Foreign direct investment in Arab countries

Dr. Moustafa El-Abdallah Al Kafry

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International business environment characterized by intense competition for the current foreign capital between different countries. As a result of the important role played by foreign direct investment in the provision of the required funds for investment, technology transfer and contributing to the creation of more jobs and strengthening the rules of production and export and improve the skills and management expertise and achieve the competitive advantages of the national economy and raise income levels and living standards.

In this respect, countries scrambled to create an environment attractive investment, intensified competition among states to attract foreign investment by removing barriers and obstacles in their path and give them incentives and guarantees to facilitate arrival and entry to the domestic market. In this context, the developing countries to enact legislation granting incentives for foreign investors.

I - Concept and definition of foreign direct investment:

Known as foreign direct investment, according to the manual preparation of balance of payments statistics issued by the International Monetary Fund in 1993, that (international investment which reflects the additional resident entity «company or institution or a bank» in the economy as a lasting interest in an enterprise resident in another economy. 1

Referred to as resident entity «direct investor», and to the institution «institution direct investment». involves the permanent interest of the existence of long-term relationship between the direct

[1] -Source: The Arab Institution for Investment Guarantee Corporation and Export Credit - Kuwait.

http://www.ecoworld-mag.com/Detail.asp?InNewsItemID=272890.

investor and the institution, in addition to the investor a high degree of influence in the management of the institution. not only direct investment on treatment principle or of origin that led to the relationship mentioned between the investor and the institution, but also all subsequent transactions between them, and all transactions among affiliates, whether they contribute or not contribute). This definition is consistent with the definition of the United Nations Conference on Trade and Development UNCTAD and the concept of the Organization for Economic Cooperation and Development OECD.2

And take the guide to producing balance of payments statistics of the Census Bureau and local experts the 10% adopted as an international standard for the distinction between direct investment and other types of capital flows, in order to facilitate the international comparability of FDI statistics published by countries around the world.

II - Forms of Forms of foreign direct investment (FDI):

Foreign direct investment takes many forms, including: 3

1 - Projects of common property (joint investment): This is a joint project between the foreign investor and local investors, and to varying degrees, determined in accordance with the agreement of partners, according to the laws governing foreign ownership. 4

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[2] - International Monetary Fund released in March 2007, the draft sixth edition of the Manual on Statistics of the balance of payments received by the international concept of inward FDI in conformity with an order to replace the fifth edition of the guide, published in 1993. Thus, the application of concepts and methodology of the new edition to all countries of the world.

[3] - Dr. Hassan Kharboush, d. Reda Abdel Muti, investment and finance theory and practice, Dar Zahran for publication, Amman, 1999, p. 188.

[4] - Ibrahim bin Salamah, private foreign investment in the Kingdom, "the experience of SABIC," paper presented to a seminar of private foreign investment

2 - projects - fully owned by foreign companies in the host economy: This form of investment allows full control of the foreign element in the decision, but this is not favored by many countries where the investor, fearing it would lead to dependency and economic domination by foreign investors.

3 - multi-national companies: the companies that have many projects in different countries of the world, is characterized by these companies of the magnitude of its work and activities, "and can say that foreign direct investment and multinational corporations, two things go hand in hand, he used Economists combine them in a way synonymous." 5

Is the phenomenon of foreign direct investment by multinational corporations, or the so-called transnational corporations, the most prominent events that have taken place at the level of international economic relations during the past three to four years? 6

III - Institutions of foreign direct investment:

Defines a direct investment contribution as an institution or other contribution has a direct investor resident in another economy 10% or more of the ordinary shares or voting power (in the case contributing institution) or equivalent (in the case of non-contributing institution). And the institutions of direct investment of three types: 7

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in the Kingdom of Saudi Arabia, Ministry of Foreign Affairs, Riyadh, 1418, p. 27.

[5] - Dr. Abdullah safety, foreign direct investment and developing countries, research presented to a symposium of foreign investment in Saudi Arabia, Ministry of Foreign Affairs, Riyadh, 1418, p. 174.

[6] - General Secretariat of the Union of Arab Chambers of the Gulf, the role of multinational corporations in economic development, 1989, p. 25.

[7] - Source: The Arab Institution for Investment Guarantee Corporation and Export Credit - Kuwait.

http://www.ecoworld-mag.com/Detail.asp?InNewsItemID=272890.

1. Institutions or affiliates, where the non-resident investor owns more than 50% of the ordinary shares or voting power, and reserves the right to form or change the members of the Board of Directors of direct investment.

2. Associate institutions, where the non-resident investor owns from 10% - 50% of the ordinary shares or voting power of the institution of direct investment.

3. Branches, for which the contribution of non-wholly owned or in partnership, either directly or indirectly with a third-party non-resident. And take one form of the following sections:

- a permanent branch or representative office for foreign investors.
- the contribution of a non-owned partnership between a number of foreign investors.
- land or buildings or residential units or non-movable equipment owned by a foreign investor directly to the resident.
- movable equipment operating within the economy is an economy that a foreign investor for a period of time up to at least a year (such as ships, aircraft, and drilling equipment for oil and natural gas).

IV - Foreign direct investor:

May be the direct investor personnel, private or public, or group of individuals or institutions acting as a single unit, or governments or government agencies, or institution to manage the money legacies, or other organizations that hold part ownership of the institutions of direct investment in the State other than the State of residence of the direct investor.

V - Capital of foreign direct investment:

Apportion the elements of direct investment capital transactions, at the direction of movement of capital (direct investment abroad investor resident in the economy prepared for the statement, and direct investment in the economy of the statement prepared by an investor resident abroad). The major components of direct investment flows in:

- equity capital Equity Capital, and includes equity in branches, all shares in subsidiaries and associates, and other contributions to the capital.
- proceeds Reinvested Earnings, including the direct investor's share (by direct involvement in ownership) of the proceeds that are not distributed by the subsidiaries and associates as dividends, share in the proceeds of branches is not transferred to him. And treat these returns reinvested as if they were new flows.
- capital transactions associated with debt among companies Intra-Company Loans. This includes the item borrowing or lending money, including debt securities and credit suppliers, between the direct investor on the one hand, affiliates and associates and branches on the other. Are classified as loans from the direct investor to the institutions of direct investment, and vice versa, within this sub-item.

VI - Effects of FDI on the economy of host countries:

Still the debate continues among economists about the importance of FDI in the economy of the host State, where the Group supports the introduction of foreign capital, owing to the need for States to it, and another group warns of encouragement, and felt that it was only a kind of neo-colonialism, which aims to exploit and plunder economic surplus of the developing world. 8

[8] - Dr. Omar Bin Faihan Marzouqi, Assistant Professor, Department of Islamic Studies, Faculty of Education, King Saud University, foreign direct investment from an Islamic perspective.

We can identify the most important potential effects of foreign direct investment in the economy of the host country the potential positive effects of foreign direct investment, and potential negative effects of foreign direct investment.

VII - Potential positive effects of foreign direct investment:

It is not wise to reject foreign direct investment, and depict them as evil, threatening the economic independence of Islamic countries, where the potential benefits of these investments, if properly targeted and monitored, including: 9

1. The flow of foreign direct investment does not constitute a burden on the host economy, compared to Payments foreign loans, and is therefore considered a viable alternative to foreign loans.

2. Contribute to foreign direct investment in bridging the gaps of four head in the economy of host countries: 10

- A - a gap of domestic savings required to finance the ambitious investment programs.
- B - a gap of foreign exchange required to import machinery, equipment and expertise needed in the development process.
- C - the technology gap for the needs of developing countries of machinery, equipment, expertise and know-how, regulatory, and marketing.
- D - the gap between public revenue and public expenditure, as the lead foreign investments in the host State receives the new revenues, in the form of customs taxes, and income

[9] - Dr. Omar Bin Faihan Marzouki, op.

[10] - Dr. Ezzat Farag, d. Ihab Nadim, foreign direct investment and economic development in the world, research presented to the Conference of the economies of the Islamic Al-Azhar University, 1420 H, p. 27.

taxes on profits, increases the potential to spend, and then to bridge the gap of income they suffer from. 11

3. Contribute to foreign investment in the optimal utilization of the resources of the host country.

4. Contribute to foreign direct investment in improving the balance of payments, through the provision of capital, technology, to the host country, the two elements necessary for them to economic development in developing countries.

5. Contribute to foreign direct investment in the creation of a range of external economies, and a range of social benefits to the economy of the host country. (Increase of social capital, reduce the cost of domestic production, a result of its production of some of the needs of local projects of production requirements, open new markets to the exports of the host State, enjoy the benefits of economies of scale, increase the value-added, higher rates and operating efficiency in the host economy, creating new job opportunities, which contribute to solving the problem of unemployment).

VIII - Potential negative effects of foreign direct investment:

Indeed, dependence on foreign direct investment, which often play in multinational corporations, is not in itself an unalloyed good thing, but it contained several criticisms, including: 12

(1) difficult to agree a strategic foreign investor with the strategy of development in developing countries, in terms of investment priorities, which may be turned foreign investments in developing countries towards the peripheral, which is lucrative, and quickly,

[11] - Chamber of Commerce, Joint Arab investments in the Kingdom, the preparation of Mustafa Sabri, research presented to a seminar of private foreign investment in the Kingdom, Ministry of Foreign Affairs, Riyadh,1418, p. 140.

[12] - Dr. Ahmed Al-Harbi, foreign funding and the position of Islam which, PhD Umm Al Qura University, p. 478-481.

and do not serve the development process as required, such as tourist activities, commercial, banking, etc., and may tend towards the production of a particular type of primary products, attention to export to the country which flowed from the capital.

(2) causes the imbalance of power relations between any international company, a giant and a developing country to a bargain is not equal between them, where the foreign investor has the monopoly power and the financial and technological capabilities over the strength of most developing countries, resulting in unfairness and injustice in the rights and gains of the latter, where the foreign investor may impose a heavy price for what it offers in technical knowledge.

(3) lead the decentralization of decision making for multinational corporations in the host country to the tendency to import materials, goods and qualified human resources and other factors of production projects, the foreign company abroad, despite the presence in the domestic market of the host companies.

(4) may affect foreign direct investment negatively on the balance of payments of developing countries, a result of converting all or most of their profits abroad.

(5) can result in foreign direct investment to compete with local industries, which in a weak competitive position, which may result in a recession, or the collapse of national industries, emerging, or small size.

(6) can contribute to foreign direct investment to the worsening pollution of the environment, through its settlement in certain activities and polluting industries, as industries and extractive industries, petrochemical, cement and fertilizers.

IX - Importance of FDI in the economies of Arab States:

Foreign direct investment of great importance in the economies of Arab countries due to lack of sources of financing of investment projects for the most part, under mounting debt indicators and inflation costs associated with borrowing from the outside world and the numbers exceeded the debt service amount of the debt itself. The chances of overcoming the shortage and lack of funding sources are limited in attracting more foreign direct investment on the one hand and stimulate domestic investment.

FDI contributes to strengthening national capacities for national production and export and to facilitate the integration of the national economy, the global economy. To collaborate for the efforts of the agencies and bodies of the promotion of investment in any country to attract more domestic and foreign investments alike. The plan concentrates used in attracting foreign direct investment on the following elements:

- To highlight the competitive advantages enjoyed by each State and diagnosis of sectors and activities that enjoy competitive advantages.
- Targeting the exporting countries for investment.
- promote partnerships between local and foreign institutions.
- provide the necessary care for foreign investors.
- Develop a legislative framework and institutional environment conducive to business.
- To achieve these objectives:
- political stability and social growth and the quality of modern life.
- advanced human development.
- progressive integration into the global economy.
- infrastructure.
- effective institutional framework and simplified procedures for the creation of companies.

Arab States are striving to attract foreign direct investment, as a means of funding for comprehensive and sustainable development, which has become a prime target, seeks to achieve these countries, in order to increase national income, thereby increasing the average per capita income and improve their standard of living. The focus governments of Arab countries to finance development projects through the modern attract more foreign direct investment. In addition to foreign direct investment contributes to the reduction of units in the balance of payments and to avoid recourse to external debt. But the evidence and the empirical evidence available - especially those relating to the experience of newly industrialized countries with rapid growth - does not indicate a significant contribution of foreign direct investment in the development of these countries.

And concerned Arab states to encourage the contribution of foreign investors in investment projects, production and service, where the variety of initiatives and reforms to provide an appropriate framework for the work of the States and become a privileged destination for foreign investment. Despite the global climate is sometimes inappropriate and is characterized by intensifying of competition to attract foreign investment, Tunisia has managed to strengthen their capacity in attracting foreign direct investment, as illustrated by the following results:

- high proportion of foreign investment of the gross domestic product.
- Evolution of the volume of foreign direct investment.
- attract foreign investment in new projects were not present in the past.
- Import of technology and resettlement.
- Increased number of institutions with foreign participation
- increasing the contribution of foreign direct investment in the creation of new jobs.

X - FDI trends at the global level and the Arab States:

Said the World Investment Report 2009 issued by the United Nations Conference on Trade and Development «UNCTAD» in cooperation with the Arab Institution for Investment Guarantee and Export Credit in Kuwait, foreign direct investment trends at the global level and Arab countries, according to the following: 13

- The report stressed that prospects for FDI at the global level remains bleak as a result of worsening global financial crisis in 2008.
- The report pointed to the decline in FDI flows increased by 14.2% as it amounted to about 1700 billion U.S. dollars compared to 2000 billion U.S. dollars in 2007.
- The report emphasized that the current global financial crisis changed the map of the distribution of FDI inflows, which saw the share of developing countries and economies in transition of global flows of foreign direct investment soared to reach 43% of the world total in 2008, worth 735 billion U.S. dollars, including 620.7 to developing countries and 114.3 billion for states in transition.
- The report confirms that the increase of the liquidation of investments by transnational corporations around the world, which usually takes the form of re-investment home loans or reverse among parent companies, is one of the most important factors that contributed to the decline in global flows of foreign direct investment.
- aspirations for the future of transnational corporations, is dominated by pessimism about the prospects for FDI

[13] - General Secretariat of the Union of Arab Chambers of the Gulf, the role of multinational corporations in economic development, 1989 Fayez Mohammed Ali, corporate capitalism and monopoly control over the economies of developing countries, good for publishing house, Baghdad, 1979, p. 60-65.

globally in 2009. And turn to the aspirations of the more optimistic about 2010 and 2011, which is confirmed by the results of a questionnaire on UNCTAD's World Investment Prospects for the period 2009-2011 m from the investments that spent in 2008.

Saw foreign direct investment in Arab countries changed dramatically since the end of 2008, like any other economic activity. The economic crisis and the current global financial worst in 60 years has been compounded by concern companies that are not national attitudes towards investment and overseas expansion led to an erosion of profits and lack of financial resources and lower market opportunities and the seriousness of the recession obviously led to a decline in foreign direct investment as fears increased when the host countries, particularly those Arabic, which relies heavily on global investment to finance domestic growth and job creation.

Reports indicated the negative impact of the large global financial crisis of global economic and foreign direct investment to multinational corporations, causing a marked decline in expectations of multinational companies, regardless of home activity, including all sectors.

And expected non-national companies for the operation, a gradual recovery starting slowly in 2010 and then to regain its momentum and its momentum in 2011 and is reflected by the presence of preferential orientation, such as the growth of internationalization of companies across the border when she starts to ease the acute effects of the current crisis.

(Despite what you are doing of Arab governments, efforts to attract foreign capital, the intense competition between countries for these funds and the failure of most Arab governments to implement radical reforms and profound allow for improved investment climate and business by strengthening governance and accountability, fight corruption and bureaucracy and good policies and transparent and clear, are all factors that reflected on the poor performance in attracting direct foreign capital, not to mention foreign investment in Arab stock markets, compared to the underlying potential of these countries). 14

Shows the performance indicator of foreign direct investment, which is prepared by the Trade and Development Agency of the United Nations (UNCTAD), the level of performance and potential in the Arab states as follows: 15

- are Bahrain, Qatar, Jordan and the UAE forefront of countries with good performance and high potential.
- characterized by Algeria, Kuwait, Libya, Oman, Saudi Arabia, down performance, despite the high potential.
- Egypt, Morocco, Sudan has performed beyond their potential and remain.
- Syria suffer from a lack of performance and Yemen suffers from a lack of performance and possibilities.

Data from the World Investment Report for 2007 released by UNCTAD to the Arab States attracted 62.2 billion dollars in 2006 out of 1300 billion U.S. dollars, equivalent to 4.7% of this total.

The figure, which is modest, a significant improvement compared to the past. Where he arrived the flow of foreign investments in the Arab region during the period 1992-1997, only 3.9 billion dollars annually by 1.25% of total global investment. The improvement in attracting foreign investment to the employment of Arab governments, investment promotion policies in addition to the

[14] - World Investment Report 2009, United Nations Conference on Trade and Development «UNCTAD» in cooperation with the Arab Institution for Investment Guarantee Corporation and Export Credit in Kuwait.

[15] - Dr. Belgacem Abbas, an expert on the Arab Planning Institute in Kuwait, the role of inter-Arab investments in moving the economy, the source of the island.

growing fiscal surpluses of the Arab oil states, which feed the pan-Arab investment.

The number of FDI projects in the Arab countries in 2006 to 11 813 projects and value of FDI flows to about 1300 billion U.S. dollars during the same year. Contributed to the developed countries by more than 83% while the number of projects accounted for 44%, meaning that the number of FDI projects established in most developed countries, heading mostly to developing countries. And spread of these parent companies, mostly in developed countries by more than 74%, while spreading its branches in most developing countries by 52%.

Contribute to foreign direct investment in the financing of the development process in the Arab countries and the creation of employment opportunities and expanding production, especially in the manufacturing and services sector. The share of foreign direct investment to gross capital formation on average 12.6% in 2006 while the stock of foreign capital to GDP at the global level as much as 25% in the same year. These rates vary significantly among different countries and regions of the world. 16

Increased FDI flows to Arab countries in 2006, more than two and a half compared to 2004, rising higher than the global level, who scored 1.7 times and much better than the altitude record foreign direct investment in developing countries, which reached 1.3 times that increase the relative achievements Arab States indicates that the process of enrollment and the high relative share of the Arab States of the investments destined for the developing countries that in 2004 it was no more than 84% and reached 16.4% in 2006. 17

[16] - Ibid.

[17] - Source of the island, Dr. Belgacem Abbas, an expert on the Arab Planning Institute in Kuwait, the role of inter-Arab investments in moving the economy.

Return of foreign investments are concentrated destined for the Arab States in three basic code from Arab countries.

(1) The first is in countries that attracted the bulk of investments, namely Saudi Arabia (18 billion dollars) and Egypt (10 billion) and UAE (8.3 billion) and was able to account for more than 58% of the investments destined for the Arab States. This is mainly due to the expansion of the size of the Egyptian market, which accounts for more than 73 million consumer and the increase in the purchasing power of the economy of Saudi Arabia and the UAE, which exceeds its gross domestic product of more than four hundred billion dollars.

(2) The second group are those able to attract funds consistent with the economic size, namely Tunisia, Morocco, Jordan, Lebanon and Qatar. It is noted that the State of Bahrain attract significant amounts (2.9 billion dollars) and perhaps this is due to a dynamic financial sector and the evolution of Islamic banking.

(3) As for Algeria, which attracted 1.8 billion dollars does not fit with the size of its economy, which is the third Arab economy, compared to the size of GDP after Saudi Arabia and the UAE. Due humble foreign investments in Algeria to be shortened on the oil sector on the one hand and the slow pace of reform in the industrial sector, which defines the control of the public sector, and a slowdown in the privatization process. Sudan is also able to attract a respectable amount (3.5 billion dollars) in the oil sector as well as to Libya, but to a lesser extent.

At the same time contribute to some Arab countries for foreign direct investment beyond its borders with a total investment of the Arab countries the amount of 13.8 billion dollars in 2006, mostly from Kuwait (7.8 billion) and the UAE 2.3 billion dollars.

XI - Inter-Arab investments:

Contributed to inter-Arab investments in 28% of the total foreign investments in the Arab region as it hit 17.58 billion U.S. dollars in 2006 while the total stock accumulated during the last ten years more than 80 billion dollars, a fraction of the financial resources of Arab deposited in foreign banks, which are estimated between trillion and a half trillion dollars. In light of the deteriorating investment environment and height restrictions on the exercise of business it is difficult to attract ambitious of these funds that contribute to the financing of development in the developed countries that provide trust and confidence of depositors and investors. According to World Bank data with regard to restrictions on the exercise of business that the Arab countries suffer greatly from the deterioration of the business environment and rising costs and exacerbate the risk.

Also contribute to inter-Arab investments significantly in direct investment flows to a number of Arab countries, as in Saudi Arabia are more than 71% of the total stock of foreign investment. , The rate of 48% in Lebanon and 35% in Tunisia and 32% in Syria and 30% in Libya and 28% in Sudan and 20% valuable Palestine and 18% in Oman, and countries that do not constitute the Arab investments and considerable weight is Algeria at 15%, Morocco 12 %, Jordan, Bahrain, 10% 8%.

Go pan-Arab investment in the first place for the service sector where this sector has attracted more than 53% of the total 17.5 billion dollars while the industry to 45%. Due attention to the services sector to focus investment on profitable projects in the tourism sector and entertainment, in addition to the real estate sector witnessing a rise in prices, which increase the attractiveness of investment. But this kind of investment is not generalized to the Arab countries, where the focus of inter-Arab investments in Jordan on the industry as well as the same thing in Sudan. Those countries where investments are concentrated in the services sector are Saudi Arabia, Lebanon, Egypt and Tunisia. 18

And inter-Arab investments are strongly different distribution among the Arab countries, every Arab country has a distinctive Arab market moving his investments in the first degree. For example, investment tends to Jordan and the UAE, Bahrain, the Syrian and Lebanese, mostly to Saudi Arabia, the Saudi investments concentrated in many Arab countries: Jordan, Sudan, Syria, Lebanon, Morocco and Yemen.

XII - Islamic guidelines for foreign direct investment:

If Islam has permitted the Islamic state this form of foreign funding (FDI) in order to fill their needs and pay the necessities, but it is resorting to such investment restrictions and the development of an uncontrolled spin in scope in order to protect the interest of the State and the Muslim community alike. Because opening the door (the economy) the floodgates for foreign investment without tight control, and controls a legitimate shipped in may lead to economic control, to some types of activities, or important sectors in the economy of the Islamic state, and then become a means of neo-colonial, to continue to drain the resources of the host economy. Situation which requires the need to consider the following regulations, even consistent foreign direct investment in the Islamic state with Islamic view of sound: 19

1 - There is a real need for foreign direct investment.

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[18] - Source of the island, Dr. Belgacem Abbas, an expert on the Arab Planning Institute in Kuwait, the role of inter-Arab investments in moving the economy.

[19] - Dr. Omar Bin Faihan Marzouqi, Assistant Professor, Department of Islamic Studies, Faculty of Education, King Saud University, foreign direct investment from an Islamic perspective.

2 - do not result in dependency on foreign investment to foreign countries.

3. The need to preserve the Islamic State special conditions, and privileges.

4 - The submission of foreign investment commitment to the principle of goods and services solver.

There are many views of the stresses that contributions by traditional foreign capital in local projects (FDI) is not desirable in general in the Arab States, may not be encouraging her, but there are other views invite to attract more (FDI), as a tool that reliable in solving the problems facing the economies of Arab countries, despite our agreement on the importance of FDI in the economies of Arab countries, particularly in countries that suffer from scarcity of available financial resources, must not deceive ourselves, and we consider foreign direct investment brings with it a comprehensive solution, for each the problems of the economies of Arab countries, because the comprehensive and sustainable development in these countries is primarily the responsibility of Arab states alone, foreign direct investment remains a complement to domestic investment, and not a substitute for it. 20

It must extend an invitation to all Arab statistical systems need to improve the databases of direct foreign investment in order to comply with international standards, through the consolidation of methodologies developed and assembled so that the development of methods could be adopted in the contract of international comparisons. Most of the Arab statistical systems do not monitor returns reinvested and loans between the parent company in the host country and its affiliates or subsidiaries in the recipient countries of

[20] - See, the source of the past

investment, although both fall within the components of foreign direct investment received.

Dr. Moustafa El-Abdallah Al Kafry

Faculty of Economics - University of Damascus