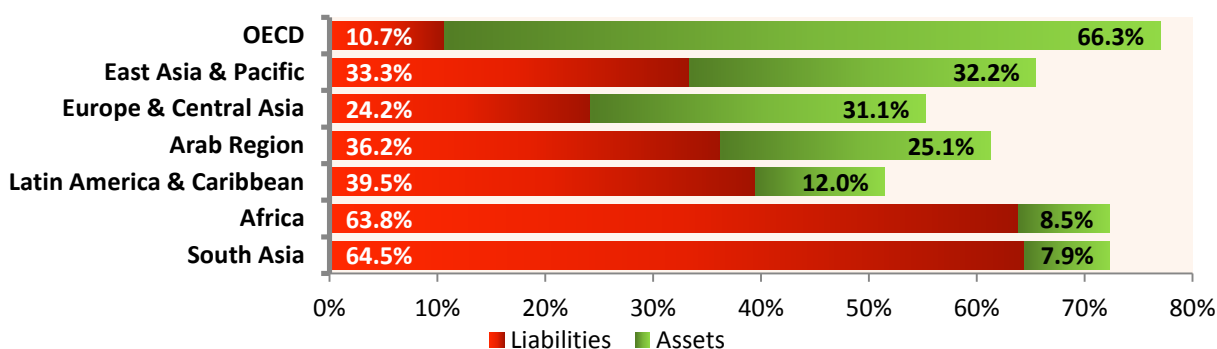
Figure 19: Regional FDI Attractiveness Balance Positive Externalities

Region	Liabilities	Assets
OECD	1.6%	72.3%
Europe & Central Asia	23.8%	55.4%
East Asia & Pacific	15.4%	36.8%
South Asia	40.4%	17.3%
Latin America & Caribbean	33.5%	10.4%
Arab Region	43.4%	5.9%
Africa	66.6%	3.0%
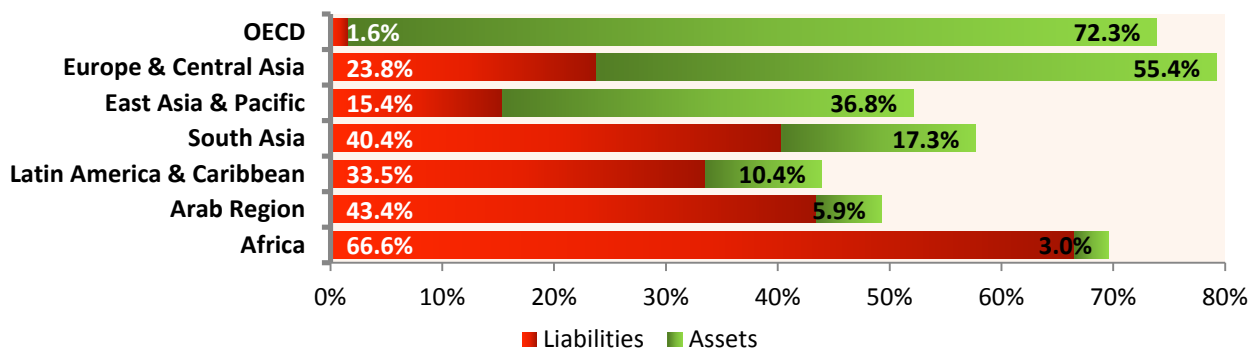
The main weaknesses or liabilities, and strengths or assets, which were observed based on the analysis of the relative position of Arab countries' attractiveness of FDI enables achievement of a set of benefits, mainly:

- Developing a road map for decision-makers and entities concerned with encouraging investment, identifying the position of the concerned state on the foreign investment geography in the future.
- Contributing to increasing the capacity of the concerned state to face global competition to attract capital flows.
- Providing the state with the ability to have a constant competitive edge.
- Enabling the state or concerned entity to effectively utilize resources.

All sub-indices emanating from the general attractiveness index indicate that the majority of Arab countries suffer from weaknesses, mainly in the following areas:

- **Factors relating to macro-economic stability:**
  - ✓ **Fluctuation of Real GDP growth rate**: Such fluctuation mainly arises from over dependence on the revenues of oil and petroleum products in the formation of GDP in a large number of Arab countries. This is associated with the fact that fluctuations in GDP growth rates were, in many cases, reflected in oil price fluctuations. Also, oil countries, specifically GCC countries, depend on manpower imported from non-oil Arab countries, thus creating a sort of inter-dependence between manpower importing oil countries, on one part, and non-oil countries benefiting from manpower remittances, on the other hand, which contributes to transferring economic shocks.

  - ✓ **Rate of Inflation**: It is established that inflation lessens the real value of all non-wage sources of income, which are identified within a nominal framework, such as pensions and grants. In the absence of financial instruments, such as price measuring or hedging, the segments of society the income of which is determined within a nominal framework are more exposed to inflation risk. Population segments whose income is determined nominally are usually medium-income classes in most of the Arab countries. Inflation also causes increase in the accrued interest when investors request compensation for impairment of currency purchasing power, thus increasing the level of uncertainty. Levels and causes of inflation are variant among Arab countries. Data indicate that such phenomenon mainly refer to oil Arab countries. In GCC countries, inflation is attributable to higher prices of commercial commodities in general, and food prices in particular, higher levels of domestic demand as a result of higher income due to oil price boom, pegging local currencies to US dollar, at a time when the US dollar retreated, and the unprecedented increase of domestic liquidity levels to finance the various needs of local demand.

  - ✓ **Ratio of budget deficit to GDP**: Slow growth in non-oil Arab countries caused an increasing deficit in the budget, which constitutes one of the investment repellent factors, and contributed to increasing the inflation rates, hence uncertainty. A group of Arab countries are facing the immediate challenge of restoring, or maintaining, macro-economic stability in a climate of political instability and social unrest, which sharpened the budget deficit.

- **Factors relating to institutional environment:** The term governance refers to the approach of practicing the authority of sound management that is based on depicting the main dimensions of the governance roles, including building the institutional state, achieving public administration efficiency by applying the principles of integrity, transparency,

accountability, anti-corruption, and realizing social coherence and movement. Over the past decade, very limited efforts were exerted in the Arab region towards boosting the practices of good governance. This explains the meager performance and negative position of attractiveness balance with regard to the following components:

- ✓ **Political institutions and political stability.**
- ✓ **Security, law and order, and control over violence.**
- ✓ **Performance of government administration.**
- ✓ **Degree of safety in dealings and contracts with the government and the community.**
- ✓ **Social coherence and movement.**

− **Components relating to business performance environment:** While several Arab countries were able to improve the efficiency of government procedures over the last few years, they were unable, on the other hand, to achieve a positive attractiveness balance in the following areas:

- ✓ **Freedom of market operability.**
- ✓ **Degree of safety of businesses and contracts in the commodity and service markets.**
- ✓ **Degree of market competition.**

− **Component of market size and accessibility:** Despite the relatively good position of attractiveness balance in the Arab countries, in general, and GCC countries, in particular, in terms of the market size and accessibility component, a large number of countries in the region suffer from a negative balance of openness to outer world index, which consists of the following four parameters: commercial openness and freedom of remittances, free flow of capital to local institutions, freedom of foreigners ownership of land, and financial sector openness to outer world.

− **Components relating to human resources or quality of human capital:** A number of reports and studies indicate that the increase in Arab human capital over the past three decades has not been accompanies with an increase in overall rates of productivity of the factors of production, as in the world countries, in general, and emerging economies, in particular. Such performance is attributable to lack of improvement in the quality of education, in all its stages, especially the basic stages. This situation is confirmed by the negative attractiveness balance of the following three parameters, which are directly or indirectly related to the education quality and scope:

- ✓ **Average school years for adults.**
- ✓ **Education index on human development index.**
- ✓ **Quality of education system and social movement coverage index.**

− **Components of cost elements relating to labor market conditions:** Reference should be made to the fact that most of the Arab countries suffer from acute shortage in the collection, utilization and dissemination of data relating to labor markets, and measurement of cost and productivity. This obstacle explains the scarcity of studies in this area, and the difficulty in diagnosing the structural gaps based on the linear cost and productivity, which impedes leverage of competitiveness at the levels off commercial and FDI flows in general. According to the data we were able to observe, the majority of Arab countries suffer from a negative attractiveness balance with regard to labor market conditions (indirect costs), which

include formal labor market flexibility, solidity of employment agreements, repeated laborer strikes, and the relations between trade unions and employers.

– **Overland transport infrastructure index:** Overland transport is a vital tool of productivity for any modern economy. It provides a distinct, quality, door-to-door transport service. It is one of the components of sub-indices that contribute to attracting investment flows. Several Arab countries suffer from a negative attractiveness balance at the level of overland transport, which covers two parameters: Road density (lengths of roads per 100km^2 of land space) and number of railroad passengers (in million passengers per km).

– **In the positive external factors, agglomeration economics index:** Results indicate that most of the Arab countries have a negative attractiveness balance at the level of the following two parameters:

    ✓ **Number of European multi-national companies within the country.**

    ✓ **Number of American multi-national companies within the country.**

– **In the positive external factors, distinction and technological advancement factors index**: It is not a coincidence that the Arab countries, where clear plans in technology, research and development (R&D) are absent, and which allocate very low portions of their GDP for scientific research, suffer an increasing gap against advanced and emerging countries in the area of technology. This is evident in the results that refer to a negative attractiveness balance at the level of the following parameters :

    ✓ **Technological environment index.**

    ✓ **Patent applications index.**

    ✓ **International cooperation treaty on patents index.**

    ✓ **Industrial models applications index.**

    ✓ **Industrial models registration index.**

    ✓ **Trademarks registration index.**

    ✓ **E-government index.**

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Part II: The FDI Attractiveness Performance of the Arab Region

1. Global Inward FDI Flows and Share of the Arab Region

This part of the Report observes the actual inward capital flows achieved to the various countries (Actual Performance Index). It estimates the difference between the potential (latent) performance of a given country, as per DIAI, and its actual achievement as per the value of performance index, as approved and defined below, for a given country (performance gap).

1.1   Global Inward FDI Flows

At a global level FDI declined by 18% between 2011 and 2012 to about US\$ 1.3 trillion in 2012, against US\$ 1.6 trillion in 2011. Obviously, on the contrary of UNCTAD projections, the recovery of capital flow levels will take longer than expected. This is mainly attributable to structural weakness of global financial and banking system, and possible global economic environment degradation, causing slow growth and increasing uncertainty with regard to public policy in issues affecting investors' confidence. These factors may lead to more reduction in global FDI.

For the first time ever, developing countries group outperformed developed countries group in attracting FDI. It claimed a share of about 52% of global FDI flows, despite the lower inflows to developing countries group by 3% to US\$ 680.4 billion in 2012. Against this, developed countries group witnessed a notable decline in FDI inflows by over 32% to US\$ 1 billion in the same year. Due to uncertain future economic conditions, cross-national companies in developed countries were even more conservative, liquidating foreign assets, instead of moving towards new expansionary investment at a global level (See Figure 20).

Figure 20: Global Inward FDI Flows
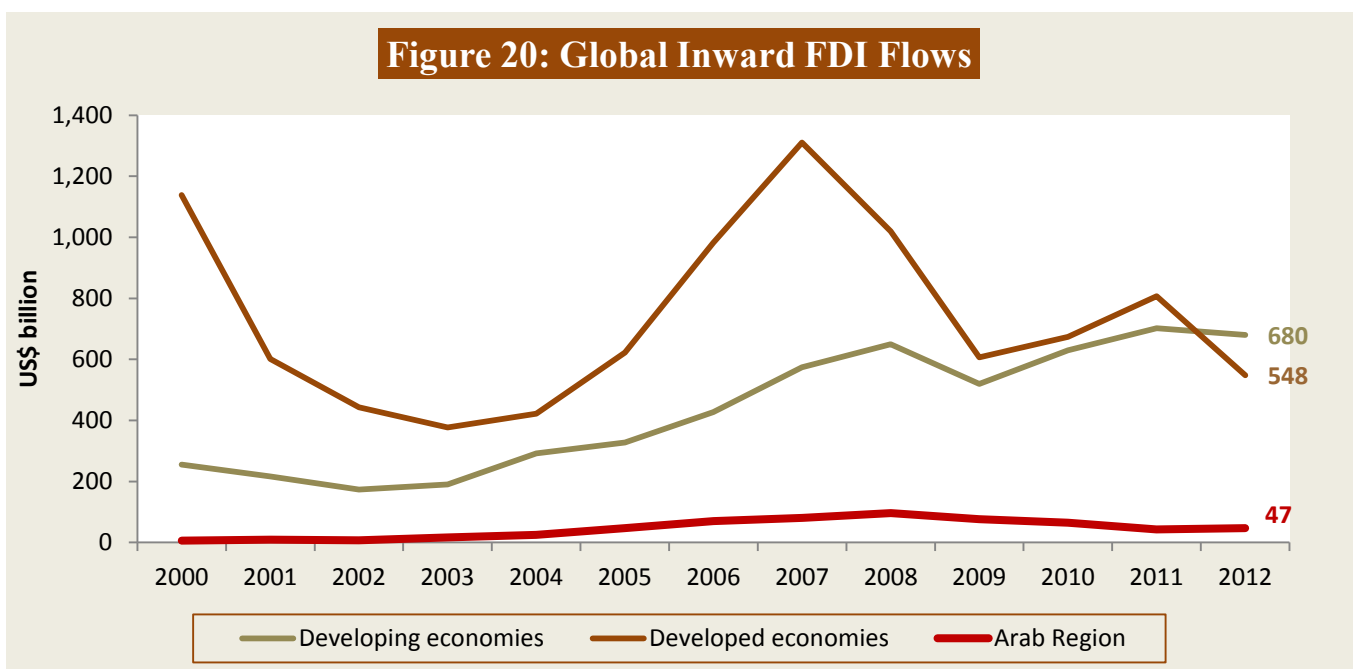
1.2. Share of the Arab Countries

Several Arab countries have recently adopted a set of actions and reforms to improve their investment environment and attract more FDI inflows. In view of the labor market conditions and restrictions relating to productive capacity, achieving a sustainably higher growth rate at a rapid pace would require most Arab economies to give priority to treating the structural imbalances and reducing costs of business practices, while increasing the role of private sector in national economy and investing in infrastructure and human capital, so as to establish fixed bases for higher return on investment, whether local or foreign, and to confront the sharp competition from other developing countries and countries in transit. In order to obtain positive impact from these reforms, leading to attraction of more capital flows, governments and policy makers in Arab countries should maintain and effectively implement the pace of reforms, while focusing on improving the quality of institutional performance. Based on the above, reforms, measures, and incentives may take a specific period of time before leading to a considerable increase in the share of Arab countries of global FDI.

FDI inflows to Arab countries rose by 9.5%, from US$ 43 billion in 2010 to US$ 47.1 billion in 2012. However, the value of flows is poor, compared to US$ 76.3 billion in 2009 and US$ 96.3 billion in 2008, and an average of US$ 66.2 billion during the period 2005-2007.

Investment inflows to Arab countries represented 3.6% of total global investments of US$ 1.3 trillion, and 6.9% of total developing countries of US$ 680 billion. The share of Arab countries of global flows had witnessed fluctuation over the past period, slightly increasing from an average of 4.5% during the period 2005-2007 to 5.4% in 2008, then 6.4% in 2009, before receding to 5.2% in 2010, then to 2.8% in 2011.

FDI inflows to Arab countries had four main features:

1. **FDI inflows to Arab countries witnessed a notable increase at rates exceeding the growth rates of FDI inflows to all countries:**

   FDI inflows to Arab countries averaged a growth rate of 29.1% over the past ten years, compared to an average growth rate of 10.7% for the world and 16.3% for developing countries group over the same period (Figure 21).

2. **Other geographic groups outperformed Arab countries in the value of FDI attraction:**

   Over the past ten years average FDI inflows to Arab countries was 4.3% of total global flows, compared to an average of 4.9% for the economies in transit group, and 38.4% for the developing countries group (Figure 22). During 2003-2012 these flows constituted 11.5% of total inflows to developing countries group, compared to averages of 8.2%, 29.2% and 62.2% for African countries, Latin America, and Asia, respectively (Figure 23).

3. **Concentration of FDI Inflows to Arab Region in a few Countries and Sectors:**

   Data indicate a relatively high geographic concentration of FDI inflows to Arab region over the period 2003-2012. Only three countries (Saudi Arabia, UAE and Egypt and Lebanon, as per the downward order of the share in total) out of 21 countries claim nearly two-thirds of total inflows to the region (63%). As for inward FDI balance up to 2012, the share of these countries of 21 countries of total balance of inward FDI balance registered

29%, 14%, 11%, and 6% for Saudi Arabia, UAE, Egypt and Lebanon, respectively (Figure 24).

As per official country data, and by observing the inflows to ten Arab countries: Egypt, Jordan, UAE, Kuwait, Algeria, Morocco, Libya, Yemen and Djibouti, by the end of 2012, with total inflows of about US$ 411.5 billion, the service sector was the largest recipient of foreign and Arab direct investment in the ten countries, with US$ 7.12 billion, or by 62% of total, followed by Industrial sector at the 2nd place, with US$ 4.4 billion, a share of 38.2% of total. Agriculture only claimed US$ 26 million, or 0.22%.

4. **Concentration of Foreign Investors from Outside the Arab Region on a Limited Number of Countries:**

According to official country data, and by observing the balances of inflows to ten Arab countries: Saudi Arabia, UAE, Qatar, Kuwait, Morocco, Tunisia, Jordan, Libya, Palestine and Djibouti, from non-Arab foreign countries, by the end of 2012, the inflows were about US$ 197.6 billion, distributed by foreign country investing in those country: France (a share of 19.9%), USA (13.5%), UK (11.7%), Japan (10.7%), Holland (5.2%), Spain (3.6%) and Germany (2.7%).

Figure 21: Regional FDI inflows Average Growth Rate 2003-2012
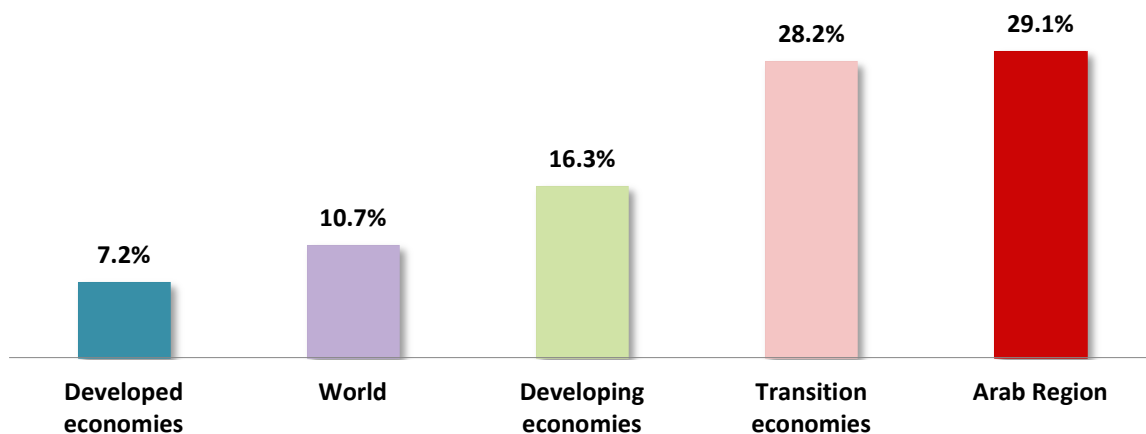
Figure 22: Average FDI Inflows as a %World FDI 2003-2012
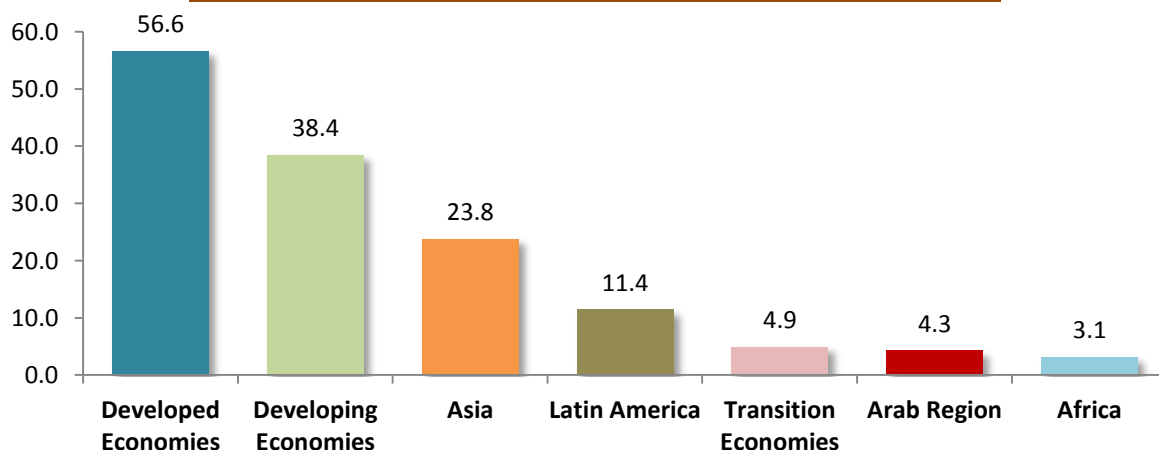
Figure 23: Average FDI Inflows as a %Developing Economies FDI inflows 2003-2012

Bar chart:
- Asia: 62.2
- Latin America: 29.2
- Arab Region: 11.5
- Africa: 8.2
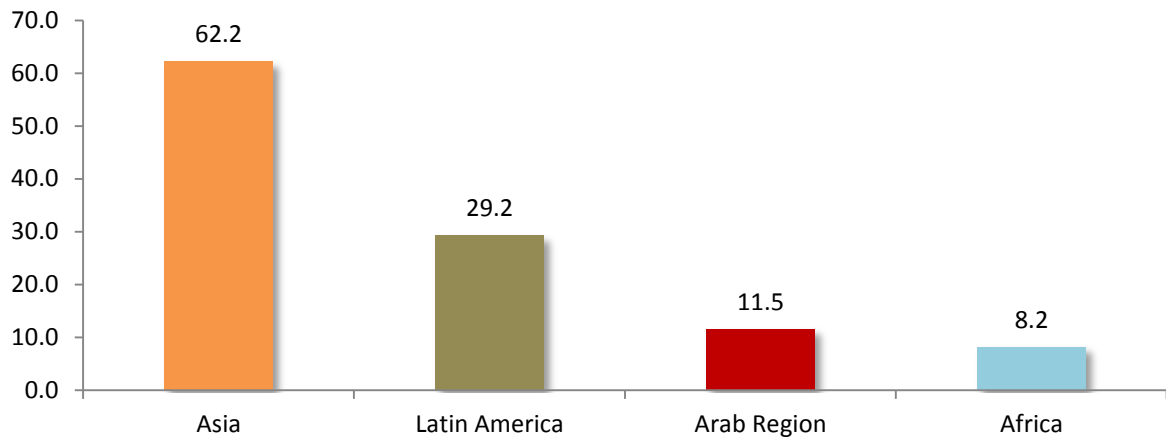
Figure 24: Geographic Concentration of Arab Inward FDI balance (end of 2012)

Pie chart:
- Saudi Arabia 29%
- UAE 14%
- Egypt 11%
- Morocco 7%
- Lebanon 6%
- Tunisia 5%
- Qatar 5%
- Other Arab countries 23%

1.3   Inward FDI Flows to Arab Countries

Despite the events and developments witnessed by the Arab region over the recent years, initial statistics refer to an increase in FDI inflows to Arab countries by 9.8%, from about US$ 42.9 billion in 2011 to US$ 47.1 billion in 2012. Saudi Arabia, UAE and Lebanon topped the list of Arab countries in terms of investment attraction in 2012, with shares of 25.8%, 20.4%, and 7.8% respectively, followed by Algeria at 4th place with a share of 6.25%, Morocco at 5th place with US$ 2887 million, a share of 6.1%, Egypt at 6th place with US$ 2798 million, a share of 5.9%, Sudan at 7th place at Arab level with US$ 2488 million, a share of 5.3%, Tunisia at 8th place with US$ 1944 million, a share of 4.1%, Kuwait at 9th place with US$ 1864 million, a share of 4%, Oman at 10th place with US$ 1484 million, a share of 3.1%, and Jordan at 11th place with US$ 1405 million, a share of 3% of total investments attracted to Arab countries. Iraq claimed 12th place at Arab level, with US$ 1275 million, a share of 2.7%, Bahrain at 13th place with US$ 891 million, a share of 1.9%, Libya at 14th place with US$ 720 million, a share of 1.5%, Qatar at 15th place with US$ 327 million, a share of 0.7%, and finally, Palestine, Mauritania, Djibouti, Somalia and Yemen, respectively (Table 22).

Arab Rank	Country	2011 US$ million	2012 US$ million	% of Total Arab FDI inflows 2012	Growth 2011/2012 %
	Table 22: Inward FDI Flows to Arab Countries				
1	Saudi Arabia	16,308	12,182	25.8	-25
2	UAE	7,684	9,608	20.4	25
3	Lebanon	3,490	3,678	7.8	5
4	Algeria	2,571	2,900	6.2	13
5	Morocco	2,564	2,887	6.1	13
6	Egypt	-483	2,798	5.9	680
7	Sudan	2,692	2,488	5.3	-8
8	Tunisia	1,156	1,944	4.1	68
9	Kuwait	855	1,864	4	118
10	Oman	1,049	1,484	3.1	41
11	Jordan	1,476	1,405	3	-5
12	Iraq	2,082	1,275	2.7	-39
13	Bahrain	781	891	1.9	14
14	Libya	0	720	1.5	--
15	Qatar	-87	327	0.7	477
16	Palestine	214	244	0.5	14
17	Mauritania	45	236	0.5	421
18	Djibouti	79	110	0.2	39
19	Somalia	102	102	0.2	0
20	Yemen	-713	4	0	101
21	Syria	1,060	--	--	--
Total Arab FDI Inflows		**42,926**	**47,146**	**100**	**9.8**

2.Inter-Arab FDI Flows

Lack of accurate, up-to-date and comprehensive information on FDI flows, balances, components, sources and trends in many Arab countries constitutes one of the main obstacles complicating comparisons at global level. This increases the difficulty to evaluate the economic effects arising from such flows. It also causes scarcity of regular data collection and reporting systems, and lack of harmony of such data in many countries of the region causes problems relating to the formulation of public policies and strategies targeting the attraction and/or direction of FDI. There is scarcity in the data identifying the sources of FDI in the concerned countries, i.e. the geographic distribution of investment by source country. Also information on sectoral distribution of FDI and its impact on labor, added value, exports, imports and debts, is scarce.

From the technical perspective, building an accurate database on FDI statistics at the national level is a prerequisite not only for making the decisions necessary to prepare the suitable climate for attracting such investments and activating their present and future developmental role, but also for constituting a significant element enabling the specialists and decision-makers to have minimum coordination in order to establish the factors of success for regional inter-Arab economic integration, in addition to the existing factors such as availability of human resources, natural resources, as well as capitals.

Based on the above, and as Dhaman realizes the importance of data and information in observing the development of investment climate in Arab countries, especially via inter-Arab FDI statistics, which are observed exclusively by Dhaman by relying on country data incoming from official entities in the Arab countries, Dhaman considers that it is its duty to draw the attention, once more, to the obstacles they face in this respect, mainly:

- Scarcity of data relating to inter-Arab direct investments.
- The work team in charge of reporting the data finds several technical points of criticism, specifically on the data of balances, mainly that the accounting methodology does not take into consideration the investment flows withdrawn from hosting Arab countries to the Arab investor's country of residence. Also, no depreciation rates are applied to the existing investments during the period from 1985 and the following years.
- Methodology of arriving at the balance that was adopted by Dhaman is similar to the methodology that was adopted by UNCTAD, which depends on cumulative aggregation of annual flows since 1970, which was abandoned by UNCTAD, who pulled out the time series of such balances from their website in 2010. In addition, they participated in the International Monetary Fund's (IMF) survey, among several international institutions, including the European Central Bank, OECD, and Statistical Bureau of the European Commission.
- IMF conducted the first coordinated survey of FDI Data at a global level to improve the availability and quality of such data on the basis of existing balances, and by hosting country. IMF survey covered the data with effect from end of 2009. Such survey is to be regularly repeated on an annual basis.
- Connotations, extend of coverage, and approaches of evaluation and classification of data collected in line with the IMF survey, are in agreement with the recommendations and standards set forth in the sixth edition of Balance of Payments Statistics Preparation manual and International Investment Center, issued by IMF in January 2010, as well as the international standard on defining FDI as stated in the 4th edition issued by OECD.
- By the end of 2012, a total of 105 countries supported the IMF initiative in this context, including 6 Arab countries: Bahrain, Jordan, Kuwait, Morocco, Saudi Arabia and Palestine. Notable improvements were made with regard to quality of FDI data in those countries.

In this context, Dhaman urges Arab countries to implement the Arab League's Resolution No. (R 1843-AC86) dated 30/9/2010, on the sidelines of the Discussion of Socio-Economic Council at Ministerial Level on urging Arab countries to provide foreign investment data to enrich the Investment Climate in Arab Countries Report. Sources of data on inter-Arab investments are limited to country official entities. Dhaman also invites member Arab countries, who conducted on-site statistical surveys on inward FDI, to provide it with their detailed findings. Dhaman encourages other Arab countries to contribute to IMF survey and provide balance data of inward and outward foreign investment according to internationally recognized standards, enabling Dhaman to make conclusions on the data of inter-Arab investment data and balances over the years to come.

Inter-Arab investments constitute one of the factors of success of rapid pace for economic integration, in addition to the legal and institutional framework and inter-trade flows. Prior to exhibiting the data received by Dhaman with regard to inter-Arab direct investment flows in 2012, which were again limited to a small number of Arab countries (8 countries this year, and 5 countries last year), the Report highlights the potential inter-Arab investment flows, against Arab Countries Performance Index, being exporters of capital, which measures a country's share of outward foreign investment globally, to the country's share of GDP at a global level, as compared to the value of DIAI, which, as previously discussed, measures the potential of the concerned countries to attract foreign investment. The value higher than one of the performance index indicates that the concerned country exports capital with a relative size exceeding its global economic size.

Comparing the performance of countries, as exporters of capitals, to the latent performance index in terms of attracting foreign investments, Figure 25 refers to a vast space for developing the inter-Arab capital flows. Depending of the average value of Dhaman Index for the various countries of the world, excluding OECD countries, which amounted to 27.3 points, Figure 25 shows that 11 Arab countries were able to exceed this value, thus can be classified among the countries in which investment can be made for their distinctive performance, compared to the average performance of developing countries and countries in transit in terms of availability of factors attracting foreign investment. It should be noted that GCC countries top the list of FDI attracting Arab countries for enjoying a business environment where most of the factors of success of investment are available, mainly: security, social and political stability, strategic location linking Asia and Africa, good infrastructure in the areas of roads, means of communication, free industrial zones, availability of financial and banking services, availability of natural resources that are not limited to oil and natural gas, expanded market and high purchasing power, availability of cash capitals, which constitutes an incentive for foreign investors to invest in the countries of the region, jointly with local investors.

Figure 25 refers to a group of Arab countries that can be classified among the capital exporting countries. These include Saudi Arabia, UAE and Qatar, which do not invest enough abroad (compared to their share of global GDP). Based on this fact, they form, together with another group of Arab countries, latent resources for establishing investment projects in the foreign investment attracting Arab countries.

According to the data received by Dhaman, which were limited this year to 8 Arab countries, including Morocco, Egypt, Tunisia, Kuwait, Jordan, Bahrain, Algeria, and Yemen, inter-Arab direct investment flows in 2012 totaled about US$ 3.4 billion. Focusing on the same group of countries that disclosed their data for last year (Egypt, Tunisia, Jordan, Algeria and Yemen), it is noted that inter-Arab direct investment inflows have largely declined from US$ 6.8 billion in 2011 to US$ 1.8 billion in 2012, i.e. by 73.3%.

Tables 23 and 24 contain a matrix of flows and shares of direct Arab investment inflows to the countries of the region, distributed by exporting and recipient country, taking into account the data received from 8 Arab countries only. The tables show the following:

- Morocco topped the list of inter-Arab investment hosting countries for 2012, with flows amounting to US$ 1.12 billion, a share of 33.3% of the total, followed by Egypt with about US$ 984 million, a share of 29.2%, Tunisia with about US$ 623 million, a share of 18.5%, Kuwait with about US$ 393 million, a share of 11.7%, and Jordan with about US$ 197 million, a share of 5.9%.
- UAE topped the list of inter-Arab investment exporting countries in 2012, with flows amounting to about US$ 1.3 million, or by 39% of the total inter-Arab outward investments, mostly concentrated in Morocco (US$ 846 million), Egypt (US$ 418 million). Qatar was ranked 2nd largest inter-Arab investment exporting country with about US$ 664 million, or by 19.7% of total, mostly concentrated in Tunisia (US$ 509 million), and Egypt (US$ 86 million). Saudi Arabia claimed the 3rd place, with outward inter-Arab investments amount to nearly US$ 360 million), or by 10.7% of total, mostly concentrated in Egypt (US$ 202 million), and Morocco (US$ 134 million).

At the level of sectoral distribution of inward inter-Arab direct investments in 2012, same data incoming from 8 Arab countries indicate that most of the inter-Arab investment were concentrated in services and industrial sectors, with a share of 99.7%, as services sector claimed 69.4% of total, while the industrial sector claimed 30.3% of total. Meanwhile, the share of agricultural sector was as low as 0.3% of total.

Figure 25: Space for Developing the Inter-Arab Capital Flows

Arab countries with FDI outflow potential

Arab countries with FDI inflow potential
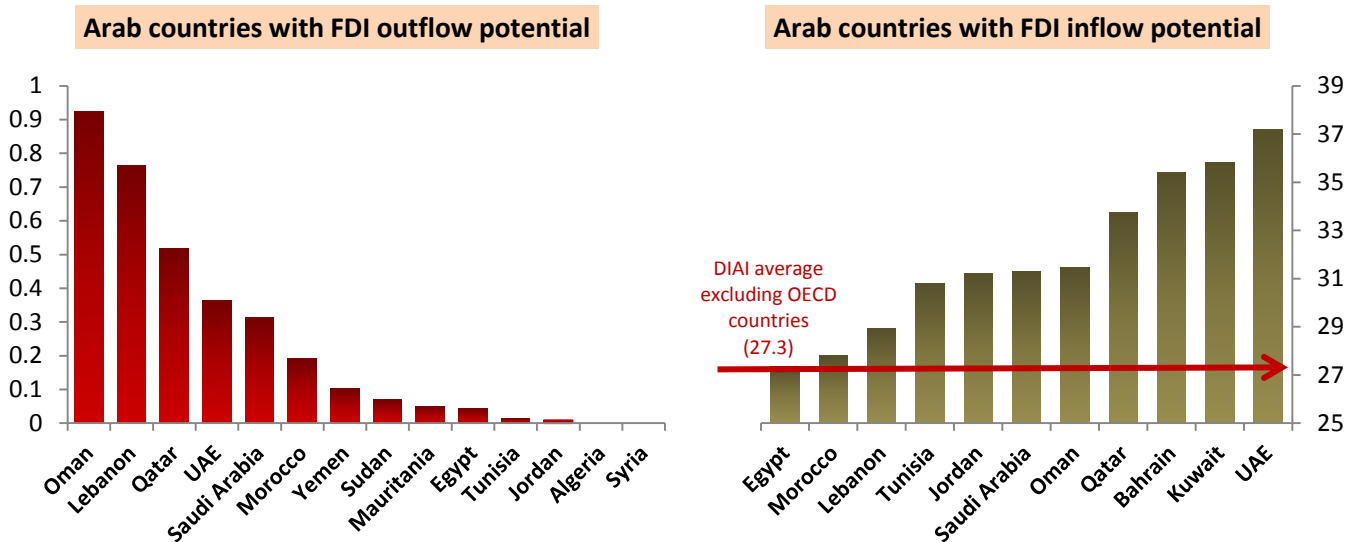
Table 23: Direction of Inter-Arab FDI flows during 2012

Country	FDI Inflows (US$ millions)								
	Morocco	Egypt	Tunisia	Kuwait	Jordan	Bahrain	Algeria	Yemen	Total
UAE	846.2	418.3	44.4	--	0.7	3.1	--	--	**1,312.7**
Qatar	63.4	85.5	509.2	--	0.4	5.0	--	--	**663.5**
Saudi Arabia	134.0	201.5	0.3	--	2.9	20.4	--	1.0	**360.0**
Bahrain	25.6	98.8	--	--	16.2	--	--	--	**140.6**
Syria	1.2	--	--	--	104.1	--	--	0.1	**105.4**
Kuwait	15.0	58.5	29.5	--	0.2	--	--	--	**103.2**
Iraq	0.1	--	1.0	--	43.5	--	--	2.0	**46.7**
Lebanon	13.2	31.2	0.5	--	2.7	--	14.7	--	**62.3**
Somalia	--	--	--	--	--	--	--	--	**0.0**
Morocco	--	--	16.4	--	--	--	--	--	**16.4**
Egypt	0.9	--	1.2	--	12.1	--	--	--	**14.2**
Tunisia	15.0	3.3	--	--	--	--	--	--	**18.3**
Libya	2.2	6.7	10.1	--	--	--	--	--	**19.0**
Jordan	0.3	12.3	1.9	--	--	1.0	--	0.1	**15.6**
Palestine	--	--	--	--	14.5	--	--	--	**14.5**
Oman	0.5	12.1	--	--	--	--	--	--	**12.6**
Algeria	0.4	--	8.1	--	--	--	--	--	**8.4**
Yemen	--	3.4	--	--	--	--	--	--	**3.4**
Sudan	0.0	1.1	--	--	--	--	--	--	**1.1**
Mauritania	1.0	--	--	--	--	--	--	--	**1.0**
Other	--	50.9	--	392.9	--	--	--	--	**443.8**
Total	**1,119.1**	**983.6**	**622.6**	**392.9**	**197.3**	**29.5**	**14.7**	**3.2**	**3,362.9**

Table 24: Share of Inter-Arab FDI flows during 2012

Country	FDI Inflows (%)								
	Morocco	Egypt	Tunisia	Kuwait	Jordan	Bahrain	Algeria	Yemen	Total
UAE	75.6	42.5	7.1	--	0.4	10.6	--	--	**39.0**
Qatar	5.7	8.7	81.8	--	0.2	16.9	--	--	**19.7**
Saudi Arabia	12.0	20.5	0.0	--	1.5	69.1	--	31.2	**10.7**
Bahrain	2.3	10.0	--	--	8.2	--	--	--	**4.2**
Syria	0.1	--	--	--	52.8	--	--	3.7	**3.1**
Kuwait	1.3	5.9	4.7	--	0.1	--	--	--	**3.1**
Iraq	0.0	--	0.2	--	22.0	--	--	62.7	**1.4**
Lebanon	1.2	3.2	0.1	--	1.4	--	100.0	--	**1.9**
Somalia	--	--	--	--	--	--	--	--	**0.0**
Morocco	--	--	2.6	--	--	--	--	--	**0.5**
Egypt	0.1	--	0.2	--	6.1	--	--	--	**0.4**
Tunisia	1.3	0.3	--	--	--	--	--	--	**0.5**
Libya	0.2	0.7	1.6	--	--	--	--	--	**0.6**
Jordan	0.0	1.3	0.3	--	--	3.4	--	2.4	**0.5**
Palestine	--	--	--	--	7.3	--	--	--	**0.4**
Oman	0.0	1.2	--	--	--	--	--	--	**0.4**
Algeria	0.0	--	1.3	--	--	--	--	--	**0.3**
Yemen	--	0.3	--	--	--	--	--	--	**0.1**
Sudan	0.0	0.1	--	--	--	--	--	--	**0.0**
Mauritania	0.1	--	--	--	--	--	--	--	**0.0**
Others	--	5.2	--	100.0	--	--	--	--	**13.2**
Total	**33.3**	**29.2**	**18.5**	**11.7**	**5.9**	**0.9**	**0.4**	**0.1**	**100.0**

3. Performance Gap in the Arab Region

Measuring countries' performance in the area of foreign investment attraction depends on three parameters:

- Algorithm of average FDI balance over the past three years: Resorting to average value of parameter mitigates the effects of fluctuations in data resulting from shocks (positive or negative), which may temporarily keep certain parameters out of their normal level. Conversion of average value using the algorithm enables mitigation of the variance in the scope of data values relating to balances. Considering the importance of this parameter in observing the actual performance, it was given a weighted average of 75%.
- Average size of mergers and acquisitions deals as a seller over the past three years with a weighted average of 12.5%.
- Average number of projects classified under constituent FDI (which means construction of new production facilities) in the hosting country, with a weighted average of 12.5%.

Upon identifying patterns of sub-components of performance index, gathering was made according to previously declared weighted averages, using the geometric gathering method, to avoid the principles of full implicit compensation between the three components, considering the differences in their sub-averages, and based on their hypothetical importance in the formation of the compound performance index.

4. Inward FDI Performance Index

Figure 25 shows the standing of Arab countries, compared to the other geographic groups according to the performance index results.

Arab countries claimed next to last place with 24.2 points, equally with Latin America group countries and the Caribbean, on the actual performance index, in attracting foreign investments, while OECD countries topped the list of groups, followed by East Asia and the Pacific, with a difference of 2.7 points.

Figure 25: Inward FDI Performance Index
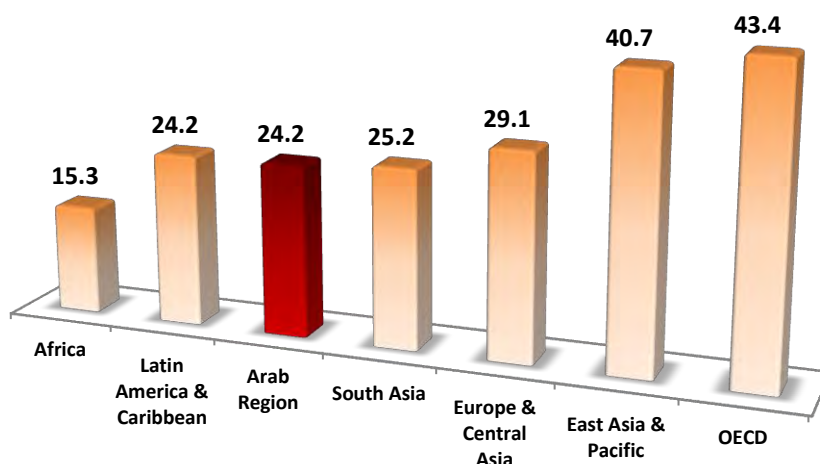
Concluding Remarks & Policy Recommendations

Arab Countries' Attractiveness under the Classification of Economic Development Phases

Dhaman Investment Attractiveness Index (DIAI) directly affects not only the observation of potential, but also the formulation of policies aimed at attracting and localizing foreign investments, while fostering their developmental role, as it provides accurate and comprehensive description of the principal components identifying the business environment and overall investment climate. The index is designed to reflect the latent factors affecting the investment climate and identifying the capacity of countries or geographic groups to attract foreign capital flows. Countries' attractiveness of foreign investment depends on a number of factors, which were referred to earlier in the Report as the main or sub-indices. The components observed by the theoretic and practical literature of FDI geography, are: macro-economic stability, financial brokerage and financing capacity, governance, public administration, institutional and social environment, business performance environment, market access and market potential, abundance and quality of human and natural resources, cost components, infrastructure, agglomeration economies, and factors of technological environment and differentiation.

While all the principal components are significant for measuring countries' ability to attract foreign investments, the performance of components affects each country in a different way, according to its growth phase. The more the countries move in these phases, the higher the per-capita share of GDP. The economic structure will change and the need will increase for raising the productivity of the factors of production to remain capable of providing a high level of income. The increasing ability of the economy to attract investment reflects on the productivity, and subsequently on the income, as a result of the growth witnessed at the various levels, driving the move forward to the next phase of development.

Countries in transit, depending on the exploitation of the cheap abundant manpower and/or natural resources compete to attract a certain pattern of foreign investments on the basis of labor cost and availability of natural resources to produce ordinary or underdeveloped commodities or services. In view of the division of main sets of DIAI, it is assumed that the components mainly affecting the attractiveness of the economies of this group are those elements listed under the set of prerequisites: macro-economic stability, financial brokerage and financing capacity, governance, public administration and institutional and social environment, and business performance environment.

As countries upgrade to the phase of reliance on productivity, they must focus on the elements that enable the creation and adoption of more efficient and more effective methods of production, and upgrade the quality of commodities and services to cope with the increasing income and higher quality requirements, while maintaining the price levels. At this specific phase, the ability to attract depends on the latent factors that are identified by the criteria approved by the main driver in foreign investment, i.e. multi-national companies, including: market access and market potential, quality of human resources available, concurrently with benefiting from the natural resources, direct and indirect elements identifying cost and motivating investment, and infrastructure.

As for the economies that reached the stage of reliance on development and innovation, the factors of competition to attract foreign capital flows are identified by the ability to provide innovative and unique commodities and services, enabling them to cope with the high cost of the factors of production, and meet quality requirements. This necessitates reliance on the latest, most sophisticated means of production, and on the ability to benefit from the Externalities available in the environment where investment is made. Thus, the impact of the set of agglomeration economies factors and factors of technological environment and differentiation becomes important to attract foreign investment to those countries.

Based on the above, it is assumed, when setting any framework for FDI policies, as a main reference for policy-makers at the national level, that the phase of growth in the country is taken into consideration, deriving a specific productive, technological and consumption pattern, as well as the developmental priorities usually included in the developmental strategic plans of each country. In line with this, the countries included in the report were divided into five developmental phases according to the criteria adopted by the Global Competitiveness Report, issued by the Global Economic Forum, as shown on Table 25. According to this division, as shown on Table 26, Arab countries included in the report are divided into five groups:

1. Countries under the group of economies dependent on natural resources: Mauritania, Sudan, and Yemen. Presumably, these countries should give priority to improving the attraction indices under the set of prerequisites. Hence, they should focus on the elements of this set when formulating and drawing recommendations on the investment policies. Figure 26 indicates that the average performance of Arab countries at this phase of growth, at the level of sub-index for the set of prerequisites (35.7 points) are 20.5% lower than the average performance of other countries within the same classification (44.9 points), which reflects a negative performance and a large burden on the potential of those countries to attract FDI.

Figure 26: DIAI Performance Arab Countries in Phase I
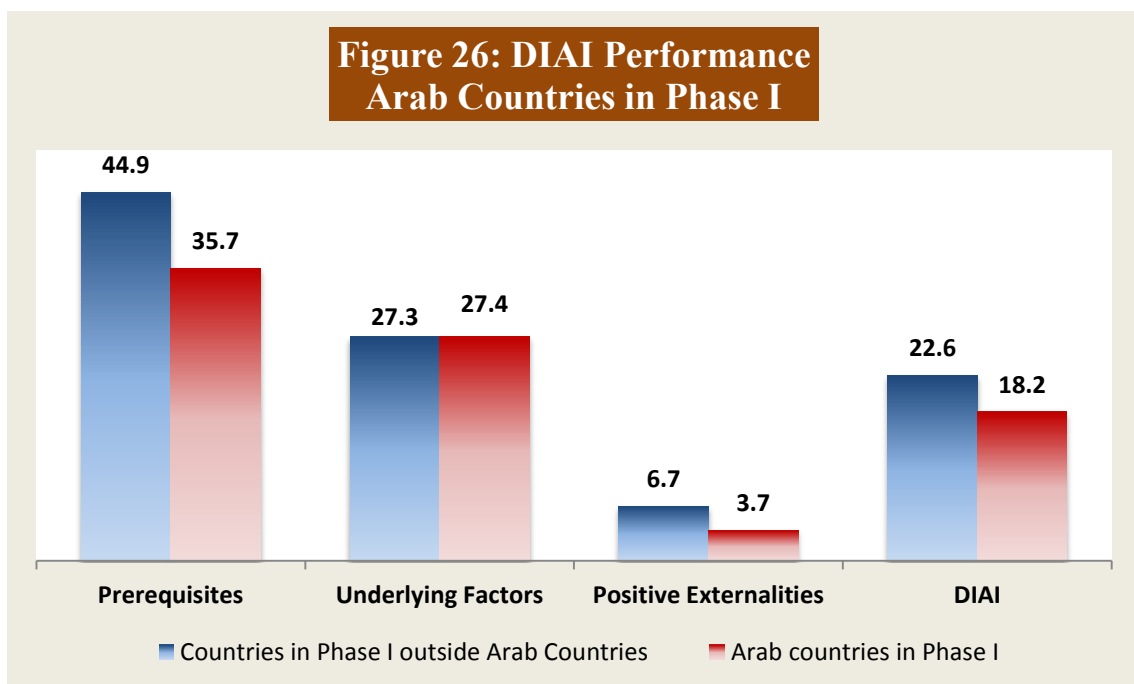
2. Countries classified under the initial transit economic phase from reliance on natural resources to reliance on efficiency and effectiveness. This group includes 7 Arab countries: Algeria, Egypt, Kuwait, Libya, Qatar, Saudi Arabia, and Syria. As for these countries, the relative importance of the elements of the set of prerequisites and set of latent factors, is almost equal at the level of reform priorities or bridging the investment attractiveness gap compared to competing countries. Contrary to the observation in the first set, the average performance of Arab countries at this phase of growth at the level of sub-indices is higher than the average of other countries within the same classification (Figure 27). It should be noted that the majority of Arab countries within this group enjoy abundant resources (oil and gas).

Figure 27: DIAI Performance Arab Countries in Transition I

	Prerequisites	Underlying Factors	Positive Externalities	DIAI
Countries in Transition I outside Arab Countries	42.8	35.1	7.5	25.3
Arab countries in Transition I	45.0	41.9	8.5	28.4
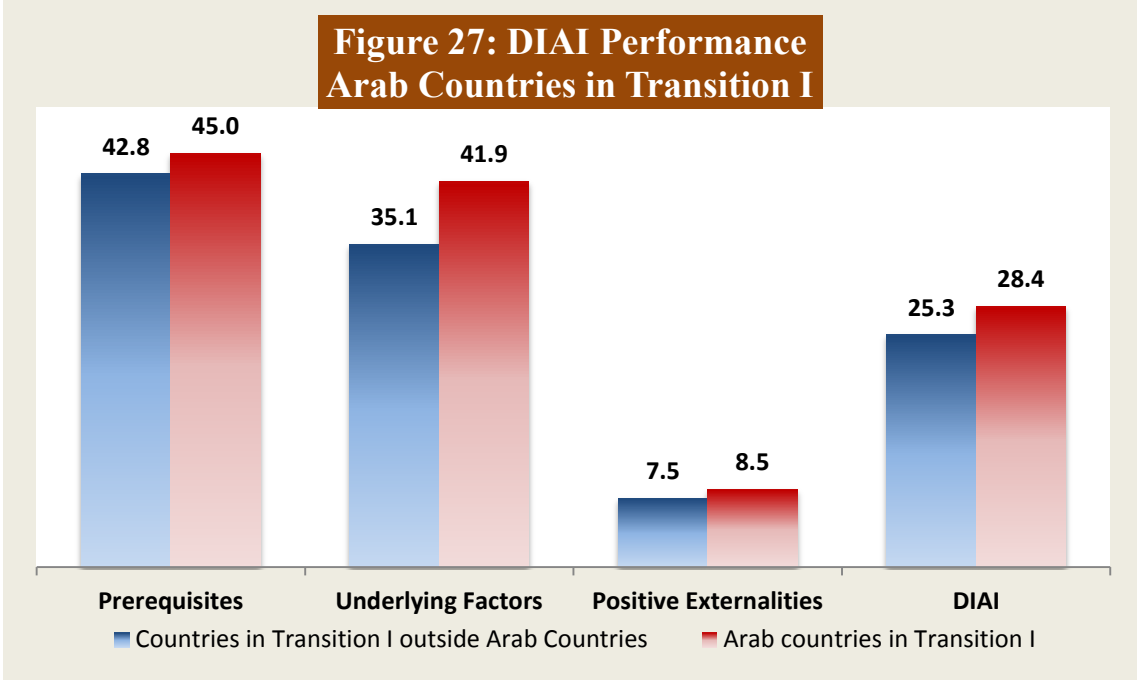
3. Group of countries classified under the group of economies relying on efficiency and effectiveness (phase 3), which depend more extensively on the elements of the set of latent factors, while maintaining the relative importance off the elements of the set of prerequisites when addressing the investment gap compared to the competing countries. This group includes 3 Arab countries: Jordan, Morocco and Tunisia. Figure 28 indicates that the performance of these countries is very similar compared to other countries within the same classification, with the exception of the performance gap relating to the factors of agglomeration economies and distinction, on account of Arab countries classified under the third developmental phase.

Figure 28: DIAI Performance Arab Countries in Phase II

	Prerequisites	Underlying Factors	Positive Externalities	DIAI
Countries in Phase II outside Arab Countries	50.4	36.5	13.7	31.0
Arab countries in Phase II	51.8	36.6	10.1	29.9
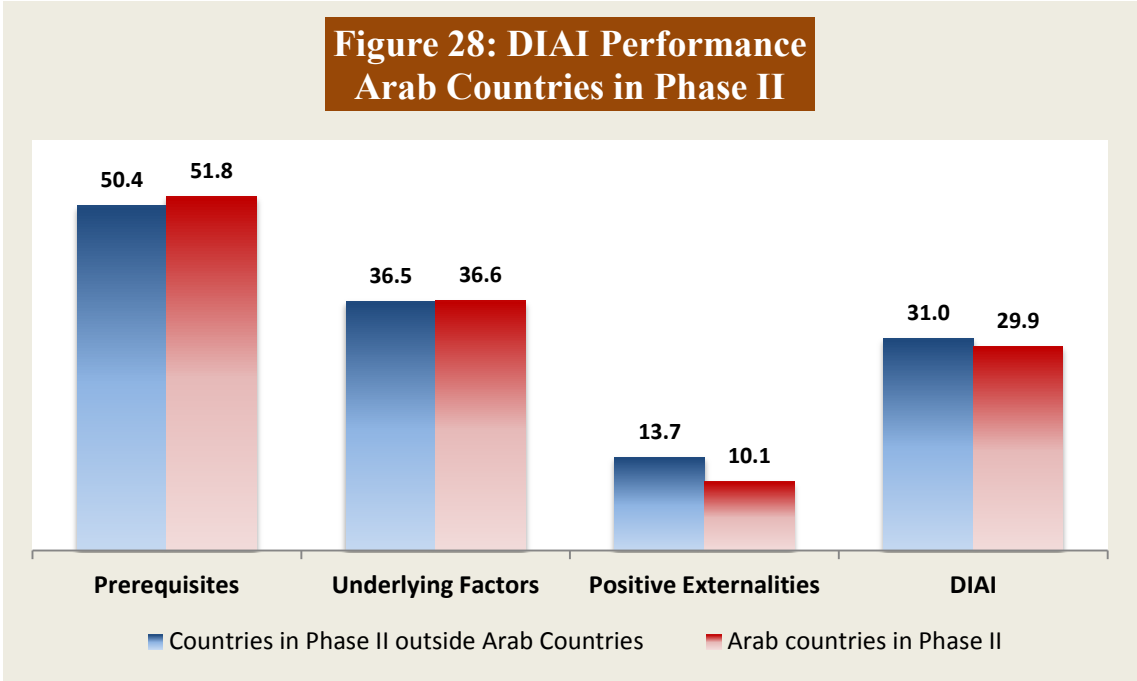
4. Group of transit phase between the second and third phases, which should focus on all the elements that enable the creation and adoption of more efficient and more effective methods of production, and upgrading the quality of commodities and services. Countries of the group should pay more attention to the factors of distinction and development when estimating the attractiveness gap compared to competing countries at the same developmental phase. This group includes 3 Arab countries: Bahrain, Lebanon, and Oman. Figure 29 refers to the importance of the existing gap (nearly 32%) between Arab countries and other countries of the group at the level of the set of agglomeration economies factors and factors of technological environment and differentiation.

Figure 29: DIAI Performance Arab Countries in Transition II

	Prerequisites	Underlying Factors	Positive Externalities	DIAI
Countries in Transition II outside Arab Countries	58.1	43.2	14.4	36.4
Arab countries in Transition II	51.6	44.9	9.8	31.9
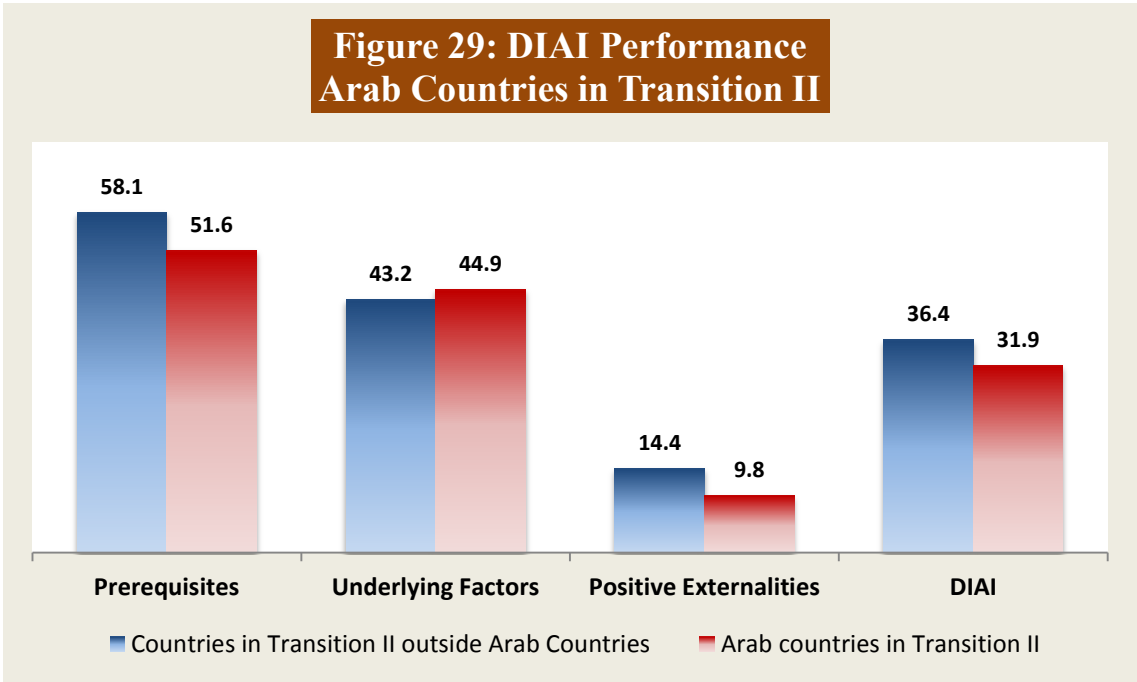
5. Fifth and last group includes economies that reached the stage of reliance on development and innovation, which identify the factors of competition to attract foreign capital flows according to the ability to provide innovative and unique commodities and services. Countries of this group should rely on the latest and most sophisticated means of production, and on the ability to benefit from the Externalities available in the environment where investment is made. Hence, the relative importance increases in the set of agglomeration economies factors and factors of technological environment and differentiation to attract foreign investment. This group includes only one Arab country, i.e. UAE. Figure 30 indicates the performance of UAE compared to other countries of the group, mostly OECD countries.

Figure 30: DIAI Performance Arab Countries in Phase III

	Prerequisites	Underlying Factors	Positive Externalities	DIAI
Countries in Phase III outside Arab Countries	70.2	61.5	21.8	48.9
United Arab Emirates	53.0	53.7	12.9	37.2
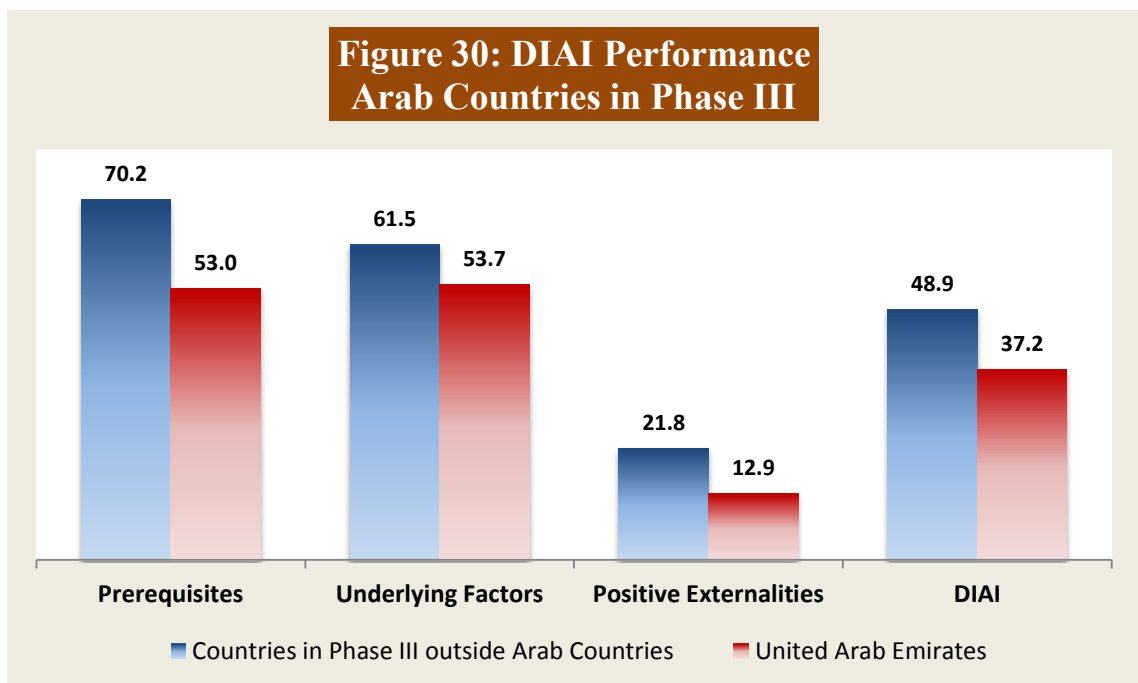
Table 25: Phases of Development

	Phase I: Economies driven by natural resources	Transition I: Countries in transition from Phase I to Phase II	Phase II: Economies driven by efficiency and effectiveness	Transition II: Countries in transition from Phase II to Phase III	Phase III: Economies driven by knowledge and innovation
GDP per capita (USD)	< 2000*	2000 - 2999	3000 - 8999	9000 - 17000	> 17000
Weight for Prerequisites	60%	40% - 60%	40%	20% - 40%	20%
Weight for Underlying Factors	35%	35% - 50%	50%	50%	50%
Weight for Positive Externalities	5%	5% - 10%	10%	10% - 30%	30%

*or exports of mineral products exceed 70% of total exports.

Table 26: Phases of Development

Phase I: Economies driven by natural resources	Transition I: Countries in transition from Phase I to Phase II	Phase II: Economies driven by efficiency and effectiveness	Transition II: Countries in transition from Phase II to Phase III	Phase III: Economies driven by knowledge and innovation
Benin	**Algeria**	Bulgaria	Argentina	Australia
Burkina Faso	Angola	China	**Bahrain**	Austria
Cambodia	Azerbaijan	Columbia	Brazil	Belgium
Cameroon	Bolivia	Dominican Republic	Chile	Canada
Central African Republic	Botswana	Ecuador	Estonia	Cyprus
Chad	**Egypt**	Guatemala	Hungary	Czech Republic
Côte d'Ivoire	Gabon	Indonesia	Kazakhstan	Denmark
Ethiopia	Honduras	**Jordan**	Latvia	Finland
Ghana	Iran	Mauritius	**Lebanon**	France
India	**Kuwait**	**Morocco**	Lithuania	Germany
Kenya	**Libya**	Namibia	Malaysia	Greece
Madagascar	Philippines	Panama	Mexico	Hong Kong
Mali	**Qatar**	Paraguay	**Oman**	Ireland
Mauritania	**Saudi Arabia**	Peru	Poland	Israel
Mozambique	**Syria**	Romania	Russia	Italy
Nepal	Venezuela	Serbia	Turkey	Japan
Nicaragua		South Africa	Uruguay	South Korea
Nigeria		Thailand		Malta
Pakistan		**Tunisia**		Netherlands
Senegal		Ukraine		New Zealand
Sudan				Norway
Tanzania				Portugal
Togo				Singapore
Uganda				Slovakia
Vietnam				Slovenia
Yemen				Spain
				Sweden
				Switzerland
				UAE
				United Kingdom
				United States

Policy Recommendations

Although several amendments were made to the laws and legislation, coupled with various exemptions in the Arab countries to encourage and attract international investors, Arab economies remain unsuccessful in becoming significant locations for attracting FDI, compared to other developing economies. Data confirm the small share of Arab region of FDI flows, which amounted to about US$ 43 billion in 2011, representing 6.3% of the share of developing countries, and about 2.8% of total global direct investment flows, of US$ 1.6 trillion. Meanwhile, Brazil and Singapore had about US$ 66.6 billion, and US$ 64 billion of flows, respectively. Data also refer to varied performance and a high geographic concentration in the total FDI inflows to the Arab region during the period 2009-2011, where only three countries (Saudi Arabia, UAE and Lebanon) claim about 58% of total flows to the region. These inputs drive more discussion and investigation on the structural factors that impair leverage of FDI attraction to the aspired level. Exploring and pursuing evaluation of such elements would allow drawing a road map, at local and regional levels, to enhance Arab countries' capacity to attract foreign capital flows.

Obviously, the policies adopted by the majority of the countries in the region, mainly representing either the utilization of natural resources or granting various exemptions to attract international investors, were not as effective as expected. Global developments over the past two decades led to a change in the globally prevailing perspectives of the nature of the desired local and foreign investment policies. Successive financial crises that took place in Latin American and South East Asian countries in the late 1990s, the economic collapse in Argentina at the outset of this century, and the credit crisis arising from the fragile real estate mortgage system in the US, and the extension of its episodes since 2008, due to the extreme financial overlap across the world map, to EU and other countries, revealed that the apparently "prudent" financial strategies could be the reason for the outbreak of such crises. Evident focus of the international community on achieving the millennium development goals, and the need to secure adequate and stable finance for the development processes, gave rise to a change in the macro-economic management approaches, and the development of investment policies in the open developing economies.

Based on the above, and according to the findings of the Report, we draw the following recommendations:

1. The past few years have certainly been full of investment policies that realized a lot of achievements for some Arab countries, which rendered them a foothold greater than being developing countries, such as the UAE, the only Arab countries classified as a country attaining the development and innovation dependence stage, Bahrain, Oman and Lebanon, who exceeded the stage of reliance on efficiency and effectiveness. However, this requires reviewing the investment policies in light of the fluctuations and variations prevailing in today's world, and in light of the positive achievements realized in this area, as well as the negative points and shortcomings arising, as opposed to the expected objectives. Whereas the goal of investment policies adopted or disclosed is to diversify the productive structure of national economy, it should be verified in this context that those policies would affect the investment decision-makers, and those policies should be regulated within an overall consistent economic framework, enabling achievement of the planned goals, especially the policies relating to foreign investments for their significant magnitude. The matter often requires setting forth a strategy suitable to those investments, enabling verification of the possibility to benefit from technology, administrative and technical expertise, to enhance productive capacity and competitiveness for national projects, and contribution to productive diversification for the economy in general. On the other hand, if the goal of adopted investment policies is to exploit natural resources in their various forms, the decision-maker

must adopt a sustainable developmental model to foster harmony between the achievement of developmental goals, from one part, and environmental conservation and sustainability, from the other hand. This can be done when countries adopt an integrated and coordinated approach to their developmental planning, to ensure consistence of development with the need to protect and improve the environment. In the medium and long terms, it is essential that the decision-maker frame the investment policy within a general road map for economic growth and sustainable development. The road map should exhibit the relationship between the developed objectives within the official developmental, economic and industrial strategies, and the adopted investment policy.

2. .In the same context, macro-economic policies must be developed within a coordinated framework, whereby the financial and monetary policies, exchange rate policies industrial policies, which provide carefully studied incentives to encourage investment, and manage capital account in the balance of payments, will be homogeneous. It is also essential to identify the role of direct public, private and local investment, especially foreign investment, in developmental strategy. Owing to the huge gaps that largely characterize the development in most of the Arab countries, foreign investment constitutes an essential complementary factor for local investment. It may be particularly useful when supportively interacting with public and private investment.

3. Investment encouragement covers all activities and measures aimed at creating limitations that are favorable to foreign investment in the hosting country. These limitations include a framework for foreign investment policies, economic limitations and business management. Each of these elements may operate as an incentive or obstacle to investment. In fact, the quality of coordination between these elements is critical to investment decision in a given country. Investment authorities are not exclusively responsible for marketing a country, as an investment attracting destination, but responsibility extends to cover all other parties concerned with investment encouragement and attraction of FDI in the given country. Roles and responsibilities of those parties and are equally important and effective to operate under one system that is responsible for drawing and improving the features of the full picture of the country, covering all institutional, economic and social aspects.

4. Arab countries dependent on natural resources, or those in the process of depending on efficiency and effectiveness, i.e. 10 out of 17 Arab countries covered by the Report, must upgrade their performance on the indices of the set of prerequisites, in general, and the factors relating to macro-economic stability, governance, public administration, institutional and social environment, and business performance environment, in particular. The major recommendations in this context are to give more attention to productive efficiency, as it is directly and closely related to incentives, socio-economic stability, and the components relating to human capital, per-capita living standards, and the society at large, in addition to the importance of focusing on the institutional framework motivating efficiency, transparency, coherence, and social movement, on one hand, and positive and stable business performance environment, which is supportive of free market operability, degree of competition, and safety of transactions and contracts, on the other hand.

5. Bridging the gap of factors of technological environment and differentiation may not be included in the list of priorities within the strategies aimed at attracting FDI, unless for a very limited number of Arab countries, without excluding the development of a clear vision and medium and long term plans, which carefully draw the framework that identifies the scope of change in the areas of technological development, research and development (R&D). The aim is to motivate scientific research within the list of national priorities, award the results of research, and utilize the research output in serving the economic development, while fostering innovation and technological advancement. Considering the high cost and

limited profitability, in the short term, of investment in this area, joint regional Arab action would be feasible in creating technological blocks, or a set of agglomerated spaces prepared to serve as incubators for activities in the areas of scientific and technological research, on one part, and the developing areas of technological production, on the other part, into a group of disciplines, for the purpose of upgrading production efficiency and developing the technological factors for the Arab economies, by motivating technological innovation and supporting integration and mergers between the various economic activities, and the public/private sectors, within a list of priorities to be identified at the regional level.

6. Considering the weak components relating to human resources and quality of human capital in most of the Arab countries, these countries must re-plan and restructure the educational system (public and private) towards upgrading the quality and developing the student capacity to interpret phenomena and analyze data, in addition to developing their research capabilities and innovation, while providing other means of acquiring skills, apart from educational curricula. These countries must also encourage the private sector to invest in education and finance scientific certificates and research that are consistent with their economic disciplines.

7. To sponsor and direct FDI towards productive business sectors that may maximize contribution to national development, Arab countries must be capable of building, managing, and analyzing a vast and accurate database relating to local installations, and existing foreign institutions in the various sectors (Investment Observatory). The aim is to be able to extract feasible strategies to promote investment, covering the following components: Factors of targeting and supporting investors who possess latent capacity to influence the national economy, and adapting the services extended to them, as needed, assessing the effectiveness of facilities and guidelines pertinent to investors' decisions and actions, linking the promotion with government policies, in general, and investment policies, in particular, rationalizing the utilization of rare resources available for promoting investment, and developing the self-assessment of the effectiveness of the promoters, in addition to the effectiveness of other cooperating entities and institutions, within a framework that ensures consistence between the various national entities concerned, around a joint strategy for investment promotion.

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

Part III: Country Profile

How to read the Country profiles

1. Basic information on the economy and FDI:

Includes the capital's name, currency, exchange rate, and the most important macroeconomic indicators such as: Nominal GDP, Real GDP Growth, GDP per Capita, Inflation, General Government Total Expenditure and Net Lending, Current Account Balance, Exports & Imports of Goods and Services, Gross Official Reserves, Total Gross External Debt, Population, Unemployment. And also includes information on inward and outward FDI flows and stocks during the last four years.

2. Performance in Dhaman Investment Attractiveness Index (DIAI) 2013:

Each country's performance in Dhaman Investment Attractiveness Index (DIAI) 2013 compared to the average of the average Arab score and the average Global score and ranking.
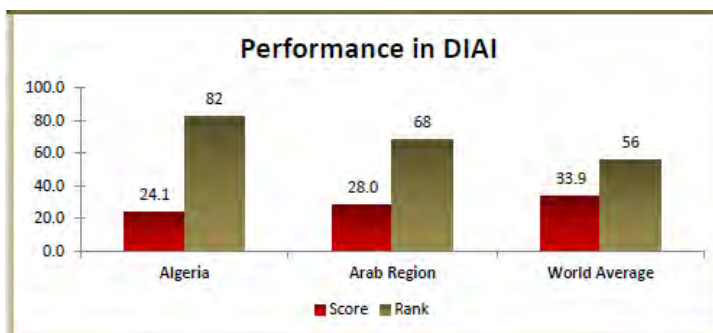
3. Performance in DIAI's three axes:

The Country's performance in the three main axes:
1) Prerequisites
2) Underlying factors
3) Positive externalities

The Country's performance is compared to the average Arab score and the average Global score.
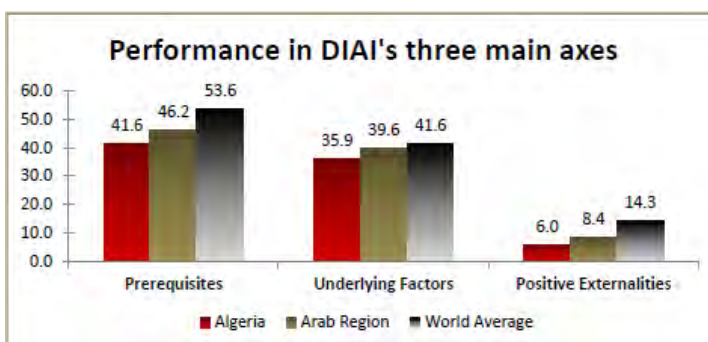
4. Performance in DIAI's Ten Core Components:

A radar chart is used as a tool to compare the performance of each country in DIAI's 10 core components. Each component is displayed as separate axis: Macroeconomic Stability, Financial Structure and Development, Institutional environment, Business Environment, Market Access and Market Potential, Human and Natural Resources, Cost Components, Physical Infrastructures, Agglomeration Economies, Technological environment and Differentiation. The Country's performance is compared to the average Arab score and the average Global score.

In the example shown, figure shows the superiority of Algeria's performance in the two indicators exceeding average Arab score and the average Global score: Macroeconomic Stability axis and the Cost Components axis.
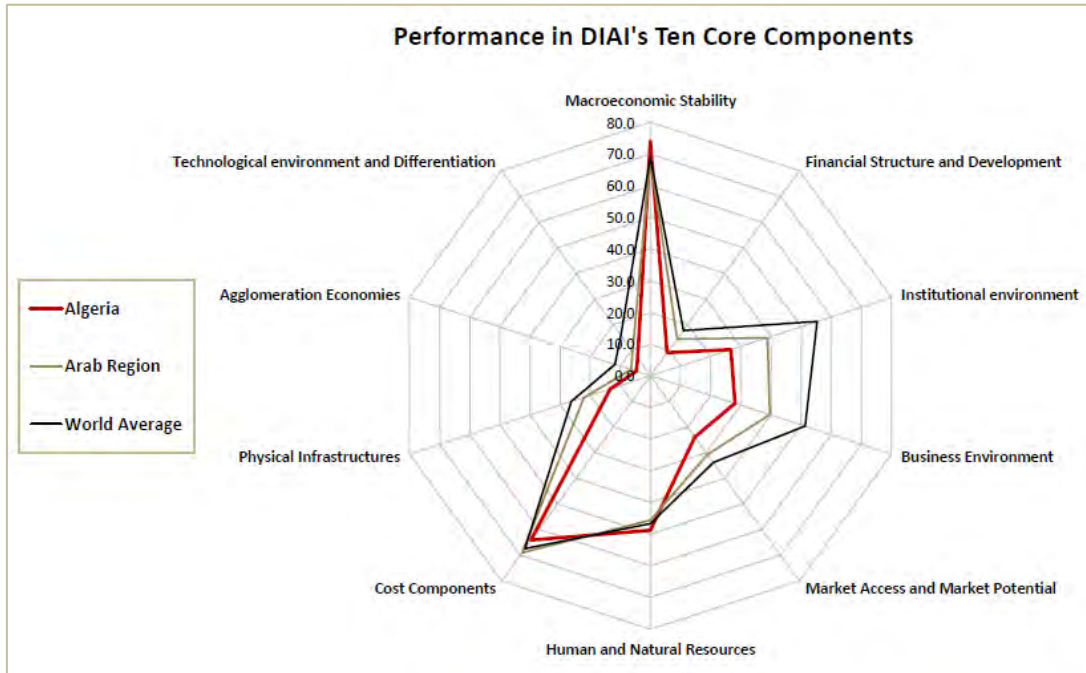
The People's Democratic Republic of Algeria

			2011	2012
Capital:	Algiers			
Currency:	Algerian dinar (DZD)	**Exchange rate** *(LCU per USD):*	72.70	74.45

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	198.8	207.8	210.5	212.2
Real GDP Growth	%	2.4	2.5	3.3	3.4
GDP per Capita	*USD*	5,528.4	5,694.0	5,683.2	5,644.1
Inflation *(average consumer prices)*	%	4.5	8.9	5.0	4.5
General Government Total Expenditure and Net Lending *(% of GDP)*	%	40.4	42.2	38.5	38.1
Current Account Balance	*USD billion*	19.8	12.3	12.8	9.6
Current Account Balance *(% of GDP)*	%	10.0	5.9	6.1	4.5
Exports of Goods and Services	*USD billion*	76.6	75.1	73.4	70.2
Imports of Goods and Services	*USD billion*	57.4	61.6	58.7	59.7
Gross Official Reserves	*USD billion*	182.2	190.7	207.3	218.5
Total reserves in months of imports	*Month*	38.1	37.2	42.4	43.9
Total Gross External Debt *(% of GDP)*	%	2.2	1.8	1.5	1.3
Population	*Million people*	36.0	36.5	37.0	37.6
Unemployment *(% of total labor force)*	%	10.0	9.7	9.3	9.0
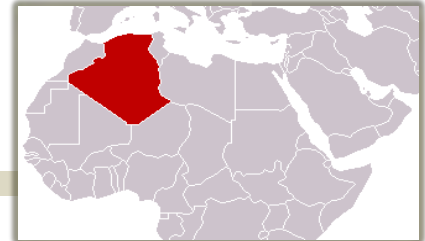
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	2,746.4	2,264.0	2,571.0	2,900.0
Outward	*USD million*	215.0	220.2	534.0	250.0
FDI Stock					
Inward	*USD million*	16,945.7	19,209.7	21,780.7	24,680.7
Outward	*USD million*	1,420.0	1,640.2	2,174.2	2,424.2

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013
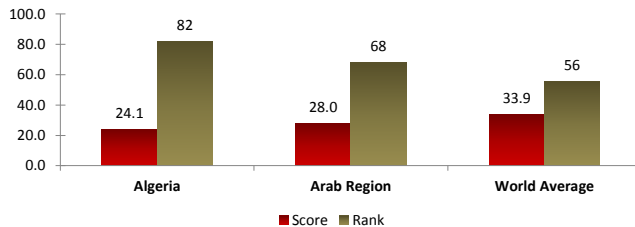
Performance in DIAI

Algeria: Score 24.1, Rank 82
Arab Region: Score 28.0, Rank 68
World Average: Score 33.9, Rank 56

Performance in DIAI's three main axes

	Algeria	Arab Region	World Average
Prerequisites	41.6	46.2	53.6
Underlying Factors	35.9	39.6	41.6
Positive Externalities	6.0	8.4	14.3

Performance in DIAI's Ten Core Components

Legend: Algeria, Arab Region, World Average
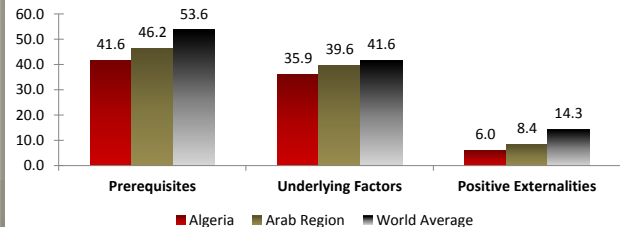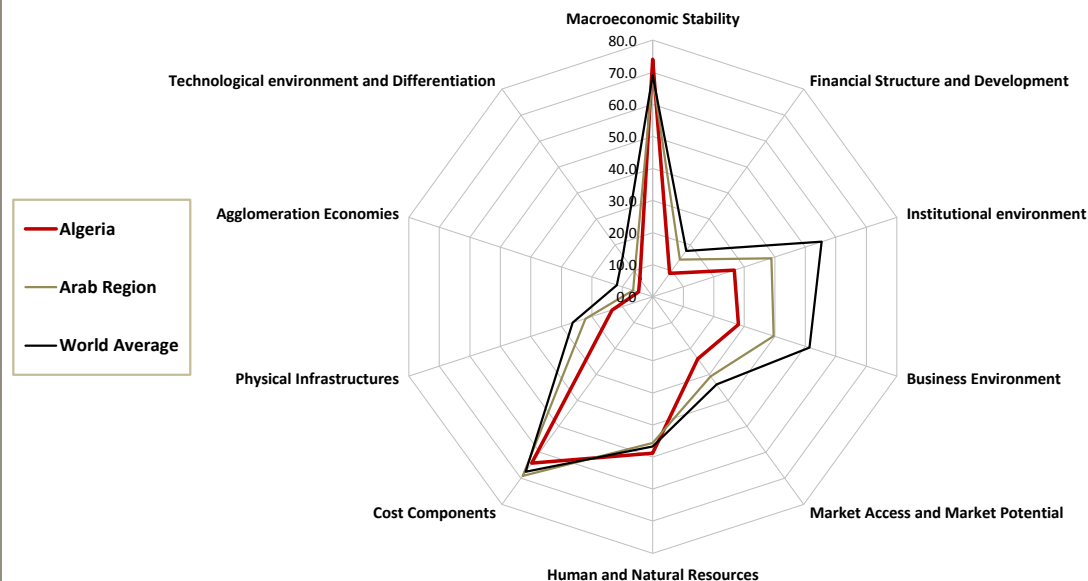
The Kingdom of Bahrain

			2011	2012
Capital:	Manama			
Currency:	Bahraini dinar (BHD)	**Exchange rate** *(LCU per USD):*	0.376	0.376

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	25.9	27.0	28.1	28.8
Real GDP Growth	*%*	2.1	3.9	4.2	3.3
GDP per Capita	*USD*	22,918.2	23,476.5	23,930.5	24,018.2
Inflation *(average consumer prices)*	*%*	-0.4	1.2	2.6	2.1
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	30.9	32.6	36.2	37.1
Current Account Balance	*USD billion*	3.2	4.2	3.8	3.3
Current Account Balance *(% of GDP)*	*%*	12.6	15.4	13.6	11.6
Exports of Goods and Services	*USD billion*	22.7	25.1	24.8	24.2
Imports of Goods and Services	*USD billion*	13.7	15.4	15.4	15.3
Gross Official Reserves	*USD billion*	4.2	4.4	4.7	4.9
Total reserves in months of imports	*Month*	3.7	3.4	3.7	3.8
Total Gross External Debt *(% of GDP)*	*%*	139.6	145.7	148.0	152.2
Population	*Million people*	1.1	1.2	1.2	1.2
Unemployment *(% of total labor force)*	*%*	4.0	3.4	3.8	3.7

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	257.2	155.9	780.9	891.2
Outward	*USD million*	-1,791.5	334.0	893.6	922.3
FDI Stock					
Inward	*USD million*	14,998.1	15,154.0	15,934.8	16,826.1
Outward	*USD million*	7,548.7	7,882.7	8,776.3	9,698.7

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013

Performance in DIAI

	Score	Rank
Bahrain	35.4	43
Arab Region	28.0	68
World Average	33.9	56

Performance in DIAI's three main axes

	Bahrain	Arab Region	World Average
Prerequisites	57.0	46.2	53.6
Underlying Factors	55.1	39.6	41.6
Positive Externalities	9.3	8.4	14.3

Performance in DIAI's Ten Core Components

Components: Macroeconomic Stability, Financial Structure and Development, Institutional environment, Business Environment, Market Access and Market Potential, Human and Natural Resources, Cost Components, Physical Infrastructures, Agglomeration Economies, Technological environment and Differentiation

Legend: Bahrain, Arab Region, World Average

The Arab Republic of Egypt

			2011	2012
Capital:	Cairo			
Currency:	Egyptian pound (EGP)	**Exchange rate** *(LCU per USD):*	5.82	6.08

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	235.6	256.7	264.7	268.8
Real GDP Growth	*%*	1.8	2.2	2.0	3.3
GDP per Capita	*USD*	2,930.1	3,111.9	3,145.6	3,131.2
Inflation *(average consumer prices)*	*%*	11.1	8.6	8.2	13.7
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	31.8	33.4	37.1	35.8
Current Account Balance	*USD billion*	-6.1	-7.9	-5.5	-4.4
Current Account Balance *(% of GDP)*	*%*	-2.6	-3.1	-2.1	-1.6
Exports of Goods and Services	*USD billion*	48.4	47.6	49.2	51.7
Imports of Goods and Services	*USD billion*	61.6	67.2	67.7	69.1
Gross Official Reserves	*USD billion*	26.4	15.2	15.5	21.5
Total reserves in months of imports	*Month*	5.1	2.7	2.7	3.7
Total Gross External Debt *(% of GDP)*	*%*	14.8	13.4	15.9	18.4
Population	*Million people*	80.4	82.5	84.2	85.8
Unemployment *(% of total labor force)*	*%*	12.1	12.3	13.6	14.3

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	6,711.6	6,385.6	-482.7	2,797.7
Outward	*USD million*	571.1	1,175.5	625.5	211.1
FDI Stock					
Inward	*USD million*	66,709.0	73,094.6	72,611.9	75,409.6
Outward	*USD million*	4,272.9	5,448.4	6,073.9	6,285.0

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013

Performance in DIAI

	Egypt	Arab Region	World Average
Score	27.4	28.0	33.9
Rank	67	68	56

Performance in DIAI's three main axes

	Egypt	Arab Region	World Average
Prerequisites	38.5	46.2	53.6
Underlying Factors	32.6	39.6	41.6
Positive Externalities	12.9	8.4	14.3

Performance in DIAI's Ten Core Components

Legend: Egypt, Arab Region, World Average

Axes: Macroeconomic Stability, Financial Structure and Development, Institutional environment, Business Environment, Market Access and Market Potential, Human and Natural Resources, Cost Components, Physical Infrastructures, Agglomeration Economies, Technological environment and Differentiation

The Hashemite Kingdom of Jordan

			2011	2012
Capital:	Amman			
Currency:	Jordanian dinar (JOD)	**Exchange rate** *(LCU per USD):*	0.710	0.709

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	28.9	31.2	34.1	36.7
Real GDP Growth	*%*	2.6	2.8	3.3	3.5
GDP per Capita	*USD*	4,618.5	4,878.8	5,207.3	5,478.6
Inflation *(average consumer prices)*	*%*	4.4	4.8	5.9	3.2
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	33.2	31.0	30.8	31.1
Current Account Balance	*USD billion*	-3.5	-5.6	-3.4	-3.4
Current Account Balance *(% of GDP)*	*%*	-12.0	-18.1	-10.0	-9.1
Exports of Goods and Services	*USD billion*	13.2	13.7	14.8	15.5
Imports of Goods and Services	*USD billion*	21.3	23.2	23.3	23.7
Gross Official Reserves	*USD billion*	10.7	5.3	7.5	9.0
Total reserves in months of imports	*Month*	6.0	2.8	3.9	4.6
Total Gross External Debt *(% of GDP)*	*%*	21.9	23.4	25.4	25.6
Population	*Million people*	6.3	6.4	6.5	6.7
Unemployment *(% of total labor force)*	*%*	12.9	12.2	12.2	12.2

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	2,413.1	1,650.8	1,475.6	1,404.9
Outward	*USD million*	72.4	28.5	30.8	5.4
FDI Stock					
Inward	*USD million*	20,761.4	21,898.6	23,374.2	24,779.1
Outward	*USD million*	444.4	473.1	503.9	509.3

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013

Performance in DIAI

	Jordan	Arab Region	World Average
Score	31.2	28.0	33.9
Rank	57	68	56

Performance in DIAI's three main axes

	Prerequisites	Underlying Factors	Positive Externalities
Jordan	53.4	40.3	9.8
Arab Region	46.2	39.6	8.4
World Average	53.6	41.6	14.3

Performance in DIAI's Ten Core Components

Jordan — Arab Region — World Average

Macroeconomic Stability, Financial Structure and Development, Institutional environment, Business Environment, Market Access and Market Potential, Human and Natural Resources, Cost Components, Physical Infrastructures, Agglomeration Economies, Technological environment and Differentiation

The State of Kuwait

			2011	**2012**
Capital:	Kuwait City			
Currency:	Kuwaiti dinar (KWD)	**Exchange rate** *(LCU per USD):*	0.276	0.278

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	161.0	173.4	173.4	175.2
Real GDP Growth	*%*	6.3	5.1	1.1	3.1
GDP per Capita	*USD*	43,722.8	45,824.1	44,584.8	43,823.5
Inflation *(average consumer prices)*	*%*	4.7	2.9	3.3	3.8
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	38.5	39.6	43.3	46.3
Current Account Balance	*USD billion*	70.8	78.1	70.8	65.9
Current Account Balance *(% of GDP)*	*%*	44.0	45.0	40.8	37.6
Exports of Goods and Services	*USD billion*	114.5	123.8	120.0	117.4
Imports of Goods and Services	*USD billion*	39.6	41.5	44.7	48.3
Gross Official Reserves	*USD billion*	23.0	25.3	27.2	29.4
Total reserves in months of imports	*Month*	7.0	7.3	7.3	7.3
Total Gross External Debt *(% of GDP)*	*%*	17.5	16.4	16.5	16.6
Population	*Million people*	3.7	3.8	3.9	4.0
Unemployment *(% of total labor force)*	*%*	2.1	2.1	2.1	2.1
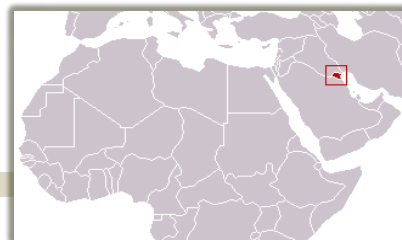
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	1,113.6	318.7	855.4	1,864.0
Outward	*USD million*	8,581.8	5,065.3	8,898.2	7,617.8
FDI Stock					
Inward	*USD million*	10,332.2	11,235.2	12,090.5	13,954.5
Outward	*USD million*	29,414.0	29,461.4	38,359.5	45,977.4

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013

Performance in DIAI

	Score	Rank
Kuwait	35.8	41
Arab Region	28.0	68
World Average	33.9	56

Performance in DIAI's three main axes

	Kuwait	Arab Region	World Average
Prerequisites	59.5	46.2	53.6
Underlying Factors	51.3	39.6	41.6
Positive Externalities	10.1	8.4	14.3

Performance in DIAI's Ten Core Components

Kuwait
Arab Region
World Average
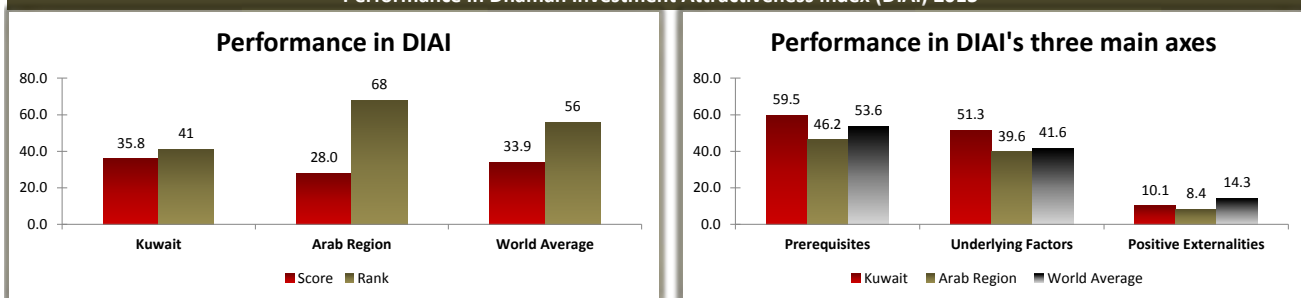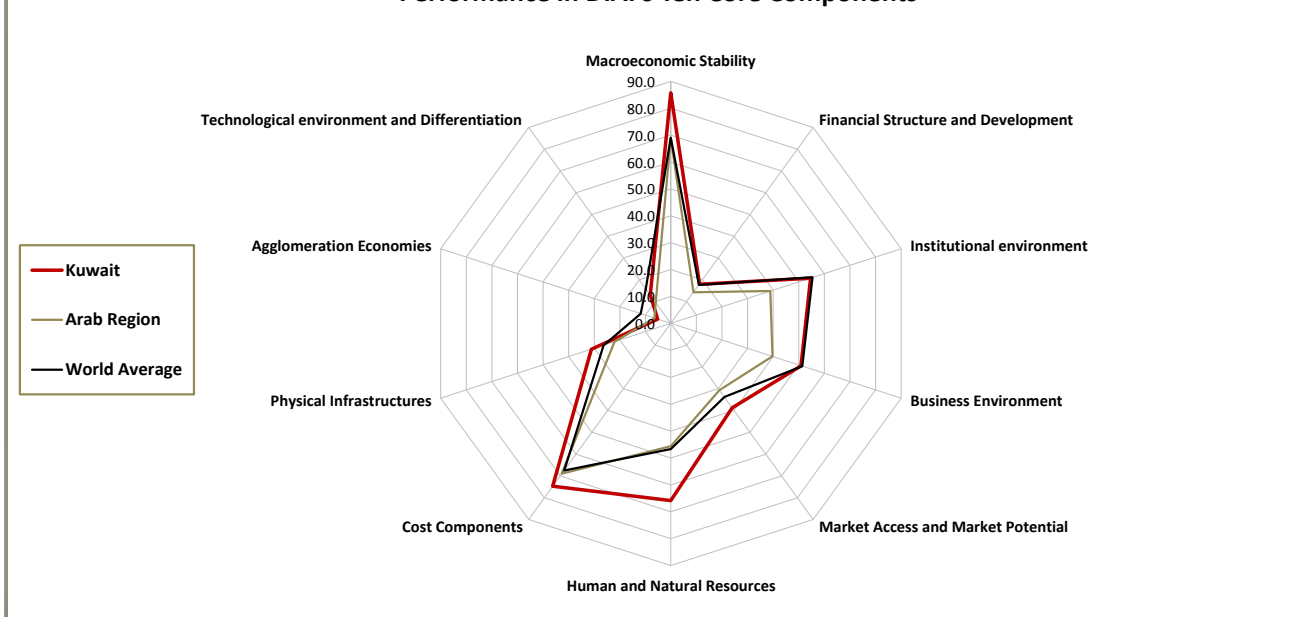
The Lebanese Republic

Capital:	Beirut			2011	2012
Currency:	Lebanese pound (LBP)	Exchange rate *(LCU per USD):*		1,507	1,507

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	USD billion	39.0	41.3	43.8	46.7
Real GDP Growth	%	1.5	1.5	2.0	4.0
GDP per Capita	USD	9,856.0	10,311.0	10,793.5	11,348.3
Inflation *(average consumer prices)*	%	5.0	6.6	6.7	2.4
General Government Total Expenditure and Net Lending *(% of GDP)*	%	29.6	32.4	33.0	32.8
Current Account Balance	USD billion	-4.9	-6.6	-7.0	-6.8
Current Account Balance *(% of GDP)*	%	-12.5	-16.1	-16.1	-14.6
Exports of Goods and Services	USD billion	25.4	25.2	25.9	27.6
Imports of Goods and Services	USD billion	33.2	34.4	35.6	37.2
Gross Official Reserves	USD billion	31.9	32.3	34.7	39.1
Total reserves in months of imports	Month	11.5	11.3	11.7	12.6
Total Gross External Debt *(% of GDP)*	%	174.0	175.2	173.8	171.9
Population	Million people	4.0	4.0	4.1	4.1
Unemployment *(% of total labor force)*	%	--	--	--	--

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	USD million	4,803.6	4,279.9	3,490.2	3,677.7
Outward	USD million	1,125.8	486.7	754.3	569.1
FDI Stock					
Inward	USD million	32,085.2	36,365.0	39,855.2	43,532.9
Outward	USD million	6,576.4	7,063.1	7,817.3	8,386.5

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013

Performance in DIAI

	Lebanon	Arab Region	World Average
Score	28.9	28.0	33.9
Rank	64	68	56

Performance in DIAI's three main axes

	Prerequisites	Underlying Factors	Positive Externalities
Lebanon	44.6	36.4	11.0
Arab Region	46.2	39.6	8.4
World Average	53.6	41.6	14.3

Performance in DIAI's Ten Core Components

Macroeconomic Stability
Financial Structure and Development
Institutional environment
Business Environment
Market Access and Market Potential
Human and Natural Resources
Cost Components
Physical Infrastructures
Agglomeration Economies
Technological environment and Differentiation

— Lebanon
— Arab Region
— World Average

The State of Libya

				2011	2012
Capital:	Tripoli				
Currency:	Libyan dinar (LYD)	**Exchange rate** *(LCU per USD):*		1.22	1.25

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	34.7	81.9	96.4	100.8
Real GDP Growth	*%*	-62.1	104.5	20.2	10.1
GDP per Capita	*USD*	5,513.4	12,777.8	14,760.8	15,161.4
Inflation *(average consumer prices)*	*%*	15.9	6.1	2.0	5.2
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	66.6	51.4	52.0	55.7
Current Account Balance	*USD billion*	3.2	29.4	24.9	17.8
Current Account Balance *(% of GDP)*	*%*	9.1	35.9	25.8	17.7
Exports of Goods and Services	*USD billion*	19.1	62.7	65.2	63.1
Imports of Goods and Services	*USD billion*	15.6	32.2	38.2	42.8
Gross Official Reserves	*USD billion*	111.6	124.5	142.2	154.5
Total reserves in months of imports	*Month*	85.8	46.5	44.7	43.3
Total Gross External Debt *(% of GDP)*	*%*	16.1	6.8	5.8	5.5
Population	*Million people*	6.3	6.4	6.5	6.6
Unemployment *(% of total labor force)*	*%*	--	--	--	--
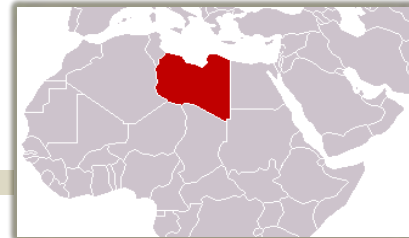
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	3,310.0	1,909.0	0.0	720.0
Outward	*USD million*	1,165.0	2,722.0	233.0	580.0
FDI Stock					
Inward	*USD million*	14,425.0	16,334.0	16,334.0	17,054.0
Outward	*USD million*	13,893.0	16,615.0	16,848.0	17,428.0

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013

Performance in DIAI

Performance in DIAI's three main axes
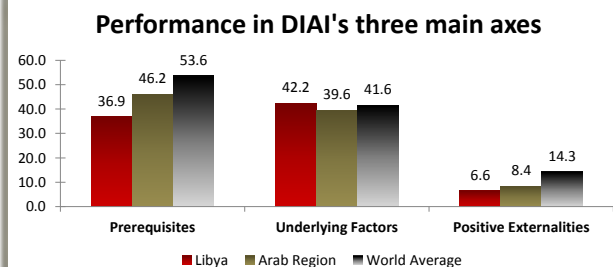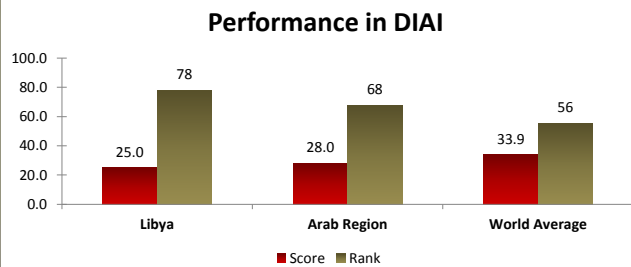
Performance in DIAI's Ten Core Components
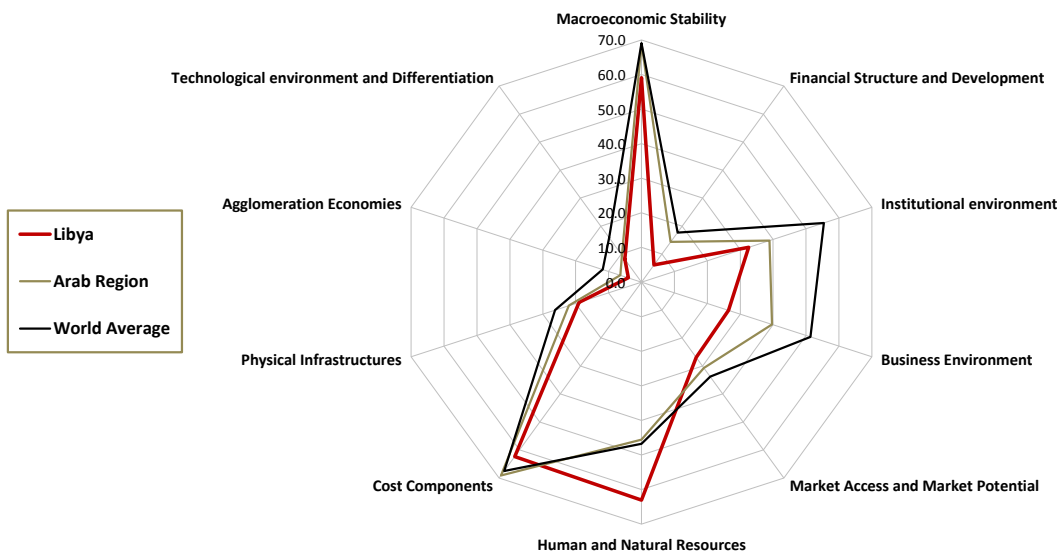
The Islamic Republic of Mauritania

				2011	2012
Capital:	Nouakchott				
Currency:	Mauritanian ouguiya (MRO)	**Exchange rate** *(LCU per USD):*		281	297

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	4.3	4.2	4.5	4.7
Real GDP Growth	*%*	3.9	6.4	5.9	5.8
GDP per Capita	*USD*	1,209.1	1,157.4	1,223.9	1,237.7
Inflation *(average consumer prices)*	*%*	5.7	4.9	4.7	5.2
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	28.4	34.6	33.9	33.2
Current Account Balance	*USD billion*	-0.3	-1.1	-0.9	-0.1
Current Account Balance *(% of GDP)*	*%*	-7.3	-25.8	-20.5	-3.2
Exports of Goods and Services	*USD billion*	3.0	2.8	3.2	3.1
Imports of Goods and Services	*USD billion*	3.3	4.1	4.2	3.2
Gross Official Reserves	*USD billion*	0.5	1.0	0.9	0.8
Total reserves in months of imports	*Month*	1.8	2.8	2.6	3.1
Total Gross External Debt *(% of GDP)*	*%*	93.6	87.6	82.9	81.3
Population	*Million people*	3.5	3.6	3.7	3.8
Unemployment *(% of total labor force)*	*%*	--	--	--	--
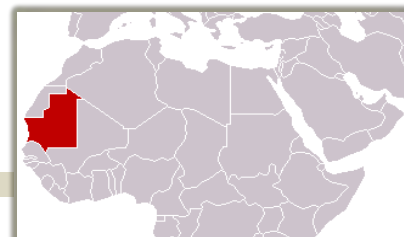
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	-3.1	130.5	45.2	235.6
Outward	*USD million*	4.3	4.1	4.2	3.9
FDI Stock					
Inward	*USD million*	2,231.4	2,361.9	2,407.1	2,642.7
Outward	*USD million*	26.8	30.8	35.0	38.9

Performance in Dhaman Investment Attractiveness Index (DIAI) 2013

Performance in DIAI

Performance in DIAI's three main axes
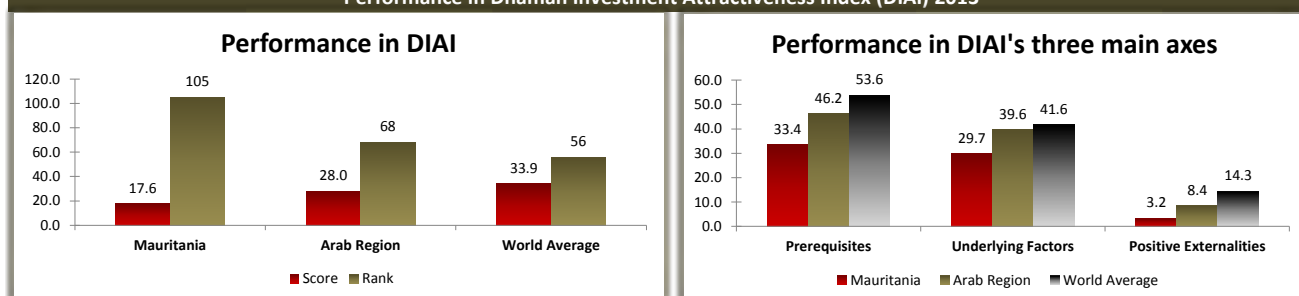
Performance in DIAI's Ten Core Components
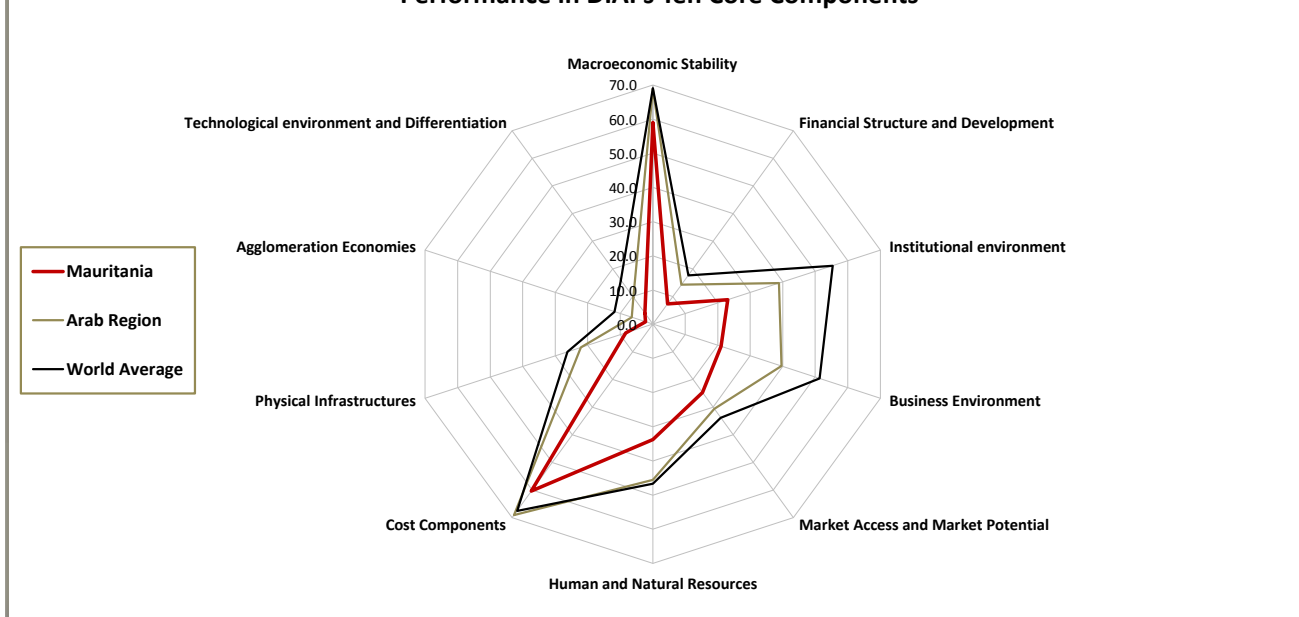
The Kingdom of Morocco

				2011	2012
Capital:	Rabat				
Currency:	Moroccan dirham (MAD)	**Exchange rate** *(LCU per USD):*		8.10	8.48

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	99.2	97.5	107.1	114.3
Real GDP Growth	*%*	5.0	3.0	4.5	4.8
GDP per Capita	*USD*	3,082.3	2,998.9	3,260.3	3,446.0
Inflation *(average consumer prices)*	*%*	0.9	1.3	2.5	2.5
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	34.6	35.2	33.7	32.6
Current Account Balance	*USD billion*	-8.1	-9.4	-7.5	-6.6
Current Account Balance *(% of GDP)*	*%*	-8.1	-9.6	-7.0	-5.8
Exports of Goods and Services	*USD billion*	35.6	34.7	38.1	40.9
Imports of Goods and Services	*USD billion*	49.5	49.2	52.0	54.0
Gross Official Reserves	*USD billion*	20.6	17.5	17.7	18.1
Total reserves in months of imports	*Month*	5.0	4.3	4.1	4.0
Total Gross External Debt *(% of GDP)*	*%*	23.8	27.3	27.6	27.2
Population	*Million people*	32.2	32.5	32.9	33.2
Unemployment *(% of total labor force)*	*%*	8.9	8.8	8.7	8.6
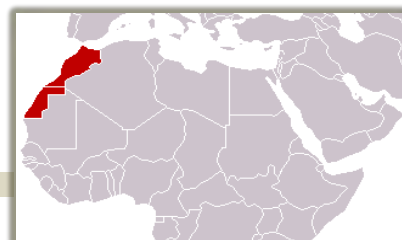
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	1,951.7	1,573.9	2,564.3	2,886.6
Outward	*USD million*	470.3	588.8	247.5	368.0
FDI Stock					
Inward	*USD million*	42,581.1	45,081.6	47,645.9	50,532.4
Outward	*USD million*	1,861.4	1,914.0	2,161.4	2,529.4

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

Performance in DIAI's three main axes
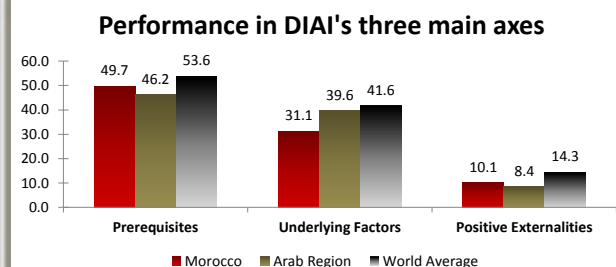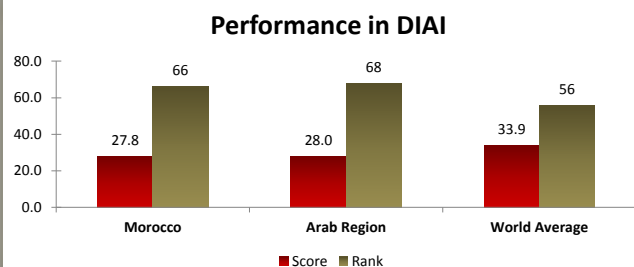
Performance in DIAI's Ten Core Components
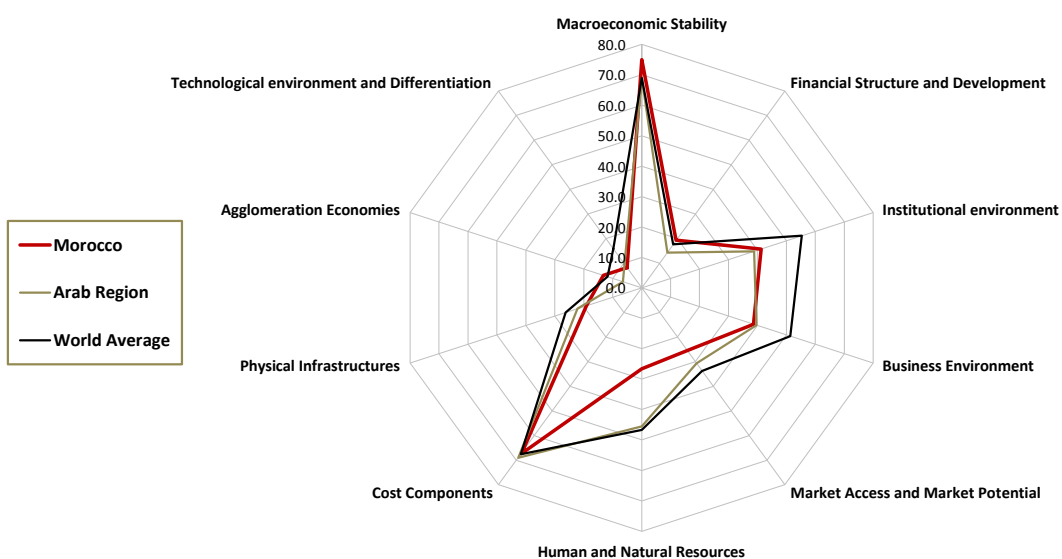
The Sultanate of Oman

Capital:	Muscat		**2011**	**2012**
Currency:	Omani rial (OMR)	Exchange rate *(LCU per USD):*	0.385	0.384

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	70.0	76.5	78.8	79.8
Real GDP Growth	*%*	4.5	5.0	4.2	3.5
GDP per Capita	*USD*	23,380.0	24,764.6	24,729.1	24,272.4
Inflation *(average consumer prices)*	*%*	4.0	2.9	3.3	3.3
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	38.3	38.2	42.1	44.5
Current Account Balance	*USD billion*	12.4	11.9	7.8	3.8
Current Account Balance *(% of GDP)*	*%*	17.7	15.6	9.9	4.7
Exports of Goods and Services	*USD billion*	49.2	52.5	53.4	52.9
Imports of Goods and Services	*USD billion*	28.3	31.6	35.9	39.2
Gross Official Reserves	*USD billion*	13.7	15.1	16.6	18.7
Total reserves in months of imports	*Month*	5.8	5.7	5.6	5.7
Total Gross External Debt *(% of GDP)*	*%*	12.2	12.8	12.5	12.3
Population	*Million people*	3.0	3.1	3.2	3.3
Unemployment *(% of total labor force)*	*%*	--	--	--	--
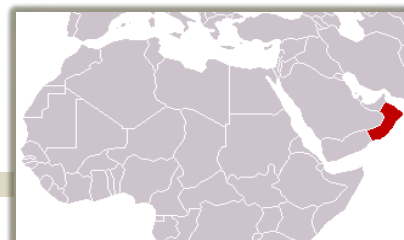
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	1,508.5	1,141.7	1,049.1	1,483.9
Outward	*USD million*	109.2	1,498.0	1,220.0	1,371.0
FDI Stock					
Inward	*USD million*	13,142.0	14,216.9	15,266.0	16,749.9
Outward	*USD million*	1,946.9	2,935.0	3,507.2	4,878.2

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

	Score	Rank
Oman	31.5	54
Arab Region	28.0	68
World Average	33.9	56

Performance in DIAI's three main axes

	Oman	Arab Region	World Average
Prerequisites	53.2	46.2	53.6
Underlying Factors	43.3	39.6	41.6
Positive Externalities	9.2	8.4	14.3

Performance in DIAI's Ten Core Components

Legend: Oman, Arab Region, World Average

Components: Macroeconomic Stability, Financial Structure and Development, Institutional environment, Business Environment, Market Access and Market Potential, Human and Natural Resources, Cost Components, Physical Infrastructures, Agglomeration Economies, Technological environment and Differentiation

The State of Qatar

			2011	2012
Capital:	Doha			
Currency:	Qatari riyal (QAR)	**Exchange rate** *(LCU per USD):*	3.640	3.640

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	USD billion	173.3	183.4	188.8	196.6
Real GDP Growth	%	13.0	6.6	5.2	5.0
GDP per Capita	USD	98,031.4	99,731.1	98,737.1	98,857.5
Inflation *(average consumer prices)*	%	1.9	1.9	3.0	4.0
General Government Total Expenditure and Net Lending *(% of GDP)*	%	30.5	35.5	30.5	30.4
Current Account Balance	USD billion	52.6	54.2	55.3	46.6
Current Account Balance *(% of GDP)*	%	30.4	29.5	29.3	23.7
Exports of Goods and Services	USD billion	119.6	124.6	124.5	120.9
Imports of Goods and Services	USD billion	47.7	50.5	55.0	58.6
Gross Official Reserves	USD billion	16.7	45.6	58.3	61.0
Total reserves in months of imports	Month	4.2	10.8	12.7	12.5
Total Gross External Debt *(% of GDP)*	%	76.1	85.6	84.5	78.0
Population	Million people	1.8	1.8	1.9	2.0
Unemployment *(% of total labor force)*	%	--	--	--	--
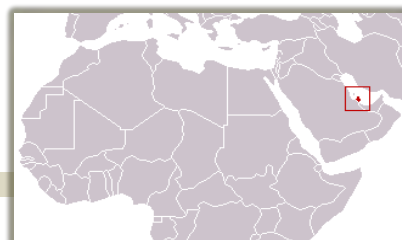
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	USD million	8,124.7	4,670.3	-86.8	326.9
Outward	USD million	3,214.6	1,863.2	6,027.5	1,840.0
FDI Stock					
Inward	USD million	25,893.6	30,564.0	30,477.1	30,804.1
Outward	USD million	10,681.8	12,545.0	18,572.4	20,412.4

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

	Score	Rank
Qatar	33.8	49
Arab Region	28.0	68
World Average	33.9	56

Performance in DIAI's three main axes

	Qatar	Arab Region	World Average
Prerequisites	51.0	46.2	53.6
Underlying Factors	54.8	39.6	41.6
Positive Externalities	9.1	8.4	14.3
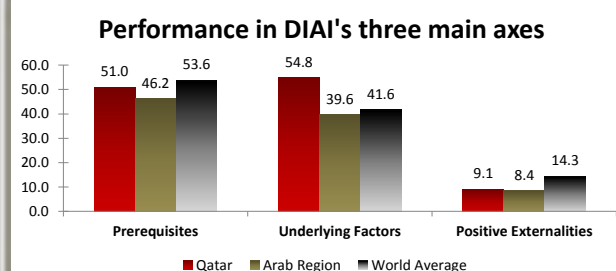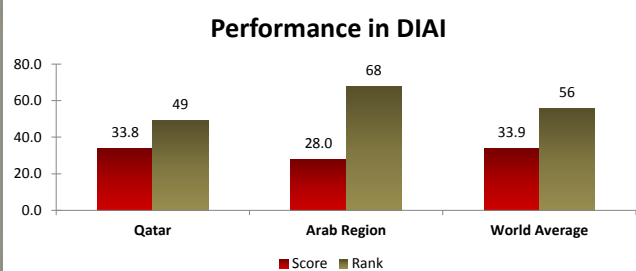
Performance in DIAI's Ten Core Components
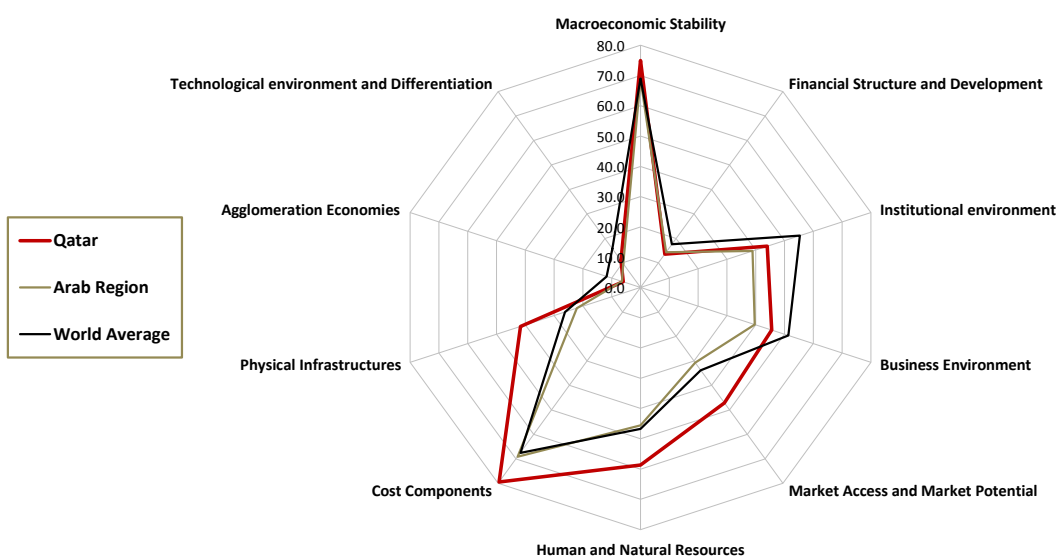
The Kingdom of Saudi Arabia

Capital:	Riyadh		2011	2012
Currency:	Saudi riyal (SAR)	Exchange rate *(LCU per USD):*	3.745	3.745

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	USD billion	669.5	727.3	745.6	761.5
Real GDP Growth	%	8.5	6.8	4.4	4.2
GDP per Capita	USD	23,599.1	25,084.6	25,162.5	25,169.9
Inflation *(average consumer prices)*	%	3.7	2.9	3.7	3.6
General Government Total Expenditure and Net Lending *(% of GDP)*	%	35.1	33.4	35.7	35.9
Current Account Balance	USD billion	158.5	177.2	143.1	122.3
Current Account Balance *(% of GDP)*	%	23.7	24.4	19.2	16.1
Exports of Goods and Services	USD billion	376.2	410.0	390.6	377.6
Imports of Goods and Services	USD billion	198.0	211.7	224.3	234.6
Gross Official Reserves	USD billion	536.2	648.7	786.5	905.7
Total reserves in months of imports	Month	32.5	36.8	42.1	46.3
Total Gross External Debt *(% of GDP)*	%	12.4	11.3	12.4	12.3
Population	Million people	28.4	29.0	29.6	30.3
Unemployment *(% of total labor force)*	%	12.4	--	--	--

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	USD million	32,100.0	28,105.0	16,308.0	12,182.0
Outward	USD million	2,177.3	3,906.8	3,430.0	4,402.0
FDI Stock					
Inward	USD million	142,300.0	170,450.0	186,758.0	198,940.0
Outward	USD million	22,621.3	26,528.0	29,970.1	34,372.1

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

Saudi Arabia — Score 31.3, Rank 56
Arab Region — Score 28.0, Rank 68
World Average — Score 33.9, Rank 56

Performance in DIAI's three main axes

	Saudi Arabia	Arab Region	World Average
Prerequisites	51.0	46.2	53.6
Underlying Factors	48.2	39.6	41.6
Positive Externalities	8.1	8.4	14.3
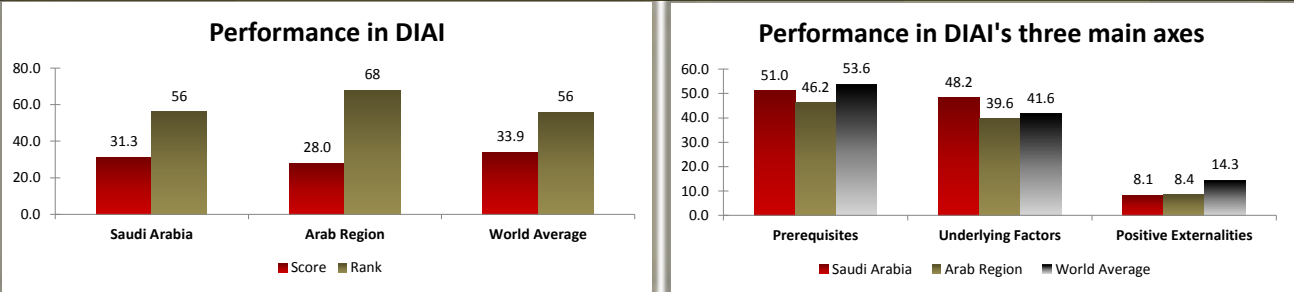
Performance in DIAI's Ten Core Components
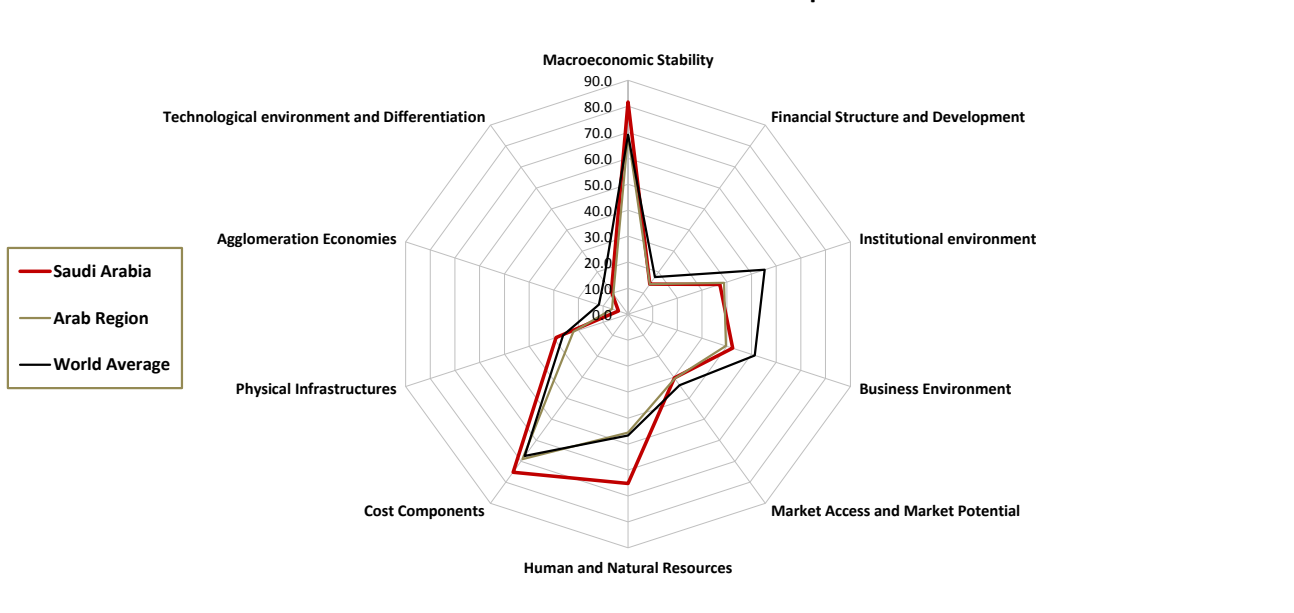
The Republic of the Sudan

Capital:	Khartoum			**2011**	**2012**
Currency:	Sudanese pound (SDG)	Exchange rate *(LCU per USD):*		2.67	3.80

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	66.8	59.9	50.6	59.8
Real GDP Growth	*%*	-1.9	-4.4	1.2	2.6
GDP per Capita	*USD*	2,046.3	1,788.7	1,471.5	1,695.9
Inflation *(average consumer prices)*	*%*	18.1	35.6	28.4	29.4
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	17.9	15.1	14.8	13.6
Current Account Balance	*USD billion*	-0.3	-6.7	-3.5	-3.5
Current Account Balance *(% of GDP)*	*%*	-0.4	-11.2	-6.9	-5.9
Exports of Goods and Services	*USD billion*	11.8	5.3	5.6	6.3
Imports of Goods and Services	*USD billion*	10.5	10.6	7.5	8.3
Gross Official Reserves	*USD billion*	1.3	1.7	1.9	2.1
Total reserves in months of imports	*Month*	1.5	1.9	3.1	3.0
Total Gross External Debt *(% of GDP)*	*%*	62.0	72.1	88.3	77.3
Population	*Million people*	32.7	33.5	34.4	35.3
Unemployment *(% of total labor force)*	*%*	12.0	10.8	9.6	8.4

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	1,816.2	2,063.7	2,691.7	2,487.6
Outward	*USD million*	89.2	66.1	84.5	--
FDI Stock					
Inward	*USD million*	18,046.8	20,110.6	22,802.3	25,289.9
Outward	*USD million*	--	--	--	--

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

Sudan: Score 17.3, Rank 106
Arab Region: Score 28.0, Rank 68
World Average: Score 33.9, Rank 56

Performance in DIAI's three main axes

	Sudan	Arab Region	World Average
Prerequisites	35.6	46.2	53.6
Underlying Factors	24.3	39.6	41.6
Positive Externalities	3.6	8.4	14.3

Performance in DIAI's Ten Core Components

Sudan
Arab Region
World Average
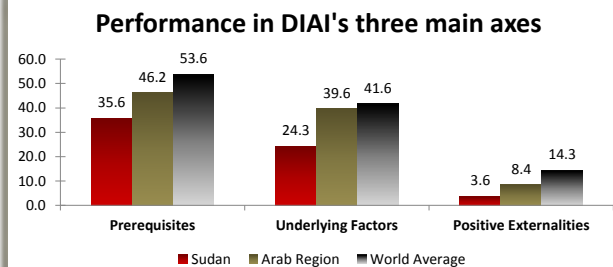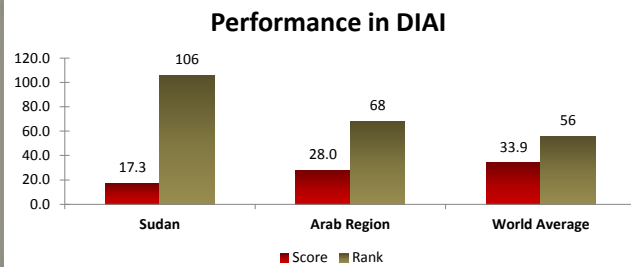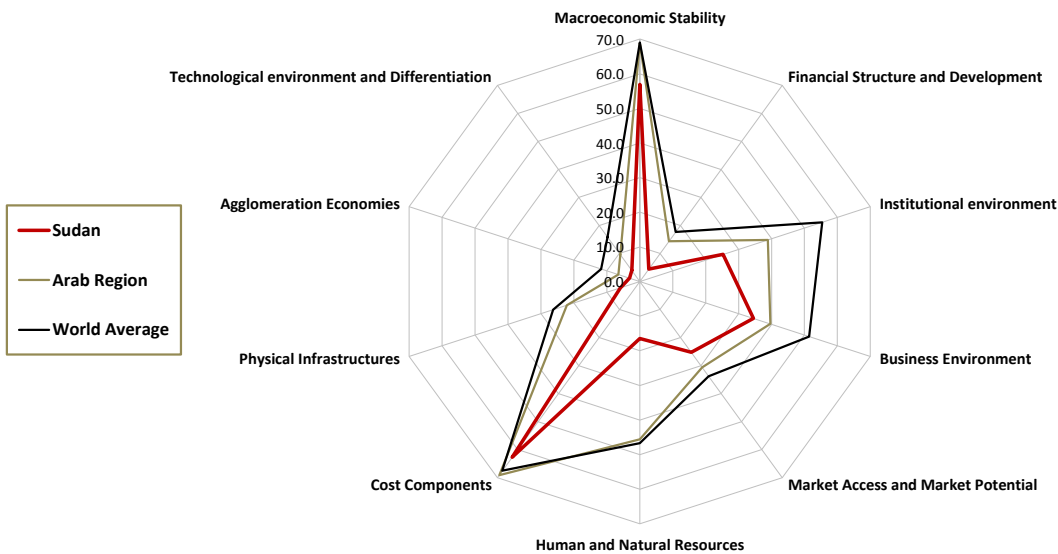
The Syrian Arab Republic

			2011	2012
Capital:	Damascus			
Currency:	Syrian pound (SYP)	**Exchange rate** *(LCU per USD):*	48.37	63.94

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	64.7	54.3	--	--
Real GDP Growth	*%*	-2.3	-15.0	--	--
GDP per Capita	*USD*	5,100.0	2,573.0	--	--
Inflation *(average consumer prices)*	*%*	4.8	33.7	--	--
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	--	--	--	--
Current Account Balance	*USD billion*	-7.7	-5.1	--	--
Current Account Balance *(% of GDP)*	*%*	-11.9	-9.4	--	--
Exports of Goods and Services	*USD billion*	10.3	5.0	--	--
Imports of Goods and Services	*USD billion*	17.6	10.0	--	--
Gross Official Reserves	*USD billion*	14.8	4.8	--	--
Total reserves in months of imports	*Month*	10.1	5.7	--	--
Total Gross External Debt *(% of GDP)*	*%*	8.2	8.8	--	--
Population	*Million people*	20.8	--	--	--
Unemployment *(% of total labor force)*	*%*	14.9	18.0	--	--

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	1,514.0	1,850.0	1,059.5	--
Outward	*USD million*	-2.6	0.3	-0.3	--
FDI Stock					
Inward	*USD million*	7,414.0	9,264.0	10,323.5	--
Outward	*USD million*	418.0	418.3	418.1	--

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

Performance in DIAI's three main axes
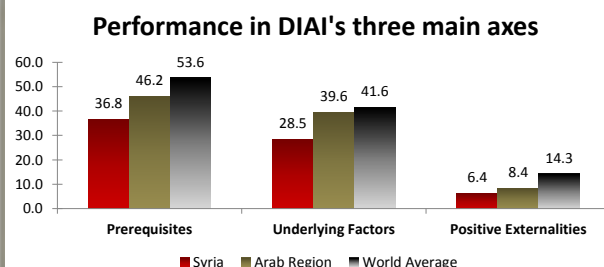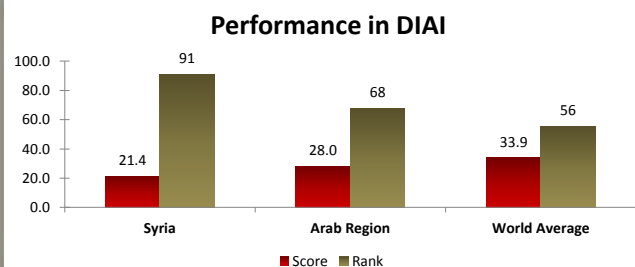
Performance in DIAI's Ten Core Components
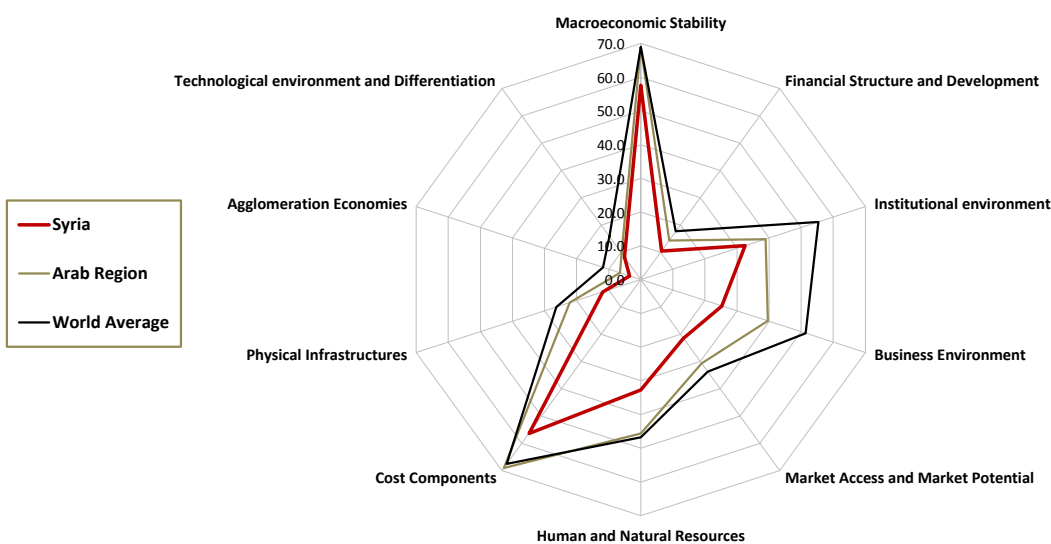
The Republic of Tunisia

Capital:	Tunis		**2011**	**2012**
Currency:	Tunisian dinar (TND)	Exchange rate *(LCU per USD):*	1.41	1.54

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	46.3	45.6	49.5	51.1
Real GDP Growth	*%*	-1.9	3.6	4.0	4.5
GDP per Capita	*USD*	4,334.9	4,232.1	4,533.0	4,620.0
Inflation *(average consumer prices)*	*%*	3.5	5.6	6.0	4.7
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	34.8	35.4	36.6	34.7
Current Account Balance	*USD billion*	-3.4	-3.7	-3.6	-3.4
Current Account Balance *(% of GDP)*	*%*	-7.4	-8.0	-7.3	-6.6
Exports of Goods and Services	*USD billion*	22.7	22.1	23.7	25.0
Imports of Goods and Services	*USD billion*	25.9	26.2	27.8	28.8
Gross Official Reserves	*USD billion*	7.5	8.6	8.4	8.5
Total reserves in months of imports	*Month*	3.5	4.0	3.6	3.6
Total Gross External Debt *(% of GDP)*	*%*	47.8	51.6	49.9	51.6
Population	*Million people*	10.7	10.8	10.9	11.1
Unemployment *(% of total labor force)*	*%*	13.0	18.9	16.7	16.0

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	1,687.8	1,512.5	1,156.1	1,944.2
Outward	*USD million*	77.0	74.1	28.4	--
FDI Stock					
Inward	*USD million*	31,276.9	31,182.3	32,338.3	34,282.6
Outward	*USD million*	230.8	285.8	314.2	--

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

	Score	Rank
Tunisia	30.8	60
Arab Region	28.0	68
World Average	33.9	56

Performance in DIAI's three main axes

	Tunisia	Arab Region	World Average
Prerequisites	52.4	46.2	53.6
Underlying Factors	38.3	39.6	41.6
Positive Externalities	10.3	8.4	14.3
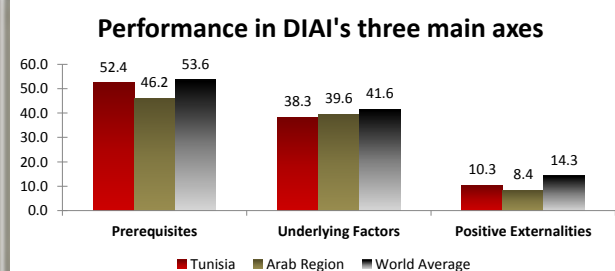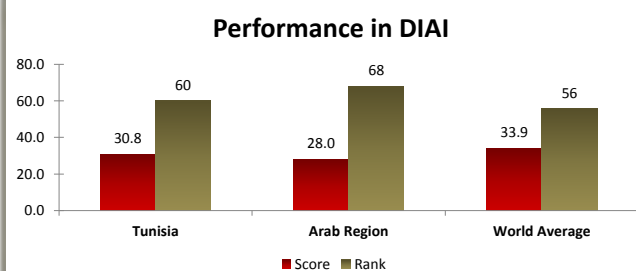
Performance in DIAI's Ten Core Components
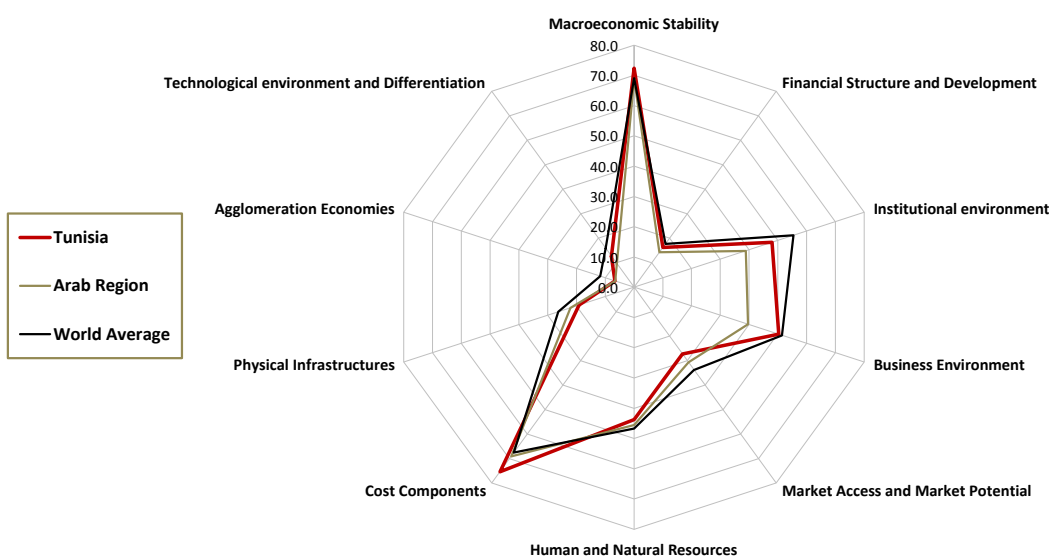
The United Arab Emirates

Capital:	Abu Dhabi		2011	2012
Currency:	UAE dirham (AED)	Exchange rate *(LCU per USD):*	3.67	3.67

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	USD billion	342.0	358.9	369.4	381.6
Real GDP Growth	%	5.2	3.9	3.1	3.6
GDP per Capita	USD	63,625.7	64,840.3	64,779.9	64,968.3
Inflation *(average consumer prices)*	%	0.9	0.7	1.6	1.9
General Government Total Expenditure and Net Lending *(% of GDP)*	%	23.7	22.0	22.1	22.0
Current Account Balance	USD billion	33.3	29.4	30.9	30.1
Current Account Balance *(% of GDP)*	%	9.7	8.2	8.4	7.9
Exports of Goods and Services	USD billion	292.1	315.0	331.4	345.4
Imports of Goods and Services	USD billion	246.8	273.6	287.6	302.9
Gross Official Reserves	USD billion	37.2	47.1	50.0	50.2
Total reserves in months of imports	Month	1.8	2.1	2.1	2.0
Total Gross External Debt *(% of GDP)*	%	43.4	44.1	43.4	42.7
Population	Million people	5.4	5.5	5.7	5.9
Unemployment *(% of total labor force)*	%	--	--	--	--
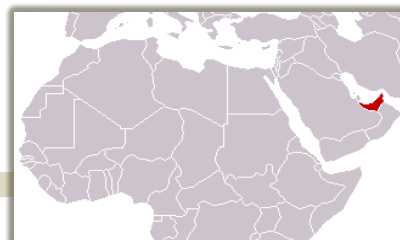
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	USD million	4,002.7	5,500.0	7,683.9	9,608.4
Outward	USD million	2,722.9	2,015.0	2,179.8	2,861.0
FDI Stock					
Inward	USD million	72,226.5	77,726.5	85,410.5	95,018.9
Outward	USD million	53,544.9	55,559.9	57,737.9	60,599.0

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

	Score	Rank
UAE	37.2	38
Arab Region	28.0	68
World Average	33.9	56

Performance in DIAI's three main axes

	UAE	Arab Region	World Average
Prerequisites	53.0	46.2	53.6
Underlying Factors	53.7	39.6	41.6
Positive Externalities	12.9	8.4	14.3

Performance in DIAI's Ten Core Components

- UAE
- Arab Region
- World Average

Components: Macroeconomic Stability, Financial Structure and Development, Institutional environment, Business Environment, Market Access and Market Potential, Human and Natural Resources, Cost Components, Physical Infrastructures, Agglomeration Economies, Technological environment and Differentiation

The Republic of Yemen

				2011	2012
Capital:	Sana'a				
Currency:	Yemeni rial (YER)	**Exchange rate** *(LCU per USD):*		213.8	220.0

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	33.8	35.6	39.0	41.4
Real GDP Growth	*%*	-10.5	0.1	4.4	5.4
GDP per Capita	*USD*	1,343.3	1,377.0	1,461.1	1,507.2
Inflation *(average consumer prices)*	*%*	19.5	11.0	7.5	8.7
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	28.9	35.1	32.7	32.4
Current Account Balance	*USD billion*	-1.4	-0.1	-1.7	-1.7
Current Account Balance *(% of GDP)*	*%*	-4.0	-0.4	-4.3	-4.1
Exports of Goods and Services	*USD billion*	9.9	9.3	10.1	10.5
Imports of Goods and Services	*USD billion*	10.9	11.6	12.1	12.6
Gross Official Reserves	*USD billion*	4.0	5.6	4.6	4.0
Total reserves in months of imports	*Month*	4.4	5.8	4.6	3.8
Total Gross External Debt *(% of GDP)*	*%*	18.0	17.6	17.2	17.2
Population	*Million people*	25.1	25.9	26.7	27.5
Unemployment *(% of total labor force)*	*%*	--	--	--	--
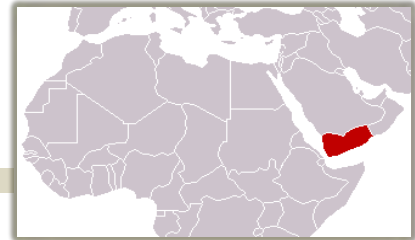
Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	129.2	-93.3	-712.8	4.0
Outward	*USD million*	66.4	70.3	76.6	--
FDI Stock					
Inward	*USD million*	4,668.9	4,724.6	4,011.8	4,015.8
Outward	*USD million*	442.4	512.7	589.3	--

Performance in Dhaman Investment Attractiveness Index (DIAI)

Performance in DIAI

Performance in DIAI's three main axes
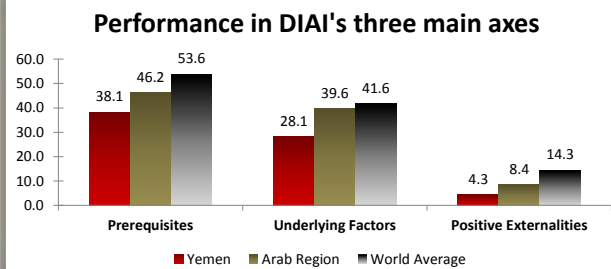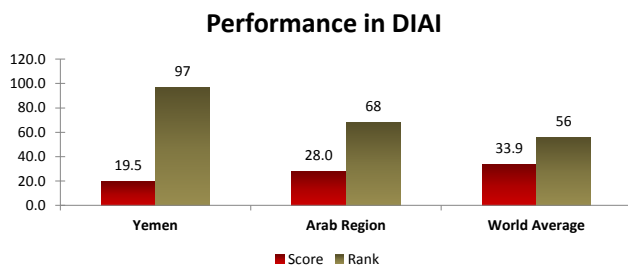
Performance in DIAI's Ten Core Components
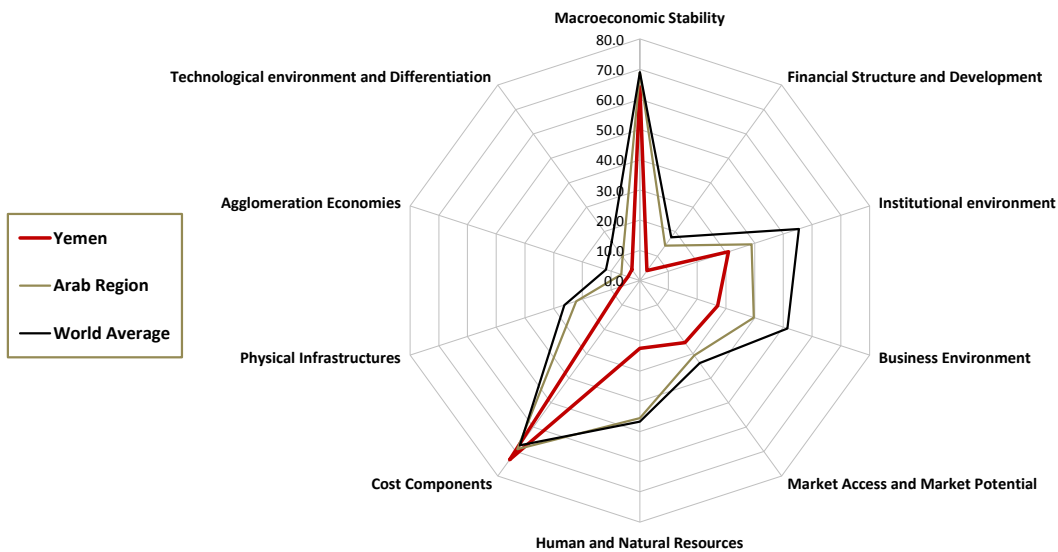
The Republic of Djibouti

Capital:	Djibouti			**2011**	**2012**
Currency:	Djiboutian franc (DJF)	**Exchange rate** *(LCU per USD):*		177.7	177.7

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	1.2	1.4	1.5	1.6
Real GDP Growth	*%*	4.5	4.8	5.0	5.0
GDP per Capita	*USD*	1,433.2	1,522.9	1,593.9	1,668.1
Inflation *(average consumer prices)*	*%*	5.1	3.7	2.5	2.5
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	35.2	37.2	34.3	34.6
Current Account Balance	*USD billion*	-0.2	-0.2	-0.2	-0.1
Current Account Balance *(% of GDP)*	*%*	-12.6	-13.4	-11.0	-9.3
Exports of Goods and Services	*USD billion*	0.5	0.5	0.6	0.6
Imports of Goods and Services	*USD billion*	0.7	0.8	0.8	0.8
Gross Official Reserves	*USD billion*	0.1	0.2	0.2	0.3
Total reserves in months of imports	*Month*	1.1	3.7	3.7	3.9
Total Gross External Debt *(% of GDP)*	*%*	52.3	52.6	53.7	53.4
Population	*Million people*	0.9	0.9	0.9	0.9
Unemployment *(% of total labor force)*	*%*	--	--	--	--

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	99.6	26.8	79.0	110.0
Outward	*USD million*	--	--	--	--
FDI Stock					
Inward	*USD million*	851.7	878.5	957.5	1,067.5
Outward	*USD million*	--	--	--	--

The Republic of Iraq

				2011	2012
Capital:	Baghdad				
Currency:	Iraqi dinar (IQD)	**Exchange rate** *(LCU per USD):*		1,170	1,166

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	180.6	212.5	233.3	253.7
Real GDP Growth	*%*	8.6	8.4	9.0	8.4
GDP per Capita	*USD*	5,529.1	6,305.1	6,708.4	7,073.6
Inflation *(average consumer prices)*	*%*	5.6	6.1	4.3	5.5
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	44.6	44.2	45.1	44.0
Current Account Balance	*USD billion*	22.5	14.9	8.4	7.3
Current Account Balance *(% of GDP)*	*%*	12.5	7.0	3.6	2.9
Exports of Goods and Services	*USD billion*	82.4	96.2	103.8	111.6
Imports of Goods and Services	*USD billion*	57.6	77.2	90.8	99.1
Gross Official Reserves	*USD billion*	61.1	70.0	80.1	84.9
Total reserves in months of imports	*Month*	12.7	10.9	10.6	10.3
Total Gross External Debt *(% of GDP)*	*%*	33.8	28.3	11.9	10.1
Population	*Million people*	32.7	33.7	34.8	35.9
Unemployment *(% of total labor force)*	*%*	--	--	--	--

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	1,598.3	1,396.2	2,082.3	1,274.5
Outward	*USD million*	71.9	124.9	76.8	274.3
FDI Stock					
Inward	*USD million*	6,588.4	7,984.6	10,066.9	11,341.4
Outward	*USD million*	--	--	--	--

State of Palestine

				2011	2012
Capital:	Jerusalem				
Currency:	Palestine pound	**Exchange rate** *(Israeli shekel per USD):*		3.578	3.668
	(Currently in use: Jordanian dinar, Egyptian pound, American Dollar, Israeli sheqel)				

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	10.0	--	--	--
Real GDP Growth	*%*	12.2	6.0	5.0	4.4
GDP per Capita	*USD*	2,541.3	--	--	--
Inflation *(average consumer prices)*	*%*	2.9	2.8	2.8	2.8
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	-11.0	-10.2	-15.6	-14.6
Current Account Balance	*USD billion*	-2.3	-2.4	-2.0	-1.9
Current Account Balance *(% of GDP)*	*%*	-23.6	-23.9	-17.8	-15.9
Exports of Goods and Services	*USD billion*	2,211.2	1,898.6	--	--
Imports of Goods and Services	*USD billion*	7,136.4	7,165.1	--	--
Gross Official Reserves	*USD billion*	--	--	--	--
Total reserves in months of imports	*Month*	--	--	--	--
Total Gross External Debt *(% of GDP)*	*%*	--	--	--	--
Population	*Million people*	4.2	--	--	--
Unemployment *(% of total labor force)*	*%*	20.9	--	--	--

Source: International Monetary Fund

Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	300.5	180.0	213.8	244.4
Outward	*USD million*	-15.4	77.0	37.1	1.7
FDI Stock					
Inward	*USD million*	1,188.0	2,175.3	2,389.1	2,633.5
Outward	*USD million*	148.9	241.0	278.1	279.8

The Federal Republic of Somalia

Capital:	Mogadishu			**2011**	**2012**
Currency:	Somali shilling (SOS)	Exchange rate *(LCU per USD):*		27,000	1,600

Basic Information:	Unit	2011	2012	2013	2014
Nominal GDP	*USD billion*	5.9	--	--	--
Real GDP Growth	*%*	2.6	2.6	--	--
GDP per Capita	*USD*	112.0	--	--	--
Inflation *(average consumer prices)*	*%*	--	--	--	--
General Government Total Expenditure and Net Lending *(% of GDP)*	*%*	--	--	--	--
Current Account Balance	*USD billion*	--	--	--	--
Current Account Balance *(% of GDP)*	*%*	--	--	--	--
Exports of Goods and Services	*USD billion*	--	--	--	--
Imports of Goods and Services	*USD billion*	--	--	--	--
Gross Official Reserves	*USD billion*	--	--	--	--
Total reserves in months of imports	*Month*	--	--	--	--
Total Gross External Debt *(% of GDP)*	*%*	--	--	--	--
Population	*Million people*	--	--	--	--
Unemployment *(% of total labor force)*	*%*	--	--	--	--

Source: International Monetary Fund
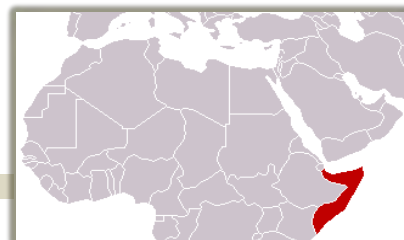
Foreign direct investment (FDI)	Unit	2009	2010	2011	2012
FDI Flow					
Inward	*USD million*	108.0	112.0	102.0	102.0
Outward	*USD million*	--	--	--	--
FDI Stock					
Inward	*USD million*	454.2	566.2	668.2	770.2
Outward	*USD million*	--	--	--	--

Appendices

Normalization and Consistency Analysis

1. Normalization

In order to make the cross-sectional data series comparable and to realize index aggregation, the raw data has to be converted into a common range. The rescaling method is used to normalize sub-indicators to such a range by the following linear transformation:

- if the concerned sub-indicator influence positively the attractiveness for investors:

$$y_{c,i} = 99 \times \left[\frac{x_{c,i} - min(x_c)}{max(x_c) - min(x_c)} \right] + 1$$

- if the concerned sub-indicator influence negatively the attractiveness for investors:

$$y_{c,i} = 99 \times \left[\frac{max(x_c) - x_{c,i}}{max(x_c) - min(x_c)} \right] + 1$$

$y_{c,i}$	: normalized value of category c and country i
$x_{c,i}$	: raw data value of category c and country i
$min(x_c)$	: minimum raw data value of category c within the sample
$max(x_c)$	: maximum raw data value of category c within the sample

For every individual sub-indicator, 100 represents the best score and 1 represents the worst.

2. Consistency Analysis

High quality tests are important to evaluate the reliability of data supplied in a research study as a first step of consistency analysis of the indices prior to computing composite variables and fitting explanatory models. Cronbach's alpha is a commonly employed statistic used to determine the internal consistency, so the considered statistic increases as the inter-correlations among a set of sub-indicators included in the analysis increase. A high Cronbach's alpha (greater or equal to the acceptable threshold value 0.7) is an indication that the considered set of indices proxy the desired key variable well.

The other two measures commonly used for consistency purpose are related to factor analyses or data reduction and summarization: the Haiser-Meyer-Olkin measure of sampling adequacy (MSA), based on the partial correlations among the input variables, and the Bartlett's test of sphericity used to test the hypothesis that the correlation matrix is an identity matrix (the indices are correlated in the population). The first measure should be greater or equal to 0.5 to proceed with factor analysis, and the test value of the second measure should be below the 0.05 significance level.

Table 1: Consistency analyses results

Key Drivers	Cronbach's Alpha	Kaiser-Meyer-Olkin Measure	Bartlett's Test
1. Uncertainty and Macroeconomic Stability	0.713	0.698	0.000
2. Financial Structure and Development	0.647	0.533	0.000
3. Institutional Environment	0.947	0.889	0.000
4. Business Environment	0.837	0.723	0.000
5. Market Access, Size and Potential	0.727	0.564	0.000
6. Human and Natural Resources	0.820	0.721	0.000
7. Cost Components	0.404	0.511	0.001
8. Physical Infrastructures	0.823	0.730	0.000
9. Presence of Multinationals and BITs	0.795	0.627	0.000
10. Differentiation	0.882	0.681	0.000

The reliability test statistics for the sub-indicators used to assemble the ten key drivers are all above the Nunally's cut-off value of 0.7 except the two key drivers Financial Structure/Development and Cost Components. In addition to the limited number of sub-indicators available for the concerned key drivers, detailed analyses of the inter-item correlation matrix reveal relatively low correlations between the items. It's well known that a decrease in the number of indicators and a low average inter-item correlation are associated with a decrease in α. Furthermore, good values for all key drivers for the MSA and Bartlett's Test are obtained (MSA values greater than 0.5 and p-values for Bartlett's Test less than 0.05). Accordingly, from the above results it's possible to perform a valid factor analysis.

Weighting and Aggregation

1. Weighting

After calculating the performance scores for each sub-items on the lowest level, and before the aggregation can be conducted, the weightings of the index items have to be determined. Two schemes are followed:

1. On the lowest level, index items are aggregated with equal weights, i.e. the weights are derived from the number of components that are aggregated. At the key drivers level (10 key drivers), weights are attributed according to the number of items and so are the weights attributed to the three axes as exposed in Figure 1:

Figure 1: The Weighting Schemes
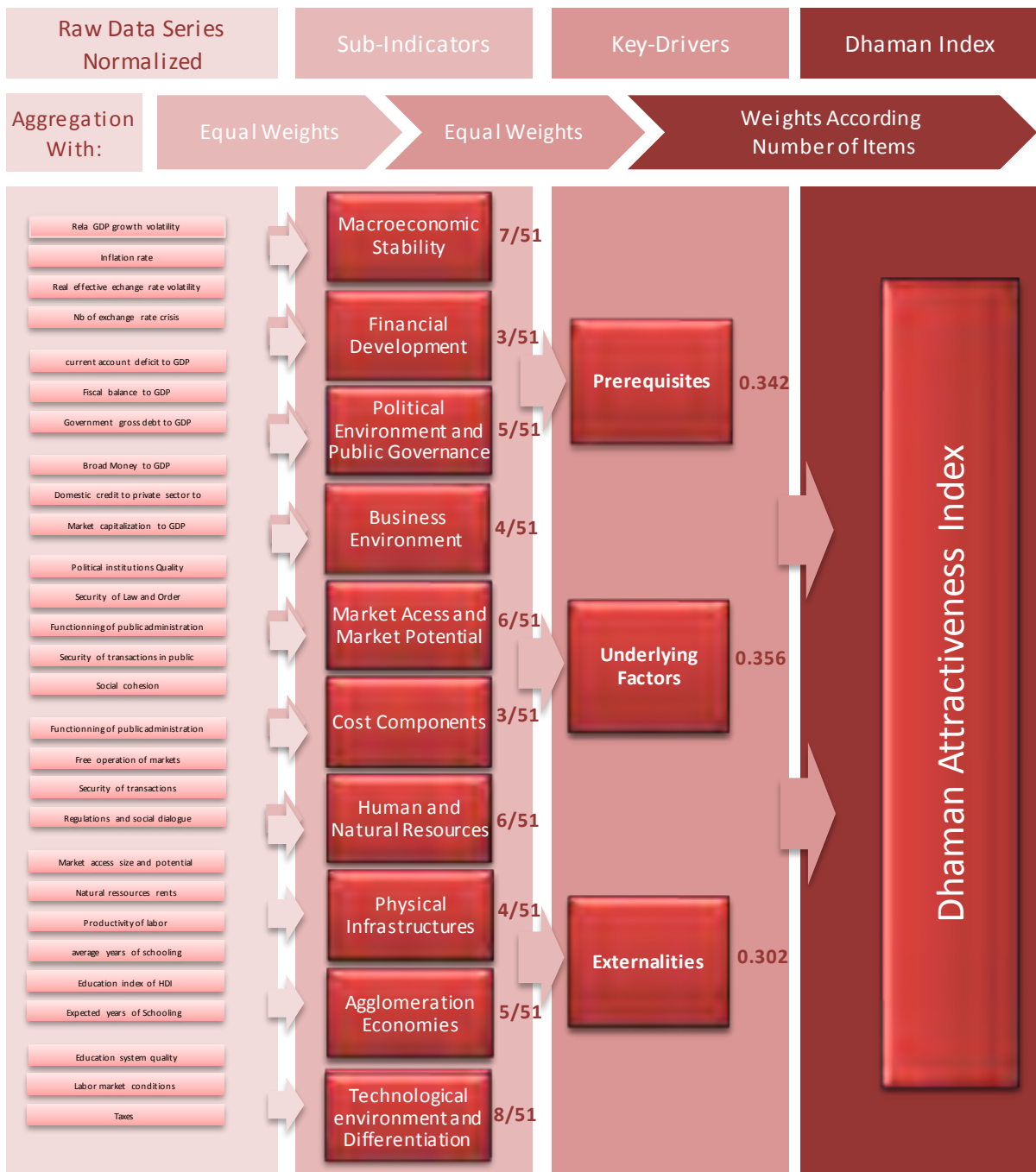
2. Equal weights are used at the lowest level; key drivers are aggregated with weights attributed according to the number of items and finally weights determined by factor analyses are used on the level of the three axes.

When using factor analysis, each component is assigned a weight according to its contribution to the total variance in the data to insure that the resulting summary indicators account for a large part of the cross-country variance of the considered sub-indicators.

Cronbach's α over the considered three axes is 0.91 and consequently underlines the quality of data selection for all the countries. The MSA value is 0.708 and Bartlett's Test of sphericity is significant at 0.000. Table 3 presents the results of the Principal Component Analysis (PCA). One single component is extracted (only one eigenvalue greater than 1) representing 85% of the total variance of the considered indicators.

Table 2: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.544	84.811	84.811	2.544	84.811	84.811
2	.339	11.296	96.107			
3	.117	3.893	100.000			

Extraction Method: Principal Component Analysis.

The high Cronbach's α and MSA value, and extracting only one factor explaining such a large part of the data variance, mean that the key axes are adequate joint proxies for a single latent factor. They are unidimensional and express only one characteristic. This is an indication of an appropriate choice of key drivers to assess FDI attractiveness for the considered countries. The FDI attractiveness is excellently measured by using the three criteria - prerequisites, underlying factors and agglomeration-differentiation factors- as proxies.

The PCA analysis also generates the communalities or the total influence on a single observed item from all the factors associated with it (in this case only one factor is generated). It's equal to the squared factor loading related to the observed indicator and is the same as R^2 in multiple regression. These communalities, described in Table 4, are used to calculate the weights for the three key drivers (the square of the factor loading represents the proportion of the variance of the indicator explained by the factors):

Table 3: Weights for the three key axes

	Component	Communalities	Weight
1. Prerequisites Factors	0.933	0.870	0.342
2. Underlying Factors	0.952	0.906	0.356
3. Agglomeration-Differentiation Factors	0.876	0.767	0.302

The results exposed in Table 4 illustrate that the underlying factors receive the highest weight and constitutes the strongest determinant of FDI activity followed by the prerequisites factors. They also show a small difference with respect to an equal weighting scheme (0.333 for each key driver).

2. Aggregation

Additive methods, geometric aggregation and non-compensatory multi-criteria analysis constitute the main three classes of aggregation methods. We focus on the linear and geometric methods as the most adequate for the purpose of FDI attractiveness analysis.

Linear aggregation assigns base indicators proportionally to the weights. It's useful when all sub-indicators have the same measurement unit, which is our case:

$$Index\ Value_i = \sum_{q=1}^{Q} w_q y_{q,i}, \text{ where } 0 \leq w_q \leq 1 \text{ and } \sum_q w_q = 1$$

Index value$_i$: index value of country i
$y_{q,i}$: normalized value of category q and country i
w_q : weight of category q

However, geometric aggregation rewards those countries or those sub-indicators with higher scores. A shortcoming in the value of one indicator can be compensated by a surplus in another. Compensability is constant in linear aggregation, while it is smaller in geometric aggregation for the sub-indicators with low values. It means that countries with low scores in some sub-indicators would benefit from linear aggregation:

$$Index\ Value_i = \prod_{q=1}^{Q} y_{q,i}^{w_q}, \text{ where } 0 \leq w_q \leq 1 \text{ and } \sum_q w_q = 1$$

Statistical Validation of the Results

This section compares the explanatory power of all the combinations presented in the previous section. By explanatory power we mean the strength and directionality of the linear relation between the proposed FDI attractiveness index and the actual FDI activity in the particular countries measured either by inward FDI flows or stocks. The Pearson correlations for each index calculation method are presented in Table 5:

Table 4: Pearson Correlations with Inward FDI Stocks

Index Calculation Method	Correlation with Log FDI Inward Stocks *(Two-tailed significance level)*
Method 1: Proportional weight and geometric aggregation	**0.794 (0.000)**
Method 2: Equal weight and geometric aggregation	0.785 (0.000)
Method 3: Equal weight and arithmetic aggregation	0.759 (0.000)

Considering these findings, the most adequate method for measuring the attractiveness of a country for FDI activity is method 1.

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For further information regarding this publication, please contact
Dhaman's Research & Studies Department:

Name	Position	Telephone	Email
Dr. Riadh Ben Jelili	Head of Research & Studies	+965 24 95 95 58	riadh@dhaman.org
Mr. Ahmed Eldabaa	Economic Researcher	+965 24 95 95 62	aeldabh@dhaman.org
Mr. Sofyan Ibrahim	Assistant Economic Researcher	+965 24 95 95 61	sofyan@dhaman.org
Mr. Ayman Gazi	Secretary	+965 24 95 95 29	aymang@dhaman.org

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

Headquarters
Arab Organizations Headquarters Building
The intersection of Jamal Abdul Nasser
Street and Airport Road,
Shuwaikh, Kuwait
P.O.Box: 23568 - Safat 13096
Tel: (+965) 24959555
Fax: (+965) 24959597 , 24959591, 24823761
E-mail: info@dhaman.org
Website: www.dhaman.org

Arab Organizations Headquarters Building

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