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

INVESTMENT CLIMATE REPORT 2020

IN THE ARAB COUNTRIES

ABOUT DHAMAN

The Arab Investment & Export Credit Guarantee Corporation (Dhaman) is a pioneer multilateral development organization that has provided guarantee services against commercial and political risks for the last 45 years. Established in 1974 in Kuwait as the first multilateral investment guarantee provider in the world, Dhaman is owned by the governments of 21 Arab States and 4 Arab financial institutions.

Thanks to its very strong enterprise risk profile and very robust capital and liquidity position, Dhaman is highly rated by Standard & Poor's global ratings since 2008. It's rated AA– with stable outlook in April 2019. Over the past twelve years, Dhaman accordingly consolidates its position as a leading provider of trade credit and political risk insurance in the Arab region.

DHAMAN MISSION

To facilitate Arab exports, promote cross-border investment in the Arab region, and support the Member Countries' social and economic development by reducing risks and unleashing investment opportunities.

DHAMAN VISION

To be a world-class specialized multilateral risk-mitigating organization, serving as a strategic structure driving forward Member Countries' international trade and investment schemes.

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Letter from the Director-General

The globalization trend and the increasing interdependences of world economies creates considerable opportunities for both developed and developing countries. Our region, with substantial human and natural resources, has important potential to grow significant economic prospects, in particular with respect to creating employment opportunities for millions of young people over the next two decades. Nonetheless, a number of challenges arise as the increasing integration of national economies into expanding international markets always comes with various risks that spill beyond national borders. Indeed, businesses that engage in investment activities have to face significant global business development risks associated with changing legislations, expropriations, foreign currency inconvertibility troubles, inability to repatriate funds and much more.

After almost a decade of sustained economic growth and increased foreign investment inflows, economies in the Arab region have since 2009 been exposed to repeated external and internal shocks as a result of the global economic and financial crisis. More importantly, political instability, conflicts, large-scale flows of refugees since 2011 and more recently Covid-19 virus global outbreak have considerably slowed down the economic prospects of several countries in our region.

> **“Dhaman is working continuously with a number of partners to pursue further tangible benefits of foreign direct investment by securing private investment in key industries.**

Based on the most recent data published by fDi Intelligence from The Financial Times Ltd, FDI greenfield projects to our region amounted to an average USD 60 billion in 2019, 27.2% lower than in 2018. This represents a 64% decrease compared to 2008, which was a peak year for greenfield FDI in the region, with USD 167 billion of capital expenditure and 1296 realized projects. Events that occurred in the last ten-year period have had a negative spillover effect on the investment attractiveness of the entire region.

It is widely acknowledged that private sector development can build economic resilience in Arab countries. A dynamic and vibrant private sector requires attracting international firms by ensuring that international investment finds an enabling environment. To compensate for risks faced by foreign investors, governments in the region should strengthen investment policy frameworks. Investment promotion agencies should also play a key role by developing targeted approaches to identify and reach out to adequate potential investors. Moreover, risk mitigation mechanisms, including guarantees and political risk insurance, are needed to attract investors.

In this regard, the Arab Investment and Export Credit Guarantee Corporation (Dhaman) seeks to do more than offering custom-built insurance products for effective mitigation of political risks. Dhaman is working continuously with a number of partners, together with the Member Countries, to pursue further tangible benefits of foreign direct investment by securing private investment in key industries and providing decision-makers with up-to-date and reliable information.

Abdullah A. Alsabeeh

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Section

Greenfield FDI into Arab world

Overview and regional trends

This section of the report relies on a dataset on greenfield FDI projects into the Arab countries assembled from a unique type of online database developed by fDi Intelligence, a specialist division of the Financial Times, which monitors cross border investments in new projects and expansions of existing ventures, covering all sectors and countries worldwide since 2003. The major advantage of the data source used with respect to UNCTAD data is the availability of a sectoral classification for each investment project. It contains up to date and reliable information on countries of origin and destination, and provides other relevant information, such as investment date, capital expenditures, employment, sector and business activity undertaken by the foreign affiliate.

Greenfield investments constitute a category of FDI in which direct investors typically establish new enterprises in the host country. Greenfield investment therefore involves the provision of fresh capital as opposed to reflecting a transfer in ownership of existing assets (mergers and acquisitions).

Greenfield FDI into Arab world

Overview

- FDI into Arab region accounted for 6% of global greenfield FDI in 2019, with project numbers accounting for 5%.
- While the number of greenfield FDI projects into Arab Region increased by 24% to 1092 in 2019, capital investment decreased by 27% to $60.21 billions.
- Manufacturing was the top business activity by capital investment, accounting for 30% of FDI.
- Real estate was the top sector by capital investment in 2019, accounting for $8.97 billions or 15% of announced greenfield FDI in the Arab region.
- In total, 815 companies invested in the region, an increase of 16% on 2019.

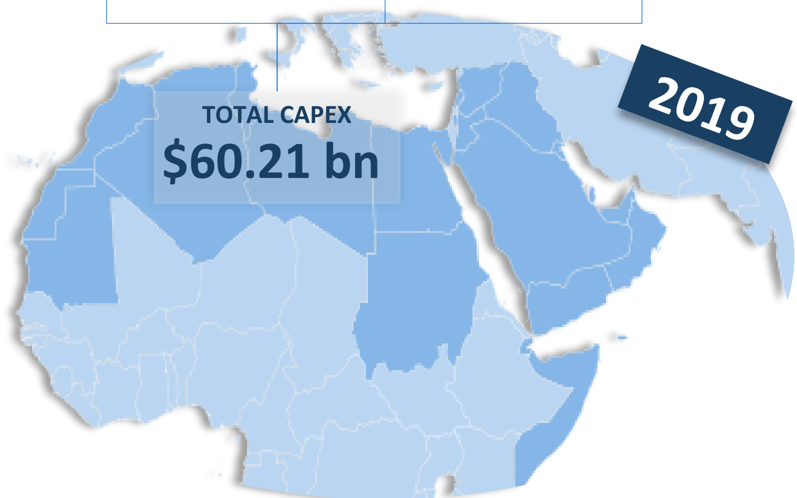
> **“Between January 2003 and December 2019 a total of 14,816 greenfield FDI projects were recorded, equating to a 5% share of global FDI. These projects represent a total capital investment of USD 1,243 billions, which is an average investment of USD 83.90m per project.**

Source: **fDI Markets**

TOTAL PROJECTS 1092

ESTIMATED JOBS CREATED 115,837

TOTAL COMPANIES 815

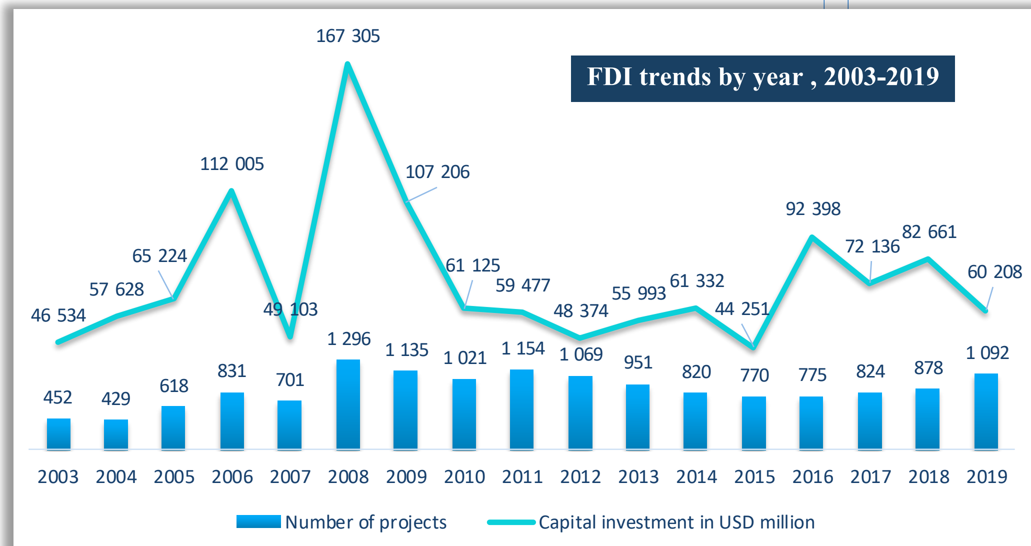


FDI projects peaked in 2008

Some 1,296 projects were recorded in 2008. This was the year in which the highest numbers of projects were recorded. During this period a total of USD 167.31 billions capital was invested, equating to a 13.5% of total capital investment.

Key investors account for almost 40% of projects.

The top 10% of investors have created a total of 5,598 projects, representing 38% of the total projects. The combined capital investment from these companies reached USD 554.22 billions, equating to more than two-fifths of the total for all companies.



Top five destinations attract the majority of projects.

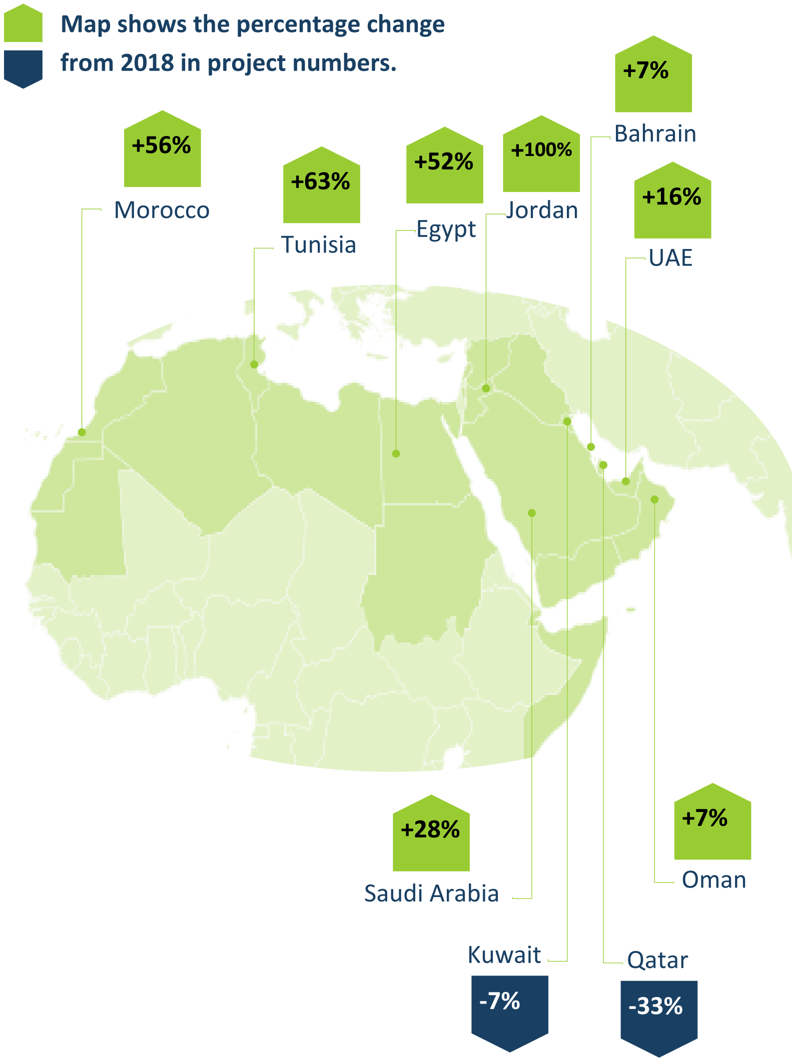
Out of a total of 20 destination countries, the top five account for the majority of projects. UAE is the top destination country accounting for almost two-fifths of projects tracked.

Greenfield FDI into Arab world

Regional trends

- Egypt is the leading destination for FDI into Arab region in 2019 with $13.7 billions of announced investments recorded.
- UAE continues to dominate FDI by number of projects, recording 445 projects.
- UAE recorded one of the biggest increases in FDI in absolute dollar value, with jobs created rising to 30,578 jobs.
- The top 5 destination countries for FDI into Arab region account for 82% and 75% of FDI in the region as a whole, by both number of projects and capital investment respectively.
- Among the top 10 destination countries for FDI into the region, Jordan, Tunisia, Morocco and Egypt achieved the strongest increase of number of projects with 100%, 63%, 56% and 52% respectively, in 2019.
- Qatar and Kuwait were the only two countries in the top to witness a decline in FDI by number of projects in 2019, achieving a rate of decline of 33% and 7% respectively.

Number of FDI projects into top 10 Arab Countries, % change, 2019



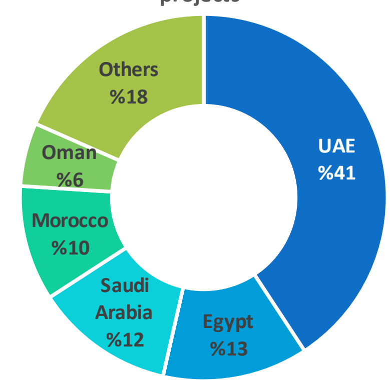
Egypt has both the highest total and highest average investment at $13.7 billions overall and $98 millions per project. UAE has received the highest number of total jobs, while Egypt has the largest project size with 180 jobs per project on average.

Source: **fDI Markets**

FDI into Arab Region by Project Numbers 2019

Destination Country	Projects
UAE	445
Egypt	140
Saudi Arabia	134
Morocco	111
Oman	61
Tunisia	31
Bahrain	29
Qatar	28
Jordan	26
Kuwait	26
Algeria	24
Iraq	13
Lebanon	12
Djibouti	3
Palestine	3
Sudan	2
Mauritania	2
Libya	2
Total	**1 092**

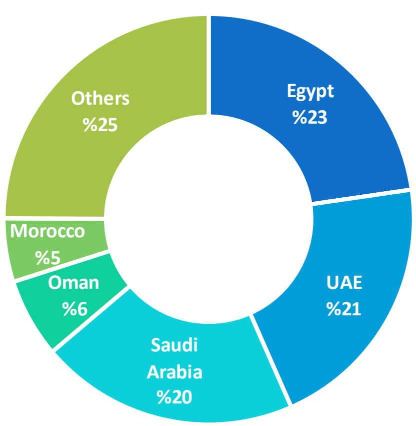
Shares in terms of number of FDI projects



FDI into Arab region by capital investment 2019

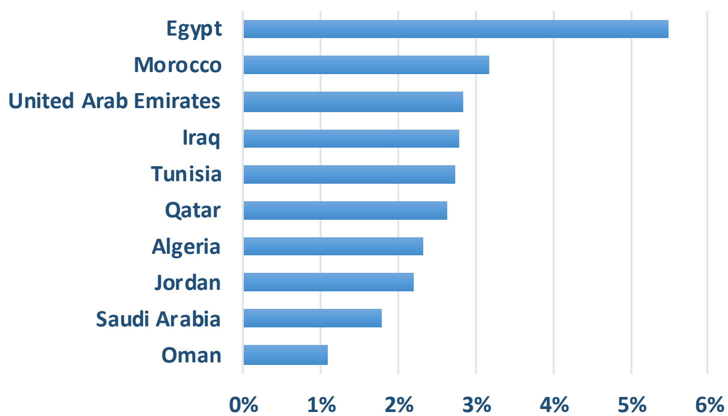
Destination Country	CAPEX $ millions	% Change	% Arab Market Share
Egypt	13 715	7%	23%
UAE	13 557	14%	21%
Saudi Arabia	12 527	-19%	20%
Oman	3 647	-81%	6%
Morocco	3 069	-33%	5%
Tunisia	2 519	352%	4%
Algeria	2 316	-75%	4%
Jordan	2 290	478%	4%
Iraq	2 117	-48%	4%
Qatar	1 581	194%	3%
Bahrain	1 051	-26%	1%
Kuwait	695	94%	1%
Other	1 126	-26%	2%
Total	**60 208**	-27.2%	

FDI into top 5 destination and others
Share % in total Capex



Source: **fDI Markets**

Real GDP growth rate 2019



The Egyptian economy will probably continue to outperform the region in 2019-2020 with real GDP growth hitting 5.6% in the ongoing fiscal year (ending June 30) before rising to 5.7% in the following one. Investment will remain a key growth driver in the near term, gradually with additional support from private consumption. The fiscal deficit will continue to narrow, albeit predicated on the government's ability to improve direct tax collection. Political risk will also decrease thanks to stabilizing macroeconomic conditions and tough security measures, but Egypt will still remain relatively risky by regional standards.

Source: Fitch Solutions, March 2020.

Two of the top 10 Arab destination economies for FDI in terms of capital investment have grown by more than 3% in 2019 – Egypt (5.5%) and Morocco (3.2%).

Source: International Monetary Fund, World Economic Outlook April 2019.

Recent Investor Signals

Cleartrip (India), Software & IT services sector : India-based Cleartrip, an online travel platform where travellers can search for and book flights to any destination, has drawn up a major expansion plan for its Middle East operations. The plan would see the company making acquisitions as well as heavy investments for organic growth in countries including Bahrain, Oman and Kuwait. The investments could involve $100m to $200m over the next few years. Go to source.

HeyGears (China), Industrial equipment sector : China-based HeyGears, a 3D digital application startup, has raised $60m in series B1 round of financing led by Group 42. The company stated that the funding would be used to expand its presence to the UAE and beyond. Go to source.

Ziqitza Health Care (India), Healthcare sector : India-based Ziqitza Healthcare, an emergency medical services provider with life support ambulances, is set to raise up to $40m in funding for expansion in West Asia, Gulf Cooperative Council and Africa. Go to source.

FreshtoHome (India), Food & Beverages sector : India-based ecommerce company FreshtoHome, which provides a food delivery service, has raised $20m in a Series B funding round led by Iron Pillar and Japan-based investor Joe Hirao. The company will use the new financing to support its growth plans in India and the United Arab Emirates. Go to source.

Greenfield FDI into Arab world

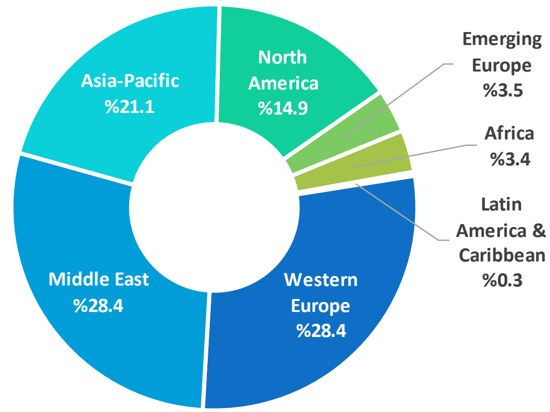
Source countries

- Western Europe and Middle East were the top source regions for capital investment in Arab countries with $34.2 billions invested in 2019. Despite the 42.5% and 35.5% decreases, respectively, on the 2018 figure, western Europe and Middle East achieved a 28.4% market share each.
- Western Europe and Middle East were also the top source regions for number of greenfield FDI projects in Arab countries achieving 44% and 21% market share respectively.
- Out of a total of 65 source countries in 2019, the top five account for the majority of projects. With 143 projects, United States is the top source country accounting for more than one-eighth of projects tracked.
- United States has generated the highest number of total jobs, while UAE has the highest total investment ($8.7 billions). China has the largest project size on average in terms of both investment ($136.5 millions per project) and jobs creation (343 per project).

Investing Regions in Arab Countries 2019

Source World region	Capex ($mn)	% change
Western Europe	17,109.0	-42.5% ▼
Middle East	17,106.0	-35.5% ▼
Asia-Pacific	12,693.0	-13.6% ▼
North America	8,985.0	45.1% ▲
Emerging Europe	2,106.0	-59.0% ▼
Africa	2,020.0	512.1% ▲
Latin America & Caribbean	189.0	408.1% ▲
Total	**60,208.0**	**-27.2%** ▼

Investment Regions in Arab countries by Capex in 2019

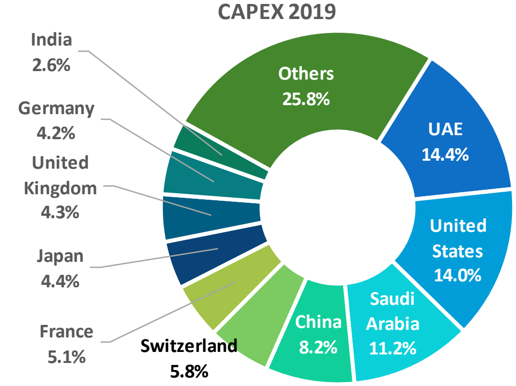


- UAE and Saudi Arabia were on the top investing countries into Arab region with 25.6% market share and projects valued at $15.4 billions in 2019.
- China and Japan account for 12.5% market share of all inward FDI projects in the region, with projects valued at $7.5 billions.

Top Investing Source Countries in Arab Region 2019

Source Country	Capex ($mn)	% Market Share
UAE	8 683.6	14.4%
United States	8 430.7	14.0%
Saudi Arabia	6 713.8	11.2%
China	4 912.9	8.2%
Switzerland	3 495.1	5.8%
France	3 053.2	5.1%
Japan	2 632.3	4.4%
United Kingdom	2 615.4	4.3%
Germany	2 533.9	4.2%
India	1 583.0	2.6%
Others	15 554.1	25.8%
Total	**60 208.0**	**100%**

Investment Countries in Arab countries by CAPEX 2019



Source: **fDI Markets**

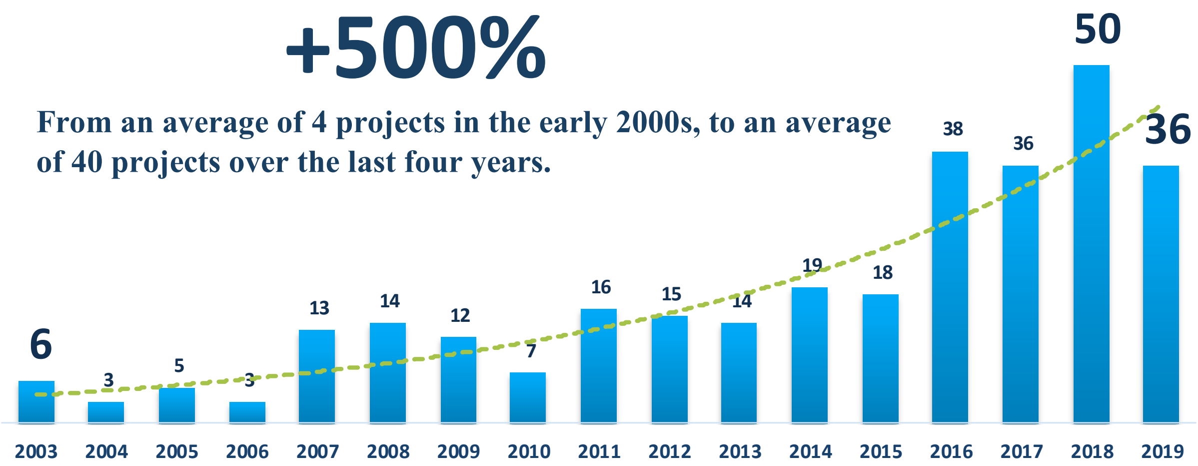
China ranked 4th by capital investment and 8th by project numbers, it was the third most prolific foreign job creator in the Arab region.

China created 12,382 Jobs across Arab countries in 2019

China project creation in Arab countries, 2003 to 2019

+500%

From an average of 4 projects in the early 2000s, to an average of 40 projects over the last four years.



- Between January 2003 and December 2019 a total of 305 FDI Chinese projects were recorded in the Arab region. These projects represent a total capital investment of USD 61.7 billions, which is an average investment of USD 202.3 millions per project. During the period, a total of 78,484 jobs were created.
- Out of a total of 16 Arab destination countries, the top five account for the majority of projects. UAE is the top destination country accounting for more than one-third of Chinese projects tracked. Project volume in this destination country peaked during 2018, with 20 projects tracked.
- Egypt has received the highest number of total jobs and greatest Chinese investment with a total of 23,930 jobs and USD 28.5 billions investment. Oman and Algeria have the largest project size on average in terms of investment and jobs creation, respectively.

Source: **fDI Markets**

December 2019 - China State Construction Engineering Corporation (CSCEC) into Egypt

China State Construction Engineering Corporation (CSCEC) (Beijing, China) is investing in Egypt in the Chemicals sector in a Manufacturing project (estimated capex USD 355.7 millions and estimated jobs created 322).

China-based China State Construction Engineering Corporation (CSCEC), a construction firm, is to establish an $848m phosphoric acid plant in the New Valley Governorate of Egypt. To be established in a joint venture with China-based companies Wengfu Group and East China Engineering Science and Technology, in addition to Egypt-based Phosphate Misr, the new plant will have a production capacity of 500,000 tonnes of phosphoric acid products and 1,600,000 tonnes of sulfuric acid products.

September 2019 - DoubleStar into Algeria

DoubleStar (Qingdao, China) is investing in the city of Oum el-Bouaghi, Algeria in the Rubber sector in a Manufacturing project (estimated capex USD 249.2 millions and estimated jobs created 1422).

Doublestar International Hong Kong, a subsidiary of China-based Qingdao Doublestar, a tyre manufacturer, is planning to build a new plant in Algeria as part of a joint venture with local company Sarl El Hadj Larbi Pneumatiques. It will have a 2 million unit annual capacity for truck and bus tyres and 5 million unit capacity for passenger car tyres. The two company's combined investment will be 226.5 million euros.

Greenfield FDI into Arab world

Business activity

- Business Services, Sales, Marketing & Support and Manufacturing were the top three business activities for FDI projects into Arab region in 2019. These three activities alone account more than 61% of total FDI projects in the region.
- Business Services saw a 71.3% increase in number of projects in 2019. Capital investment also increased 61.6% to $3.1 billions.
- Manufacturing accounted for $18 billions of announced FDI in 2019. Despite achieving 10% increase in number of projects, the value of manufacturing projects dropped 46.8% in 2019.
- Infrastructure-related business activities such as Electricity, Construction and ICT & Internet Infrastructure made up more than 10% of all projects into Arab region (112 projects) and accounted for 47% of capital invested ($28.2 billions). Electricity, in particular, saw a 466% increase in capital investment and a 333% increase in project numbers .
- Recycling projects saw a 150% increase in 2019. A total of $1.1 billion was invested in 2019 compared to $332 millions in 2018.

Source: **fDI Markets**

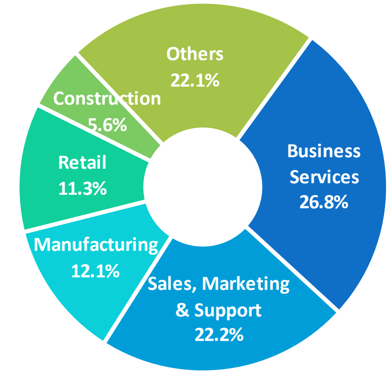
FDI into Arab region by business activity, 2019

Business activity	No. of projects	% Change
Business Services	293	71.3% ▲
Sales, Marketing & Support	242	23.5% ▲
Manufacturing	132	10.0% ▲
Retail	123	-28.9% ▼
Construction	61	27.1% ▲
Logistics, Distribution & Transportation	43	2.4% ▲
Headquarters	43	87.0% ▲
Research & Development	41	57.7% ▲
Electricity	39	333.3% ▲
Education & Training	29	81.3% ▲
Maintenance & Servicing	14	0.0% =
ICT & Internet Infrastructure	12	-33.3% ▼
Customer Contact Centre	8	14.3% ▲
Recycling	5	150.0% ▲
Technical Support Centre	4	100.0% ▲
Extraction	3	-72.7% ▼
Total	**1 092**	**24.4%** ▲

FDI into Arab region by business activity, 2019

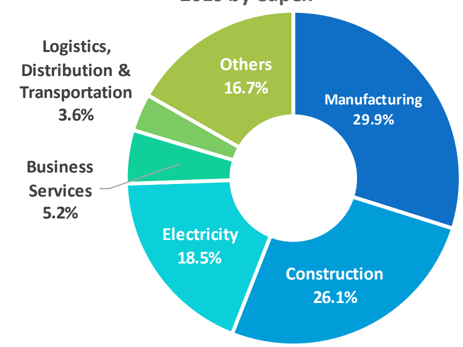
Business activity	Capex ($mn)	% Change
Manufacturing	17 982.9	-46.8% ▼
Construction	15 706.5	-31.0% ▼
Electricity	11 145.9	465.6% ▲
Business Services	3 119.1	61.6% ▲
Logistics, Distribution & Transportation	2 171.5	-68.8% ▼
Sales, Marketing & Support	1 680.2	24.0% ▲
Extraction	1 523.3	-77.0% ▼
Retail	1 486.1	-51.4% ▼
ICT & Internet Infrastructure	1 376.0	-33.2% ▼
Research & Development	1 217.1	48.5% ▲
Recycling	1 104.9	232.8% ▲
Headquarters	856.2	104.1% ▲
Education & Training	435.4	71.6% ▲
Maintenance & Servicing	315.3	25.2% ▲
Technical Support Centre	49.1	79.3% ▲
Customer Contact Centre	38.6	-20.8% ▼
Total	**60 208.0**	**-27.2%** ▼

Top 5 Business activities of FDI into Arab region in 2019 by number of projects



United States was the top source of manufacturing FDI projects in the region, investing almost $3 billions.

Top 5 business activity of FDI into Arab region 2019 by Capex



Saudi Arabia was the top destination in the manufacturing business activity, receiving $7.7 billions in capital investment.

Manufacturing in Saudi Arabia, 2019

Saudi Arabia

Was the leading destination for Manufacturing in the Arab region with 23 projects in 2019.

$7.7 billions

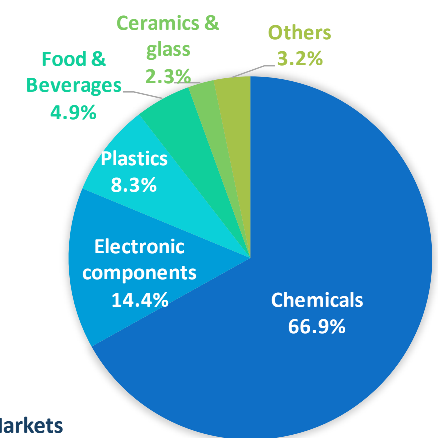
23 projects brought in an estimated investment of $7.7 bn

$2 bn

In 2019, Ineos Switzerland-based chemical company announced it was establishing a plant in the city of Al Jubail.

Out of a total of 11 Manufacturing sectors, the top five account for more than two-thirds of projects. Chemicals is the top sector accounting for more than one-fifth of projects tracked. Electronic components has generated the highest number of total jobs and has the largest project size, with 1402 jobs per project. Chemicals has both the highest total and highest average investment at USD 5.15bn overall and USD 1.03bn per project.

FDI Capex by sector



Source: **fDI Markets**

Switzerland-based chemical company Ineos has announced plans to invest $2bn to build three new chemical plants as part of the Jubail 2 complex in Saudi Arabia following an MoU with locally-based Saudi Aramco and France-based Total. The company will build a 425 kilotonne per annum (ktpa) acrylonitrile plant which is set for start-up in 2025. The company will also build a 400ktpa linear alpha olefin plant and an associated poly alpha olefin unit, scheduled for production in 2025. The facilities will serve customers directly in the Middle East and markets across Asia.

During the year 2019 a total of 23 FDI Manufacturing projects were recorded. These projects represent a total capital investment of USD 7.7bn, which is an average investment of USD 334.5m per project. During the period, a total of 8,800 jobs were created.

Greenfield FDI into Arab world

Sectors

- Real estate was the top sector by capital investment in Arab region for 2019 with almost $9 billions and 44 projects.
- Coal, Oil & Natural Gas sector decreased its capital investment with 68.5% to record $7.3 billions in 2019.
- Almost $8.8 billions was invested in Alternative/Renewable Energy. The clean energy sector saw a 318% increase in capital investment, whereas fossil fuel declined by 68.5%.
- With a 10.3% market share of Arab FDI projects, the Hotels & Tourism sector saw a 49% increase in project numbers to 55, and a 40% increase in capital investment to $6.2 billions.
- The number of Electronic components projects saw a 121.4% increase in 2019 and an overall capital invested increase of 971.4% to $1.7bn.
- The number of Consumer products projects saw a 34% decrease in 2019. Overall capital invested in the sector also decreased by 32% $837.3 millions. The number of projects in the Food & Beverages sector experienced a limited increase from 45 to 47 projects. However in 2019, capital investment dropped significantly by 69% to $1.6 billions.

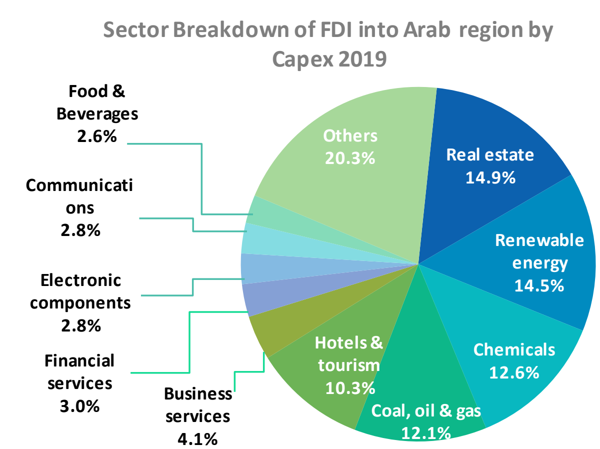
Sector Breakdown of FDI in Arab Countries 2019

Sector	No. of Projects	% change	
Business services	156	59.2%	▲
Financial services	133	52.9%	▲
Software & IT services	97	26.0%	▲
Textiles	57	-27.8%	▼
Hotels & tourism	55	48.6%	▲
Communications	54	-6.9%	▼
Transportation & Warehousing	50	22.0%	▲
Consumer products	47	-33.8%	▼
Food & Beverages	47	4.4%	▲
Real estate	44	51.7%	▲
Others	352	37.5%	▲
Total	**1 092**	**24.4%**	▲

Almost all the investment in Real estate sector has been made in three Arab countries: Egypt, Saudi Arabia and UAE with $7.1, $1.3 and $0.6 billions respectively.

Sector Breakdown of FDI in Arab Countries 2019

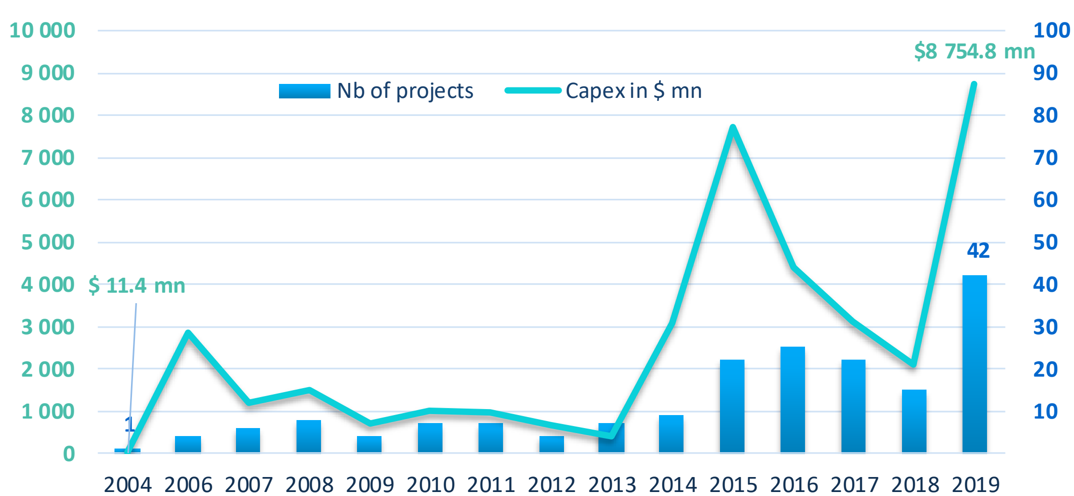
Sector	Capex ($mn)	% Market Share
Real estate	8 975.2	14.9%
Renewable energy	8 754.8	14.5%
Chemicals	7 612.6	12.6%
Coal, oil & gas	7 266.2	12.1%
Hotels & tourism	6 207.2	10.3%
Business services	2 448.0	4.1%
Financial services	1 798.5	3.0%
Electronic components	1 679.2	2.8%
Communications	1 678.5	2.8%
Food & Beverages	1 553.5	2.6%
Others	12 234.4	20.3%
Total	**60 208**	



Source: **fDI Markets**

FDI in Renewable energy sector into Arab region 2019

Some 42 projects, or 23% of projects, were recorded in 2019. This was the year in which the highest numbers of projects were recorded. During this period a total of 2,265 jobs were created and $8.75 billions capital was invested by these projects, equating to a 20.7% and 22.7% of total jobs and capital investment respectively.



In 2019, Electricity has generated the greatest investment with a total of $8.64 billions. This business activity also has the largest project size on average in terms of both investment and jobs creation.

In 2019, out of a total of 10 destination countries, the top five account for the majority of projects. Egypt and Tunisia (11 projects for each country) are the top destination countries accounting for more than half of projects tracked. Egypt has received the greatest investment with $2.33 billions (Tunisia received $1.9 billions).

Source: **fDI Markets**

Marubeni into UAE

Japan-based Marubeni, a business conglomerate, has opened a solar plant in Abu Dhabi, UAE as part of a joint venture with China-based JinkoSolar and the UAE-based Abu Dhabi Power Corporation. The $871.3 millions plant, spread across 8km, features over 3.2 million solar panels and will supply electricity to 90000 people.

Al Nowais Investments into Egypt

UAE-based Al Nowais Investments, an investment management firm, is to build a $550 millions wind farm in Egypt. Located in the Jabal Al-Zayt area and with a capacity of 500 megawatts, the site's production will be purchased by the Egyptian Electricity Transmission Company (EETC).

ACWA Power International into UAE

ACWA Power is set to build and operate a 900-megawatt solar project in Dubai, United Arab Emirates. The company is set to build an operate the fifth phase of the 5000-megawatt Mohammed bin Rashid Al Maktoum Solar Park. The fifth phase is set to become operational in the second quarter of 2021. The entire project is scheduled for completion by 2030.

Greenfield FDI into Arab world

Companies

- A total of 815 companies invested in Arab countries in 2019 compared to 705 in 2018.
- The top 10 companies account for 4.1% of job creation and 5.4% of capital investment. Collectively, they create smaller projects in terms of job creation at 45 jobs on average. These companies generally provide lower capital investment at an average of $31.5 millions per project.
- In terms of company size, more than one-third of companies have an annual turnover of $5 billions or higher, while one-tenth of companies have a turnover of $25 millions or less
- VFS Global (Switzerland) and Emirates NBD Egypt (UAE) were the top investors by number of projects in 2019 with 23 and 14 projects respectively.
- Majid Al Futtaim Group or MAF Group (UAE) and ACWA Power International (Saudi Arabia) were the top investors by capital investment in the Arab region with $2.7 billions and $2.5 billions respectively in 2019.
- UAE-based Majid Al Futtaim, a family conglomerate, has announced it will be expanding its Cairo Festival City Mall in New Cairo, Egypt (Real Estate). The 22,000 sq m expansion will include 120 stores, a food hall, brand entertainment concepts, and car parking facilities. The estimated capex is $1.65 billions.

Source: **fDI Markets**

Top investing companies in Arab region 2019

Company	Capex ($mn)	No. of Projects	% Market Share
Majid Al Futtaim Group (MAF Group)	2 690.5	5	4.5%
ACWA Power International	2 458.4	6	4.1%
Ineos	2 000.0	1	3.3%
Marakez	1 664.3	2	2.8%
Huajian Group	1 649.3	1	2.7%
Arabian Centres Company	1 649.3	1	2.7%
General Electric (GE)	1 444.0	1	2.4%
PetroJet	1 403.6	1	2.3%
Baker Hughes	1 007.2	3	1.7%
Hanergy Thin Film Power	1 000.0	1	1.7%
Others	43 241.4	1 070	71.8%
Total	**60 208.0**	**1 092**	

Top 5 investing companies in Arab region by capital investment 2015-2019

ROSATOM

$30 bn
1 project

Primary sector: Coal, oil & gas .

Rosatom produces nuclear electricity. It engages in nuclear fuel cycle, applied and basic science, nuclear and radiation safety, nuclear medicine, and composite materials related activities.

MAJID AL FUTTAIM

$21.2 bn
33 projects

Primary sector: Food & Beverages

Majid Al Futtaim Group engages in the development and management of shopping malls, hotels and residential and commercial properties.

CHINA FORTUNE LAND DEVELOPMENT

$20 bn
1 project

Primary sector: Real estate

CFLD provides investment, development, and operation services for industrial cities .

TOTAL

$13.1 bn
6 projects

Primary sector: Coal, oil & gas

Total is an integrated international oil and gas company .

AL HABTOOR

$8.5 bn
1 project

Primary sector: Real estate

Engages in the construction, tourism, automobile distribution, vehicle leasing.

What matters to investors in developing countries

2

Section

Findings from the GIC Survey

The Global Investment Competitiveness Survey (GIC Survey) offers practical evidence to help policy makers in developing countries design policies and prioritize reforms that investors value. It captures perceptions of 750 executives of multinational corporations on the role of investment climate factors in their FDI decisions. The survey carried out by IFC-World Bank was designed to provide a broad understanding of corporate perspectives and investor behavior and was not intended as a benchmarking tool to compare countries.

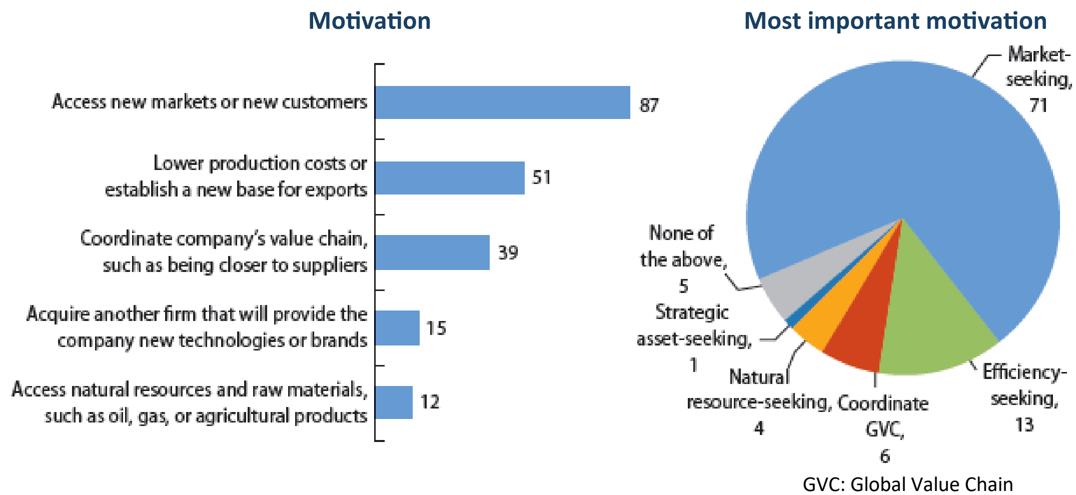
What Matters to Investors in Developing Countries

Top Five Findings of the Global Investment Competitiveness (GIC) Survey

Through interviews with 754 executives of multinational corporations with investments in developing countries, the GIC survey finds the following:

1. Investors involved in export-oriented efficiency-seeking FDI that look for internationally cost-competitive destinations and potential export platforms value linkages, incentives, trade agreements, and investment promotion agency (IPA) services more than other investors. Incentives such as tax holidays are important for 64% of investors involved in efficiency-seeking FDI, compared to only 47% of their counterparts involved in other types of FDI. IPA services are rated important by about half of investors involved in efficiency- seeking FDI but by only about a third of those involved in other types of FDI.
2. More than a third of investors reinvest all of their profits into the host country. Investors value policies that help them expand their business more than just policies used by governments to attract them.
3. **Investment protection guarantees are critical for retaining and expanding investments in the long term across all types of FDI**. Over 90% of all investors rate various types of legal protections as important or critically important, the highest rating among all factors included in the survey. **These guarantees include the ability to transfer currency in and out of the country, and existence of legal protections against expropriation, against breach of contract, and against nontransparent or arbitrary government conduct**.
4. Investors strongly value the existing capacity and skills of local suppliers, but also find that government support, such as providing information on the availability of local suppliers, matters. With foreign investors sourcing about 43 percent of their production inputs locally, supplier contracts and linkages with local businesses have the potential to create significant benefits for the local private sector.
5. For close to 30% of investors that have experienced shutting down an affiliate in a developing country, some reasons for exiting the investment could have been avoided, such as unstable macro-economic conditions and increased policy and regulatory uncertainty. Three-quarters of investors have experienced disruptions in their operations due to political risk forces and events. A quarter of investors that did experience disruptions canceled or withdrew their investment. Severe cases occur fairly infrequently—about 13 percent for breach of con-tract and 5 percent for expropriation—but when they do, the negative impact is strong. In cases of breach of contract, over a third of investors cancel or withdraw investments, and for expropriation almost half do so.

Most Investors Have Multiple Motivations and Are Market-Seeking



Source: Computation based on the GIC Survey, Global Investment Competitiveness Report 2017/2018, Chapter 1.

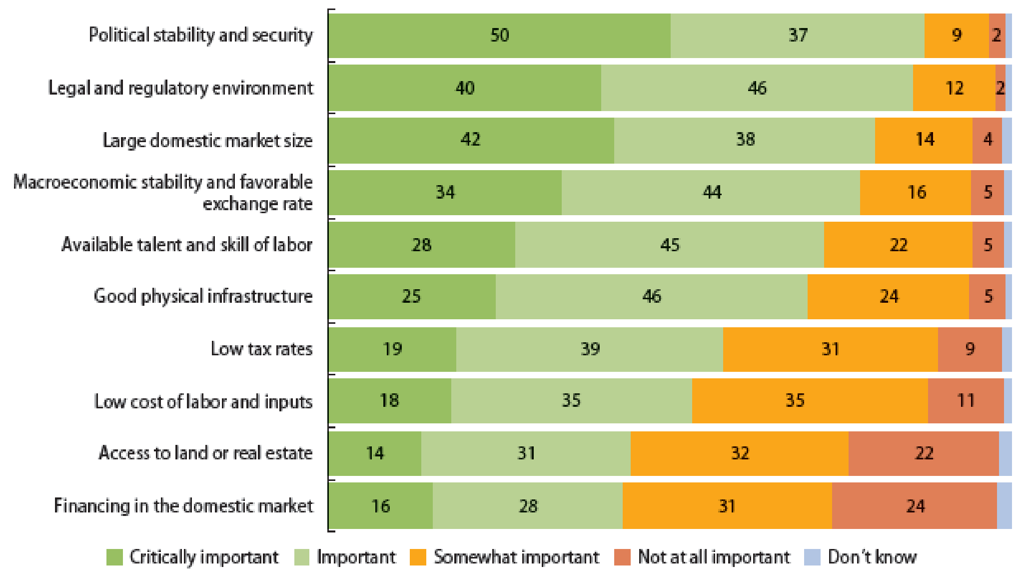
What Matters to Investors in Developing Countries

Respondents were asked, "How important are the following characteristics to your company's decision to invest in developing countries?" Factors were asked in random order. They are listed in the graph in descending order of importance, based on the combination of "critically important" and "important" in dark green and light green bars. Critically important means it is a deal-breaker; by itself this factor could change a company's decision to invest or not in a country.

Business-Friendly Legal and Regulatory Environment Is Important for Investors

Share of respondents (percent)

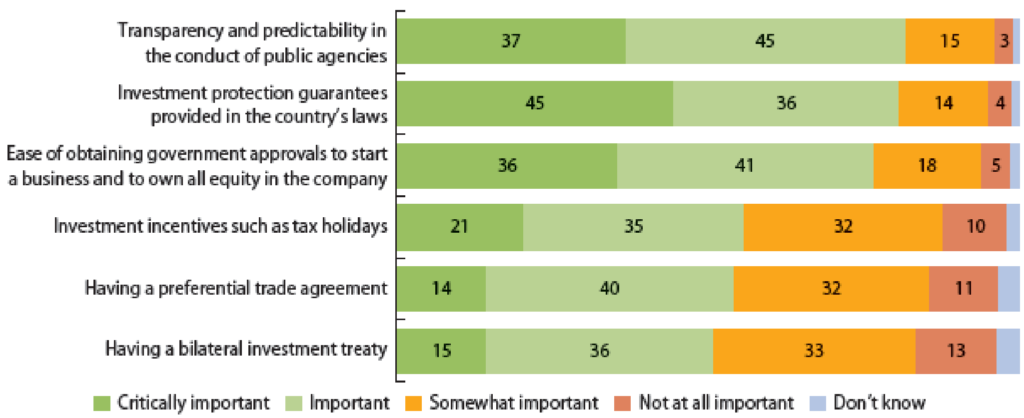
Importance of country characteristics



Investors Seek Predictable, Transparent, and Efficient Conduct of Public Agencies

Share of respondents (percent)

Importance of investment climate factors



MNCs involved in efficiency-seeking FDI place more importance on investment climate factors compared to firms involved in other types of FDI. Except for transparency and predictability in the conduct of public agencies, which firms find most important regardless of motivation, firms involved in efficiency-seeking FDI value most investment policies more highly.

Source: Computation based on the GIC Survey, Global Investment Competitiveness Report 2017/2018, Chapter 1.

What Matters to Investors in Developing Countries

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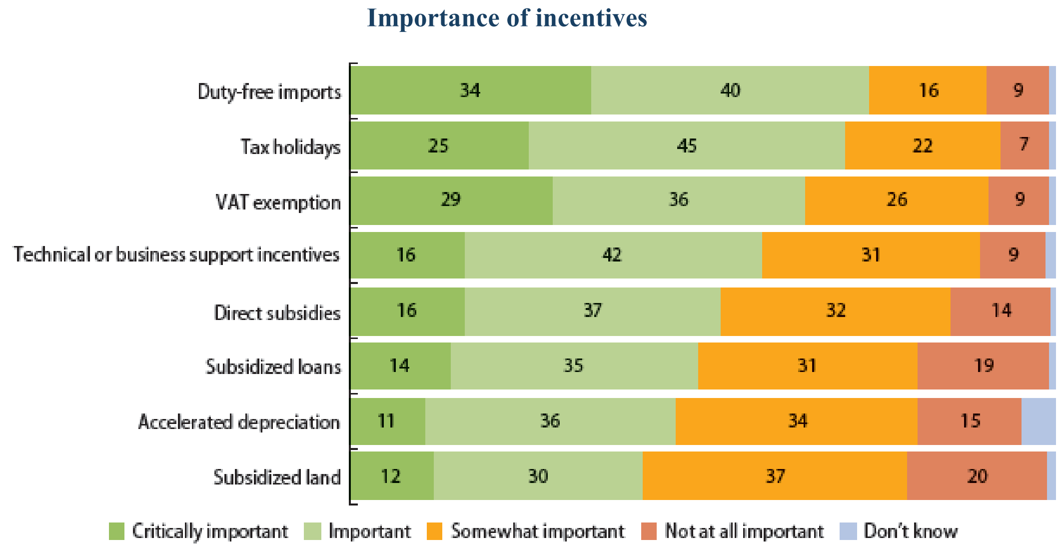
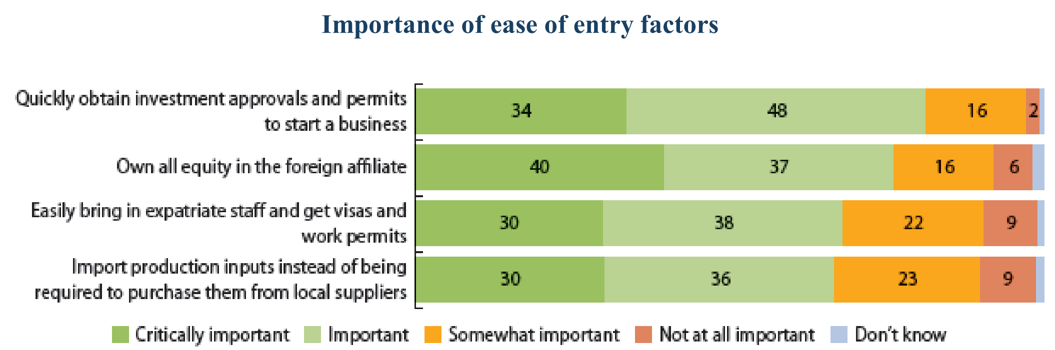
Duty-Free Imports, Tax Holidays, and VAT Exemptions Are the Most Attractive Investment Incentives
Share of respondents (percent)



Investors Strongly Value Business-Friendly Policies and Procedural Efficiency of Entry and Establishment of Affiliates
Share of respondents (percent)



Source: Computation based on the GIC Survey, Global Investment Competitiveness Report 2017/2018, Chapter 1.

What Matters to Investors in Developing Countries

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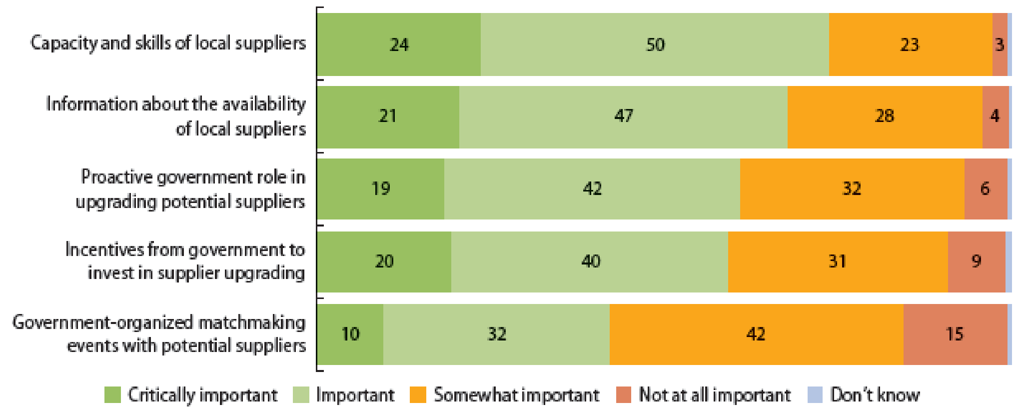
The height of the bars reflects the percentage of respondents that experienced disruption in any of their investments owing to the political risk identified. The risks are arranged in descending order from most frequently experienced at the top, to least frequently experienced at the bottom. The numbers across rows do not add up to 100% because respondents could select multiple types of disruptions that their companies had experienced. The horizontal bars show the responses of companies, with the darker red bars reflecting more severe reactions. The bars reveal the most severe reactions of companies after experiencing the particular disruption. If, for example, a company experienced withdrawing an existing investment in one country, but only delaying in another, the most severe reaction was considered and the company was included in the withdraw bar.

Capacity and Skills of Suppliers Are Critical Linkages-Related Features

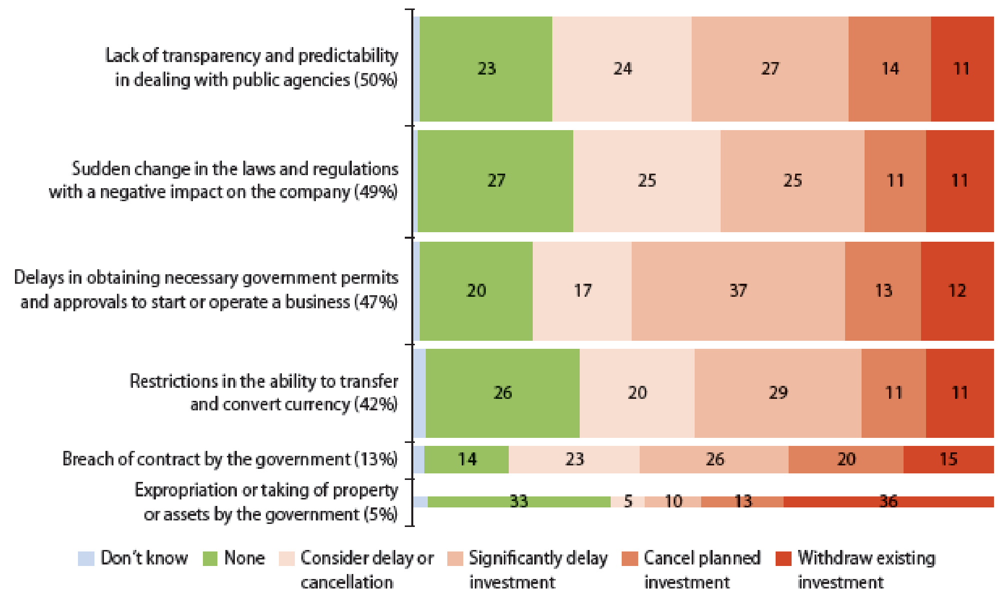
Share of respondents (percent)

Importance of factors related to linkag-



Severe Political Risks Are Infrequent but Can Have Highly Negative Effects on FDI

Share of respondents (percent)



Source: Computation based on the GIC Survey, Global Investment Competitiveness Report 2017/2018, Chapter 1.

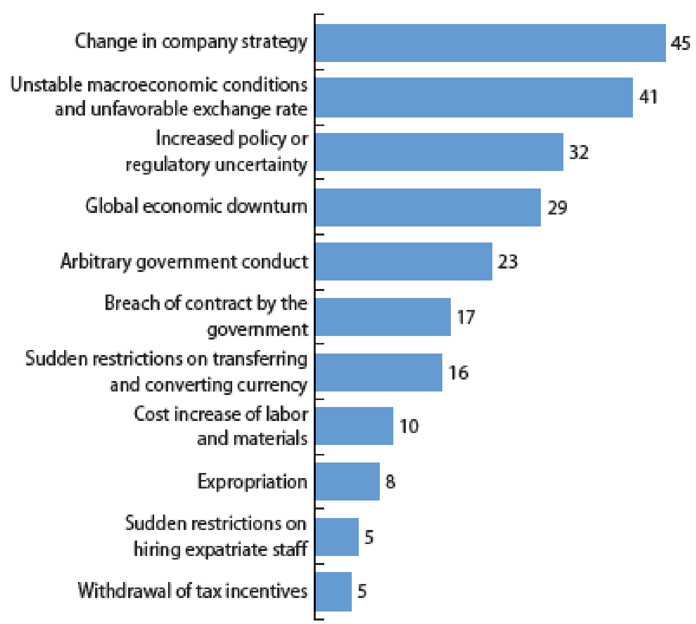
What Matters to Investors in Developing Countries

Results are based on 219 respondents that were aware that their companies had shut down an affiliate in a developing country. Shares do not add up to 100 because respondents could select up to five of the most relevant reasons

Respondents were asked, "How important are the following characteristics to your company's decision to invest in developing countries?" Factors were asked in random order. They are listed in the graph in descending order of importance, based on the combination of "critically important" and "important" in dark green and light green bars. Critically important means it is a deal-breaker; by itself this factor could change a company's decision to invest or not in a country.

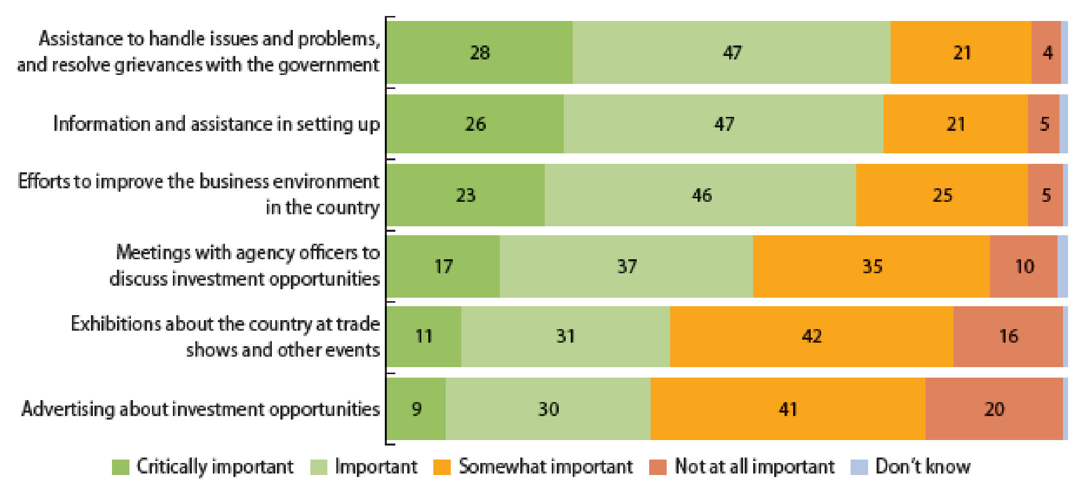
Reasons for Exiting an Investment Are Mixed, Some Controllable and Others Not
Share of respondents (percent)

Reasons for exiting an investment



Investors Value IPA Help in Resolving Problems and Setting Up More than Promotion Efforts
Share of respondents (percent)

Importance of IPA services



Source: Computation based on the GIC Survey, Global Investment Competitiveness Report 2017/2018, Chapter 1.

How Arab countries measure up?

3

Section

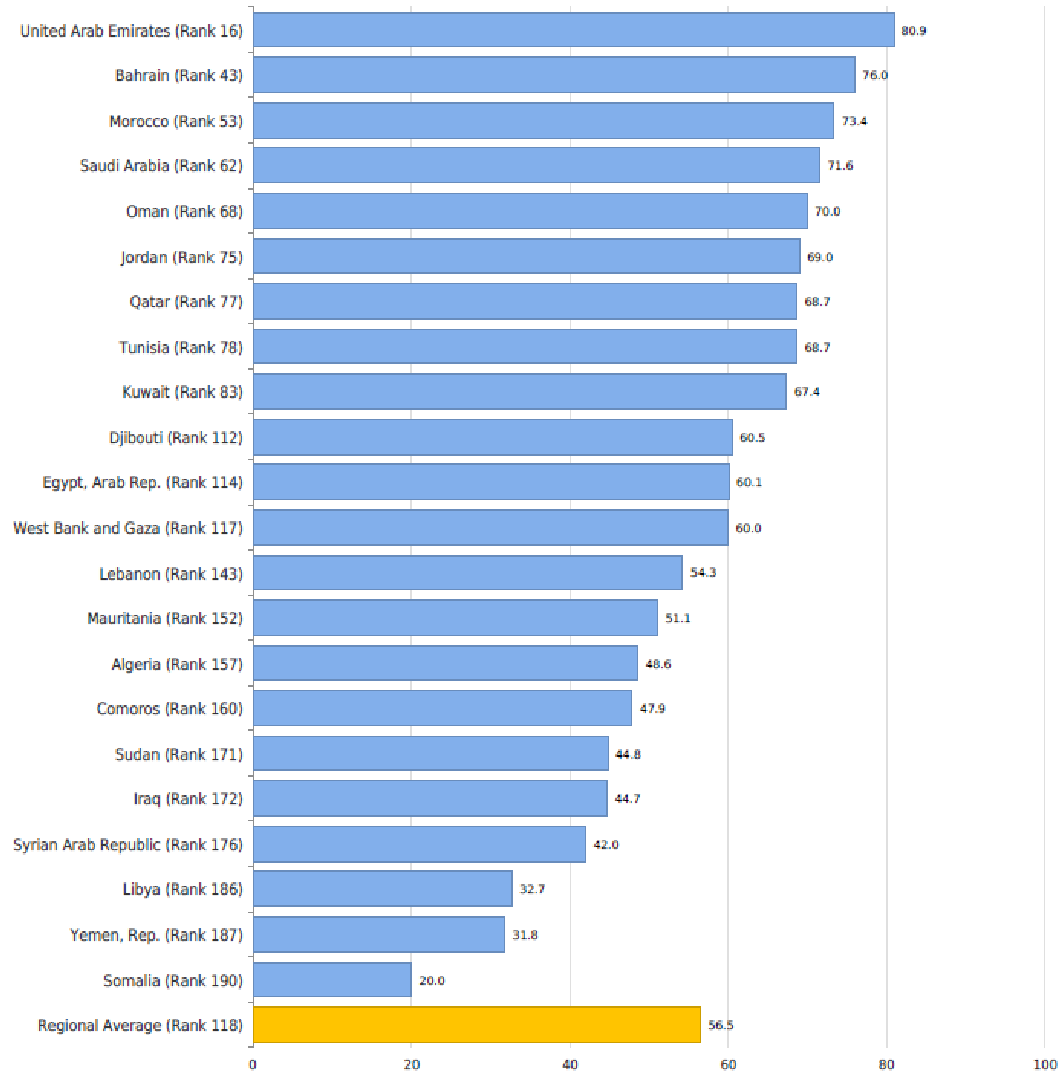
Ease of doing business and country risk

This section of the report builds on Doing Business Database (the World Bank) and Fitch Solutions' Country Risk Index (CRI). The latter quantifies the relative strength of a country's fundamentals and vulnerability to shocks, on a numerical scale. The composite CRI incorporates three dimensions of risk. First, the Economic Risk Index quantifies the risk and resilience to an economic crisis. Second, the Political Risk Index measures the impact of politics on business, considering the transmission mechanisms to the economy, i.e. expected effect of policies, capacity of enforcement, and likelihood of policy reversals. Third, the Operational Risk Index measures the quality of the business environment in four areas: labor market, trade and investment, logistics, and crime and security.

How Arab countries measure up

- The Arab region has continued to make solid strides in business environment reform in the last year, although with key regional disparities. We continue to highlight the **GCC** as the outperforming sub-region, especially in terms of investment and visa regulations, with **Saudi Arabia** and the **UAE** sticking out as the main reformers. Beyond these countries, however, the record over the last year has been more mixed, with political instability thwarting reform to a significant extent.
- Social unrest, or the threat of it, nevertheless continues to complicate reform efforts in large parts of the region. The governments of **Iraq** and **Lebanon** have both struggled to make any material progress on much-needed reforms, particularly to address corruption, in the last year. While much of the blame falls on their complex and fragmented political systems, it is also the case that widespread (and in Iraq's case, violent) protests have exacerbated existing political splits and hindered policy-making. Lebanon's successive governments in the last year have failed to embark on reforms with the depth required to drag it out of its current economic crisis. This applies to **Tunisia** as well where the threat of further instability has nonetheless discouraged authorities from pushing on with fuel price hikes and public sector wage freezes called for by the IMF. Similar issues have arisen in **Jordan**, where a weeks-long teachers' strike forced the government to agree to large-scale pay hikes, also in contravention to IMF demands.
- Overall, the Arab region's business environment appears to be improving the fastest globally. Although the Arab countries' regulatory quality still lags behind that of the Central and Eastern Europe (CEE) region, it is worth noting that they have also made the fastest strides globally in the last two years. If this momentum is sustained – notwithstanding the risks to policy-making outlined above – then foreign direct investment into the region could well start to grow over the medium term from its current, relatively weak levels.

How economies in Arab World rank on the ease of doing business 2020



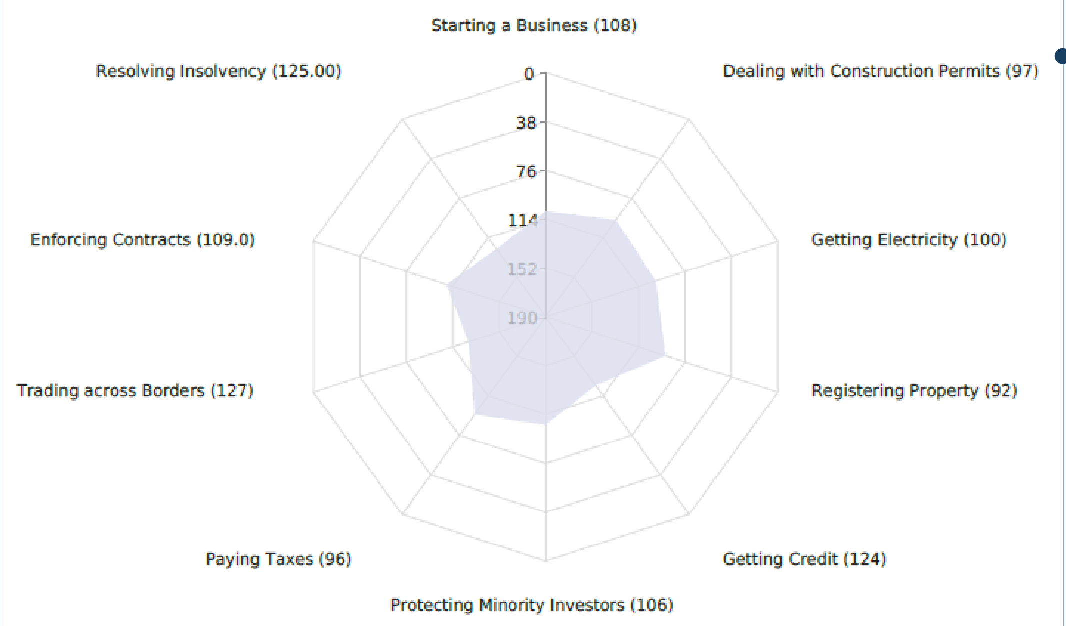
The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The ease of doing business ranking ranges from 1 to 190.

Source: Fitch Solutions and Doing Business database, doingbusiness.org.

How Arab countries measure up

Rankings on Doing Business topics - Arab World 2020

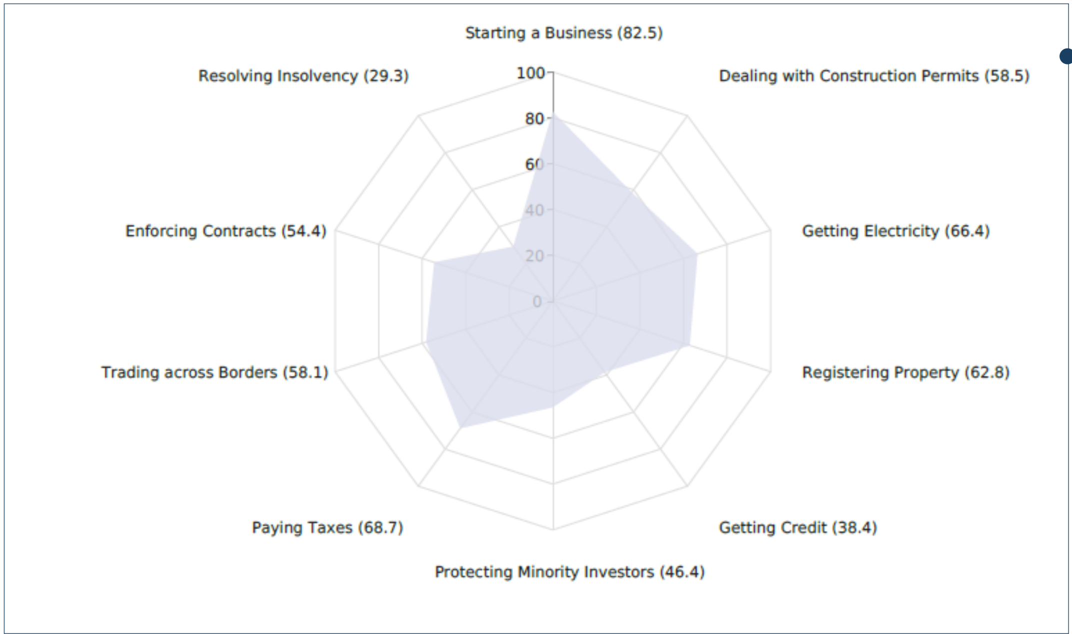
Regional average ranking (Scale: Rank 190 center, Rank 1 outer edge)



- **Kuwait** made starting a business easier by merging procedures to obtain a commercial license and streamlining the online company registration.
- **Saudi Arabia** made starting a business easier by establishing a one-stop shop that merged several pre-and postregistration procedures. Saudi Arabia also eliminated the requirement for married women to provide additional documents when applying for a national identity card.
- **Tunisia** made starting a business easier by merging more services into the one-stop shop and by reducing fees.
- The **United Arab Emirates** made starting a business less expensive by reducing the fees for business incorporation.

Scores on Doing Business topics - Arab World 2020

Regional average scores (Scale: Score 0 center, Score 100 outer edge)



- **Egypt** made starting a business easier by abolishing the requirement to obtain a certificate of non-confusion and improving its one-stop shop.

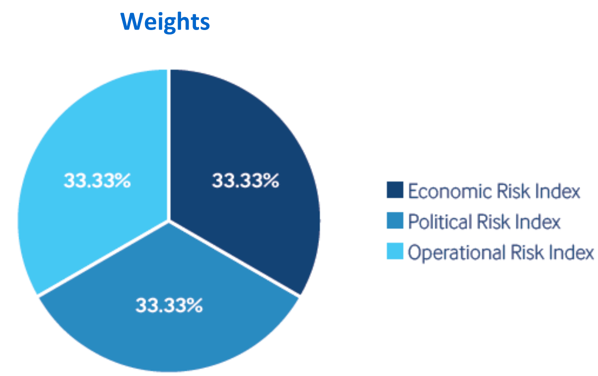
The ease of doing business score captures the gap of each economy from the best regulatory performance observed on each of the indicators across all economies in the Doing Business sample since 2005. An economy's ease of doing business score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance. The ease of doing business ranking ranges from 1 to 190.

Source: Doing Business database, doingbusiness.org.

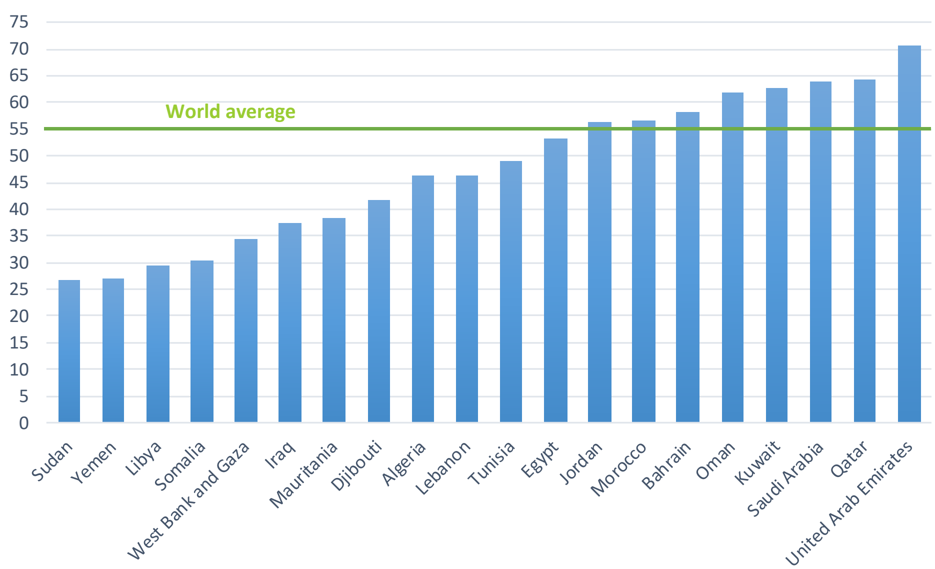
How Arab countries measure up

Fitch Solutions' Country Risk Index (CRI) quantifies the relative strength of a country's fundamentals and vulnerability to shocks, on a numerical scale. The score incorporates three dimensions of risk:

- Economic Strength, via the Economic Risk Index
- Political Stability, via the Political Risk Index
- Business Environment Quality, via the Operational Risk Index



Most of Arab countries below global average in Country Risk Index
Country Risk Index (Fitch Solutions, Higher is better)

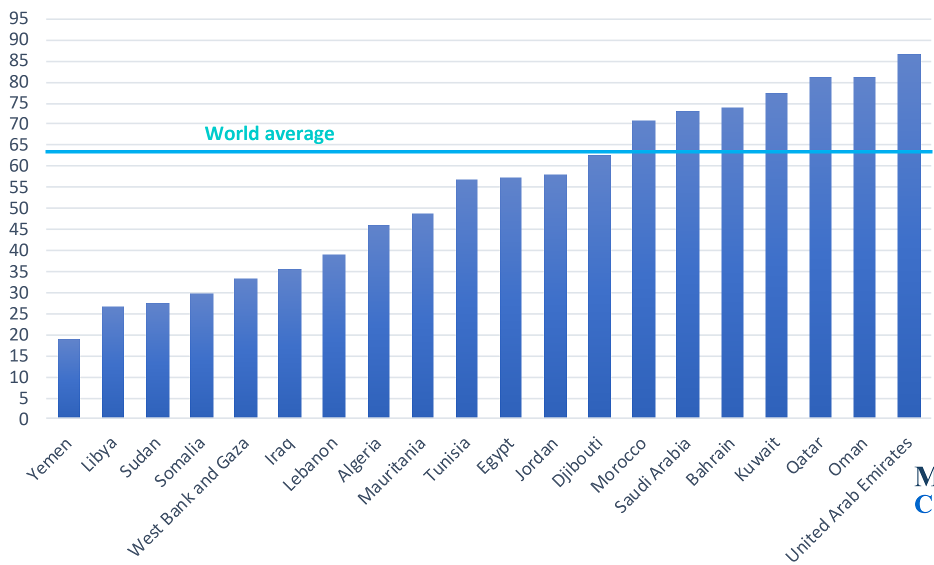


The composite Country Risk Index incorporates three dimensions of risk. First, the Economic Risk Index quantifies the risk and resilience to an economic crisis. Second, the Political Risk Index measures the impact of politics on business, considering the transmission mechanisms to the economy: expected effect of policies, capacity of enforcement, and likelihood of policy reversals. Third, the Operational Risk Index measures the quality of the business environment in 4 areas: labor market, trade and investment, logistics, and crime and security.

Source: Fitch Solutions, fitchconnect.com

How Arab countries measure up

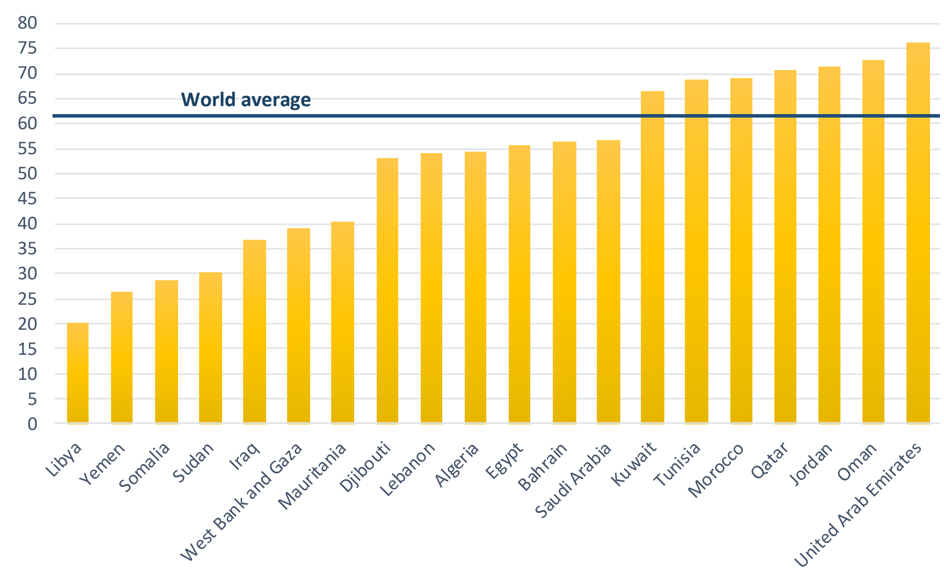
Most of Arab countries below global average in Short Term Political Risk Index
Country Risk Index (Fitch Solutions, Higher is better)



The Short Term Political Risk Index assesses pertinent political risks to investment climate stability over a shorter time frame, up to 24 months forward. The STPRI components are best viewed as Fitch Solutions' assessment of whether the government can deliver its chosen agenda, without facing civil unrest, gridlock in policy making, or regional external threats within the short to medium term.

Most of Arab countries below global average in Long Term Political Risk Index
Country Risk Index (Fitch Solutions, Higher is better)

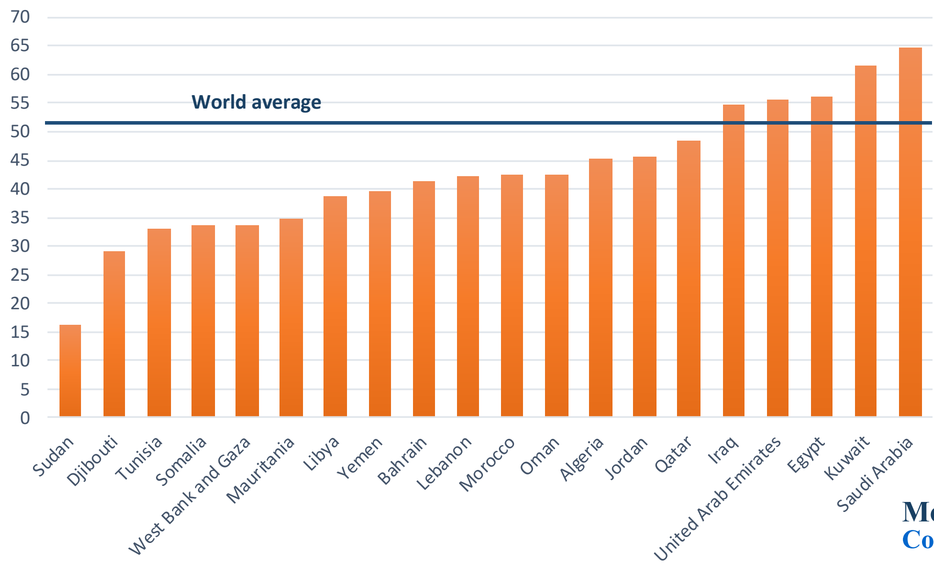
The Long-Term Political Risk Index assesses a country's structural political characteristics based on the assumption that liberal, democratic states with no sectarian tensions and broad-based income equality exhibit the strongest characteristics in favor of political stability, over a multi-year timeframe. It is Fitch Solutions' view that this offers a template for greater long-term stability as (a) opposition to the incumbent government can be resolved within the existing system; (b) the elected elite has sufficient power to govern (i.e., enforce its policies within the state's territory), and (c) there are only limited existential threats to the prevailing constitutional order from an alternative world view.



Source: Fitch Solutions, fitchconnect.com

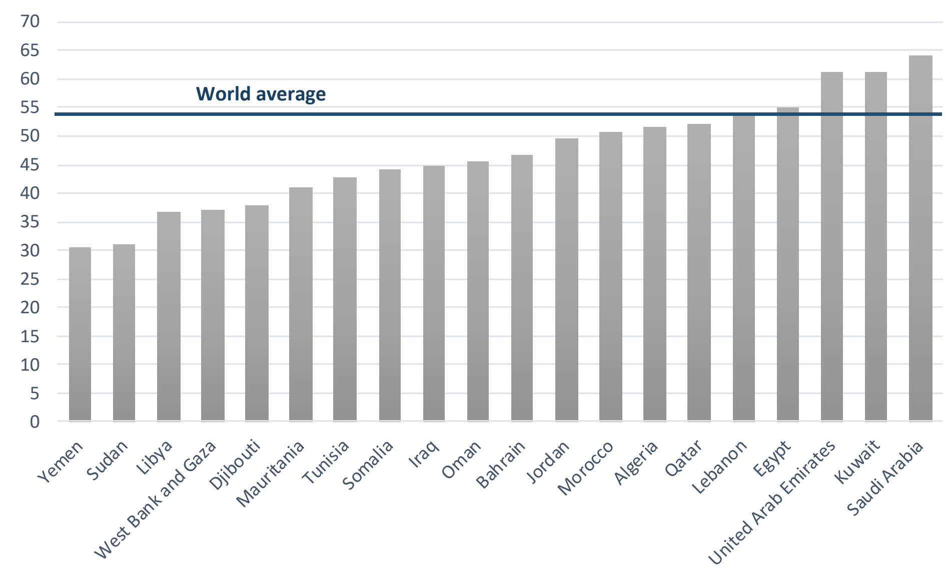
How Arab countries measure up

Most of Arab countries below global average in Short Term Economic Risk Index
Country Risk Index (Fitch Solutions, Higher is better)



The Short Term Economic Risk Index (STERI) seeks to define current vulnerabilities and assess real GDP growth, inflation, unemployment, exchange rate fluctuation, balance of payments dynamics, as well as fiscal and external debt credentials over the coming two years, using the current year as a reference point. This skews the STERI in favor of economies with low twin deficits (current account and fiscal) or surpluses, low inflation and higher growth rates. There is also a subjective component, which measures the perceived independence of the central bank in monetary policy.

Most of Arab countries below global average in Long Term Economic Risk Index
Country Risk Index (Fitch Solutions, Higher is better)



The Long-Term Economic Risk Index takes into account the structural characteristics of economic growth, the labor market, price stability, exchange rate stability and the sustainability of the balance of payments, as well as fiscal and external debt outlooks. The Index is calculated by looking at the previous five years of economic data and our forecasts for the next five years. A number of other structural factors are also taken into account, including dependence on the primary sector, reliance on commodity imports, reliance on a single export sector, and central bank independence.

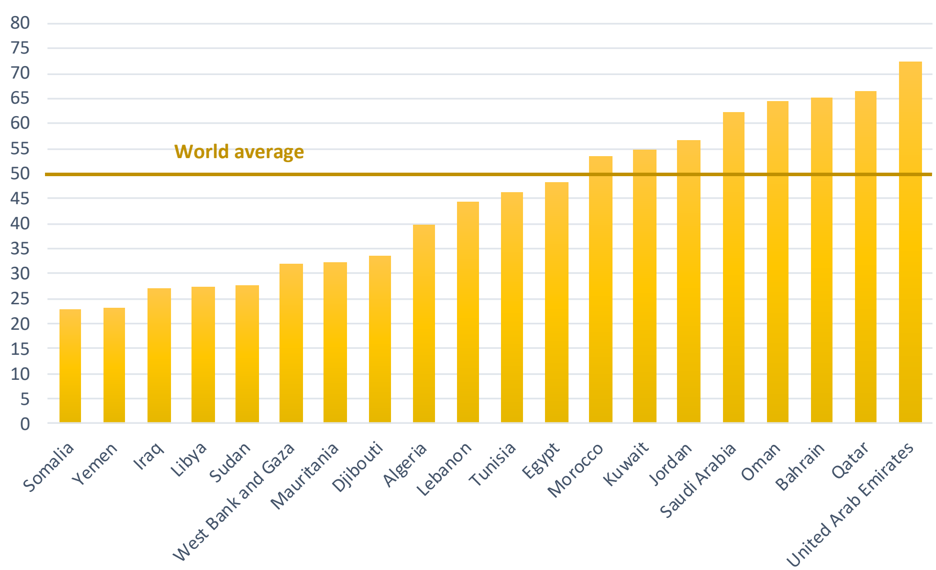
Source: Fitch Solutions, fitchconnect.com

How Arab countries measure up

The Operational Risk Index focuses on four main risk areas: labour market, trade and investment, logistics, and crime and security:

- Labour Market: evaluation of the risks surrounding the size, education levels and costs of employing workers in a country.
- Logistics: evaluation of the quality and extent of the transport infrastructure, ease of trading, and quality and availability of utilities.
- Trade and Investment: evaluation of the openness of an economy, level of government intervention and the quality and efficacy of the legal environment.
- Crime and Security: evaluation of operating conditions with respect to interstate conflict risk, terrorism, crime, including cyber crime and organized crime.

Most of Arab countries below global average in Operational Risk Index
Country Risk Index (Fitch Solutions, Higher is better)

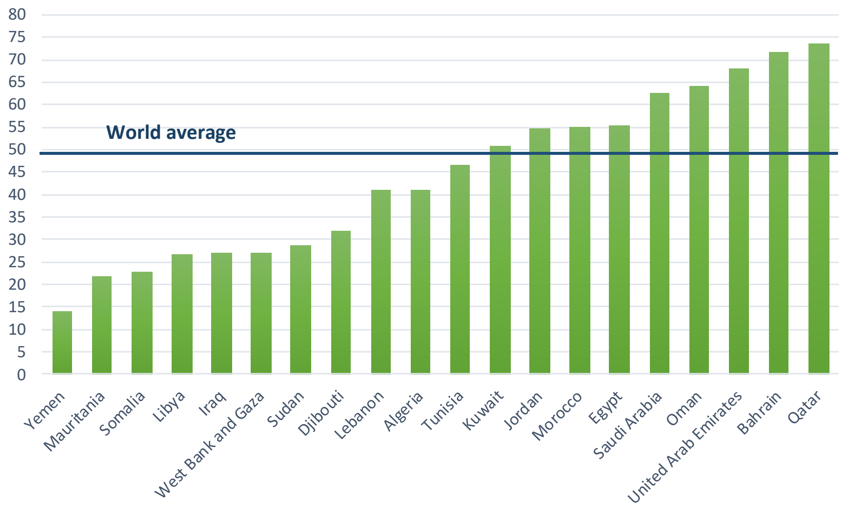


Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk. Each country has a headline Operational Risk Index score, which is made up of four categories of analysis, each further broken down into three sub-sectors. The individual categories and sub-categories are also scored out of 100, with 100 the best. The index focuses on four main risk areas: labor market, trade and investment, logistics, and crime and security.

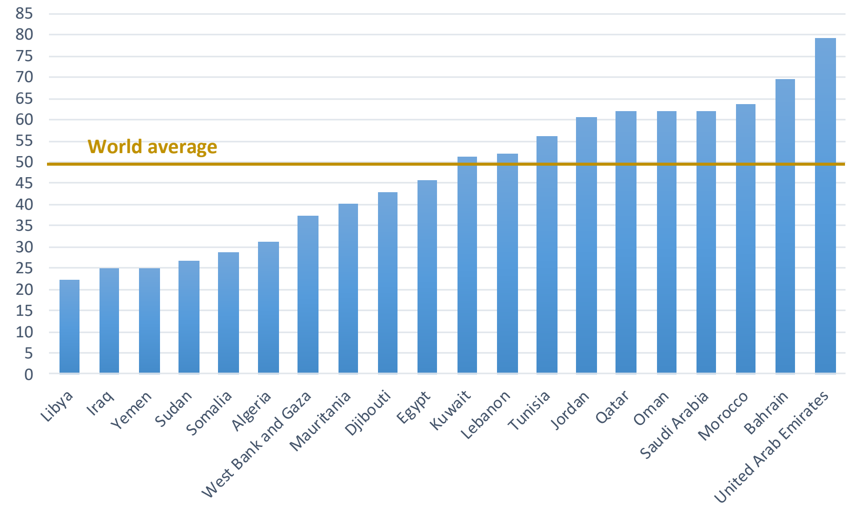
Source: Fitch Solutions, fitchconnect.com

How Arab countries measure up

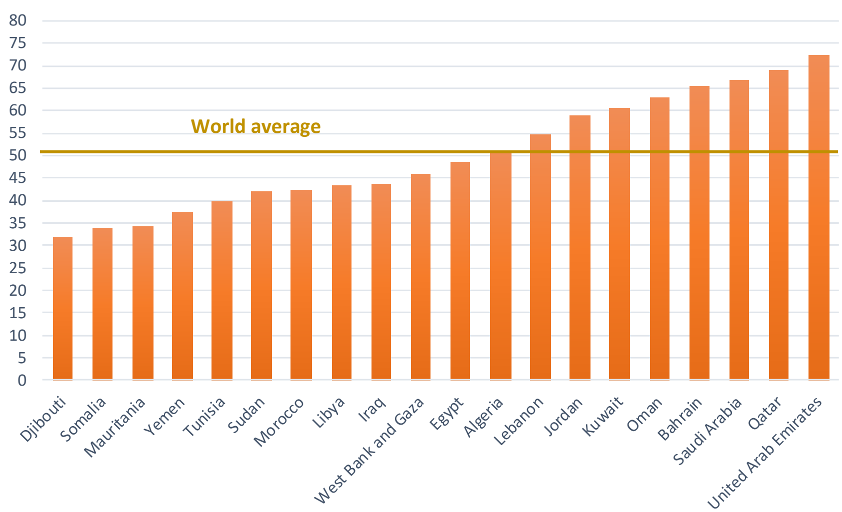
More than half Arab countries below global average in Logistics Risk Index
Country Risk Index (Fitch Solutions, Higher is better)



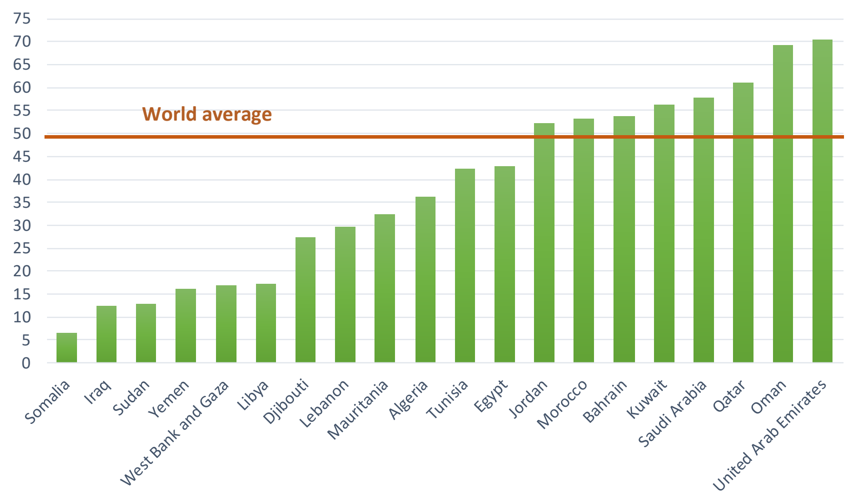
Half Arab countries below global average in Trade and Investment Risk Index
Country Risk Index (Fitch Solutions, Higher is better)



More than half Arab countries below global average in Labor Market Risk Index
Country Risk Index (Fitch Solutions, Higher is better)

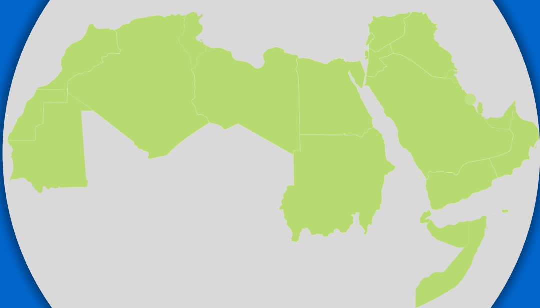


Most of Arab countries below global average in Crime and Security Risk Index
Country Risk Index (Fitch Solutions, Higher is better)



Source: Fitch Solutions, fitchconnect.com

Global FDI trends monitor



4

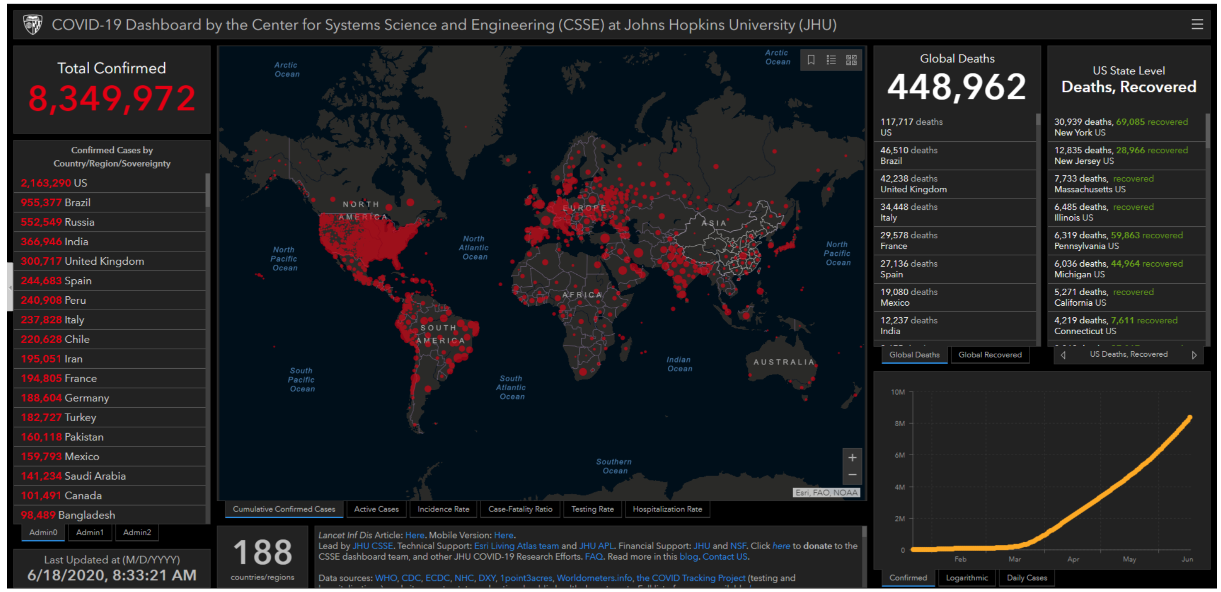
Section

Impact of the outbreak Covid-19

The coronavirus outbreak, dubbed COVID-19, is spreading human suffering worldwide. It is first and foremost a human tragedy, affecting millions of people globally. Consequently, minimizing the humanitarian cost of this pandemic and effectively solving the challenges posed by COVID-19 needs to be the top priority for all. However, it is important to note that COVID-19 is most definitely spreading economic suffering worldwide. This section of the report is intended to provide readers with an initial perspective on the potential impact on global FDI and implications for specific sectors.

Covid-19 outbreak global economic impact

- The contagious coronavirus, named SARS-CoV-2 (formerly 2019-nCoV), which broke out at the close of 2019, has led to a medical emergency across the world, with the World Health Organization officially declaring the novel coronavirus a pandemic on 26 March 2020.
- The virus has now spread to 188 countries and territories with over 8,350,000 confirmed cases and more than 449,000 deaths (June 18th), with its spread outpacing other major infectious outbreaks from the past.
- Fears surrounding the impact of Covid-19 have already significantly impacted the world's top economies, with key markets across the globe losing 20-50% of their value year-to-date.
- Many economists and institutions have cut their forecasts, with consensus global GDP growth currently at 2.6% for 2020, and many experts predicting the potential onset of recessionary environments.
- Global companies are also concerned about the rising risk of Covid-19, with thousands of the world's leading companies explicitly mentioning its impact on their business in their latest company filings.
- The impact scenarios for the pandemic are evolving day-by-day in response to the rapid spread of the virus. The UNCTAD projects the downward pressure on global FDI to be in the range of **-30%** to **-40%** leading up to 2021.
- The top 5,000 multinationals, which account for a significant share of global FDI, now forecast downward revisions of their 2020 earnings estimates of -30% on average, with peaks of -200% in the most affected industries, and this trend is likely to deteriorate further.
- The pandemic coupled with the necessary mitigation measures and lockdowns is affecting all components of FDI. Capital expenditures, greenfield investments and expansions are all on hold due to the physical closure of sites and production slowdowns. New mergers and acquisitions (M&As) announcements are on course to drop by -70% globally in Q1.



Source: the Center for Systems Science and Engineering (CSSE) at Johns Hopkins University (JHU), Last Updated 6/18/2020, 9:58:14 AM
https://www.arcgis.com/apps/opsdashboard/index.html#/bda7594740fd40299423467b48e9ecf6

Earnings revisions and capital expenditures of the top 5000 MNEs

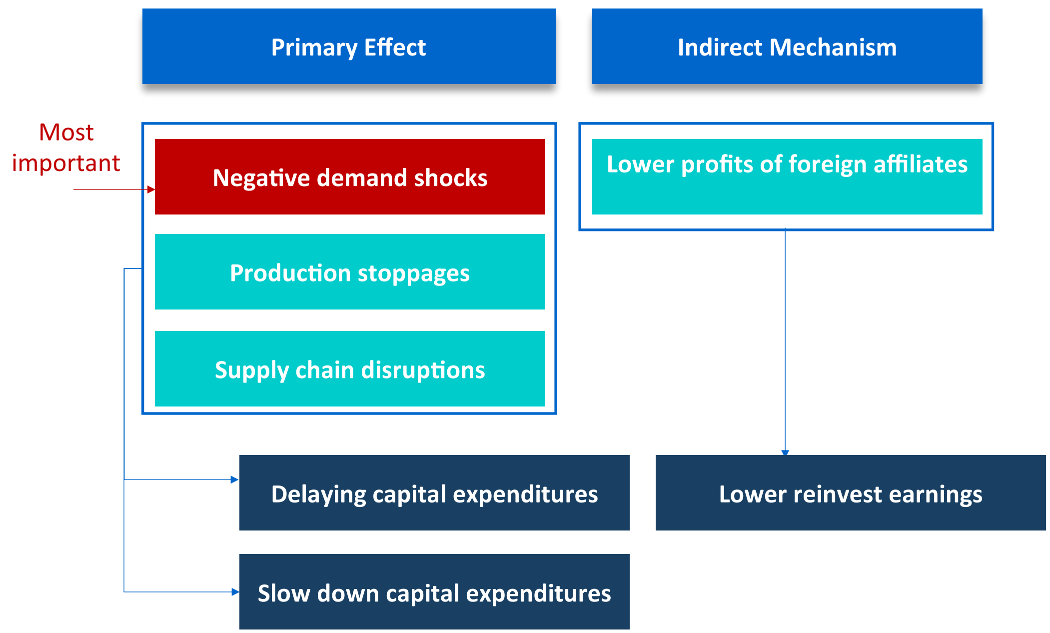
Sector/industry	Number of companies with earnings revisions	Average earnings revision by March 23rd (%)	(March 4th)	Share of capital expenditures, 2019 (%)
Basic Materials	483	-20	(-13)	8
Consumer Cyclicals	810	-24	(-16)	16
Airlines	56	-116	(-42)	2
Hotels, Restaurants & Leisure	125	-41	(-21)	2
Consumer Non-Cyclicals	447	-8	(-4)	6
Energy	289	-208	(-13)	20
Healthcare	216	-2	(0)	3
Industrials	910	-20	(-9)	14
Automobiles & Auto Parts	169	-47	(-44)	9
Technology	412	-7	(-3)	11
Telecommunications Services	125	-4	(1)	11
Utilities	220	-9	(-5)	10
Total	*3'912*	*-30*	*(-9)*	*100*

Source: Investment Trends Monitor, Special Issue, UNCTAD, March 2020

Covid-19 outbreak global economic impact

- The outbreak of Covid-19 will slow down capital expenditures of Multinational Enterprises (MNEs) and their foreign affiliates. Production locations that are closed or that operate at lower capacity will temporarily halt new investment in physical assets and delay expansions.
- Greenfield investment projects that are already ongoing will also be affected by this. As new investment projects have a long gestation period and a lifecycle that can span decades. However, depending on the severity of the recessionary impact of the pandemic, projects could be interrupted or shelved indefinitely.
- Like greenfield projects, M&As are generally long-term commitments to overseas markets. Nevertheless, completions of already announced M&A transactions are running into delays that could result in cancellations. Data for February show a significant drop in the completion rate of cross-border acquisitions, to below $10 billion from normal monthly values of $40-50 billion. Announced cross border M&A transactions worldwide averaged 1200 deals per month in 2019, with all months above 1000. They fall to 874 in February 2020 and 385 in March so far (until 20 March). They would be on course for a 50% decrease in March, and at this clip a 70% decline from last year's level next month. The decrease is the same in value terms.
- Market-seeking investment and FDI projects in extractive industries could be delayed worldwide as a result of negative demand shocks. For now, the demand shock is most serious in China; for example, Toyota reported a 70% drop in sales in China in February. But the impact is already visible in major markets beyond China as well, especially in consumer-facing industries such as travel and tourism, retail and wholesale, and other consumer cyclicals.
- The negative effect on efficiency-seeking investment – in production facilities that are closely integrated in global value chains (GVCs) – will be concentrated primarily in China and East and South-East Asia at first. However, they could rapidly spread outside the region through GVC linkages.
- The MNEs in UNCTAD's Top 100 – the largest MNEs worldwide based on their foreign assets, foreign sales and foreign employees published annually in the World Investment Report – are indicative of the impact that Covid-19 could have on investment trends. Of the Top 100, 69 have already made a statement regarding the impact of Covid-19 on their business. Of those, 41 have issued profit alerts or signaled increased risks, with 10 anticipating lower sales, 12 expecting negative effects on production or supply chain disruptions, and 19 expecting to be affected by both.
- The automotive MNEs in the Top 100 appear to be most affected, with all 12 signaling negative implications (8 out of 12 due to production or supply chain disruptions). Nine out of 13 MNEs in the electronic components and equipment sectors have done the same. Most of the extractive industry and basic materials and chemicals MNEs, as well as the consumer goods firms in the top 100, have issued warnings about negative demand shocks.
- Looking at a wider sample of the global top 5000 (listed) MNEs, for almost 80% of these MNEs earnings forecasts for fiscal year 2020 have been revised down in the last month and until 23 March by an average 30 %. This cold affect 52% of FDI flows, assuming that losses are spread uniformly across MNE operations. In reality, it is more likely earnings losses would be concentrated in foreign affiliates in affected areas, further augmenting the impact on reinvested earnings.

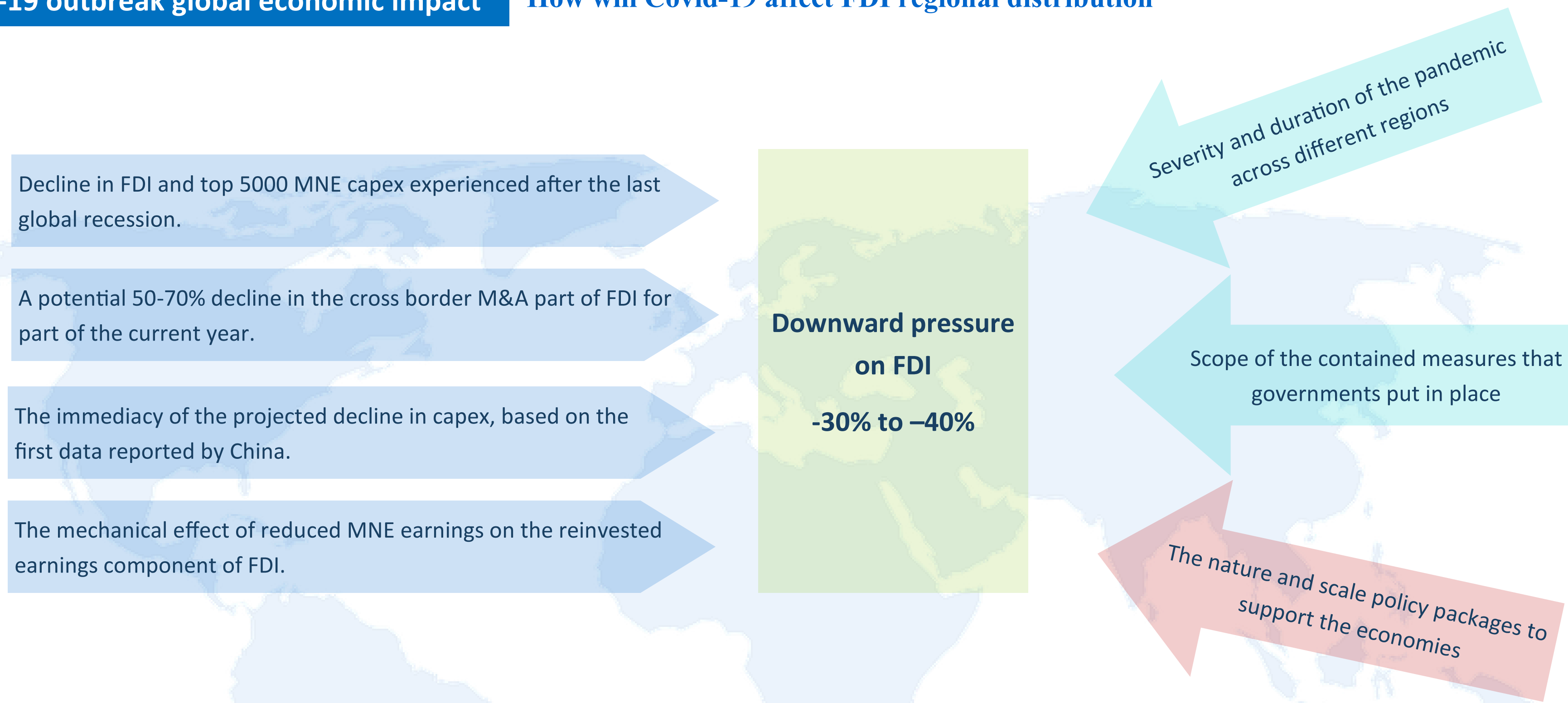
How will Covid-19 affect FDI



Source: Investment Trends Monitor, Special Issue, UNCTAD, March 2020

Covid-19 outbreak global economic impact

How will Covid-19 affect FDI regional distribution



Earnings revisions of the top 5000 MNEs and relative importance of reinvested earnings in FDI by region

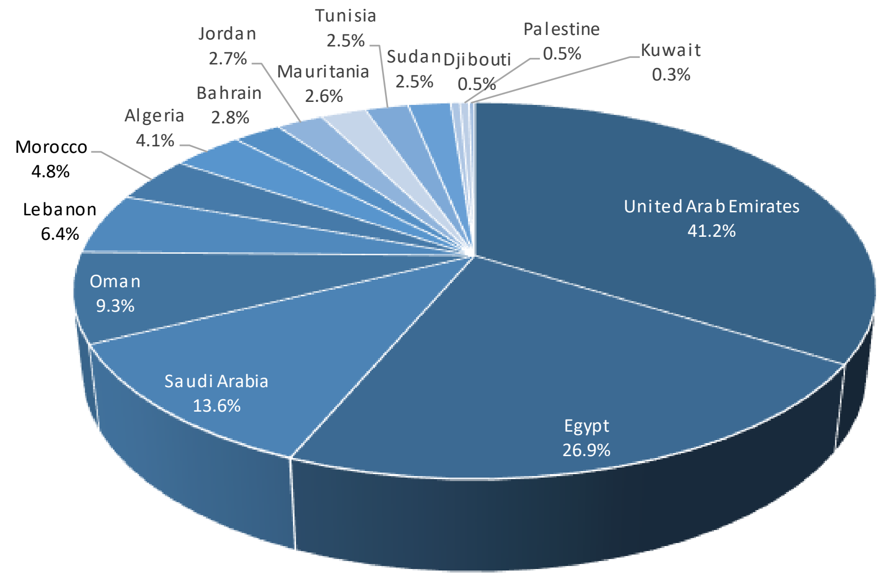
Region	Number of companies with earnings revision	Average earnings revision by March 23rd (%)	Share of reinvested earnings in FDI in 2018 (%)
Developed	2663	-35	61
Developing Countries	1249	-20	40
Africa	*54*	*-11*	*27*
Developing Asia	*1031*	*-21*	*41*
Latin America and Caribbean	*124*	*-14*	*43*
Transitions economies	40	-18	93
Total	**3912**	**-30**	**52**

Source: Investment Trends Monitor, Special Issue, UNCTAD, March 2020

Impact on inward FDI in the Arab region

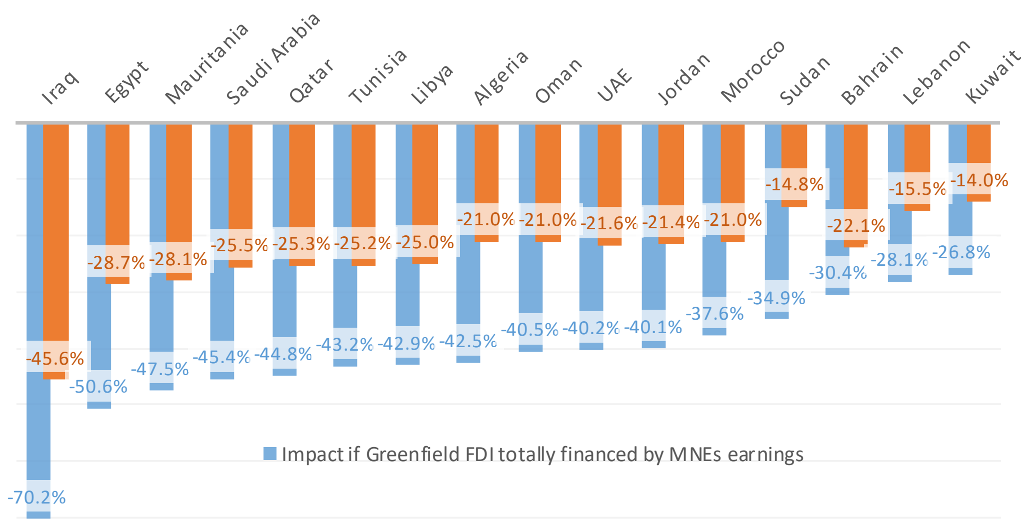
- UNCTAD data show that FDI inflows in the Arab region totaled around $34.7 billion in 2019. The top five Arab FDI recipients absorbed almost all the inflows to the region in 2019 (99%), compared with 90% in 2018.
- Until today and as far as we know, no plausible estimates have been made for the Arab region on the likely impacts of Covid-19 on FDI inflows. At the same time, an unprecedented number of macroeconomic assessments are being published on a daily basis describing detailed impacts on economic and social performance both at the global and country level.
- Despite the relevance of these economic assessments, they omit the important role of FDI as one of the three drivers of economic growth, in addition to domestic demand and exports. Indeed, the potential macroeconomic effects of the crisis as outlined in existing studies would be far worsened if they accounted for the drying up and even reversing of FDI flows.
- Performing more plausible assessments based on up-to-date and detailed knowledge of the channels of impacts by country is an important step in understanding the impacts and designing the mitigation or stimulus impacts. Concrete evaluations of the expected changes in exports, consumption and investment (including FDI) are a prior condition to evaluating aggregate effects on GDP.
- The situation is more problematic in the Arab region, where many countries are highly dependent on the world oil market, which is the sector most affected by the pandemic and ensuing economic climate.
- To fill this assessment gap, we performed an original assessment for the Arab region based on the latest available information on the earnings revisions and capex of the top 5,000 MNEs by region and sector.

Total FDI inflows composition of the Arab region, 2019

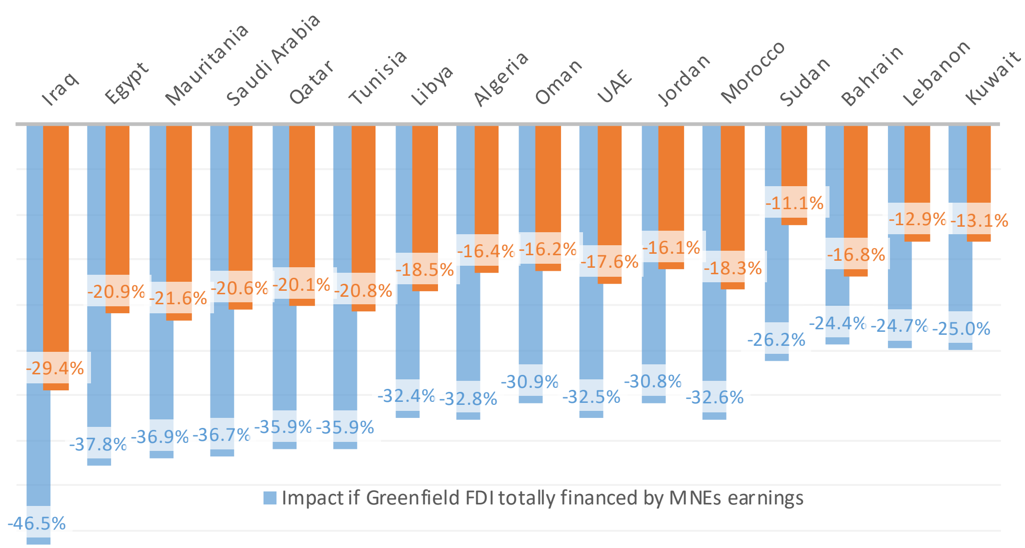


- Two alternative assumptions have been adopted in the calculations about the share of earnings invested. The first assumes that only a share of the earnings is invested while the second assumes that all earnings are invested. Under both cases, it has been also assumed that FDI inflows in the Arab region will be mechanically affected by the reduced level of earnings. In other terms, all new foreign capital investment will be exclusively funded from the earnings.
- Moreover, two alternative periods have been considered as a benchmark for the calculations: 2003-19 and 2015-19. Finally, the level of earnings revisions of the top 5,000 MNEs have been estimated under two alternative aggregation approaches (additive and geometric) of sectoral and regional average earnings revisions .
- The results show that if only a portion of earnings are invested based on the previous trends, FDI inflows in the Arab region are expected to drop by between 21% and 29% in 2020 compared with projections. In addition, the losses for job creation will vary between 13% and 16% compared with a situation without the pandemic.
- In the case where all earnings will be invested, the impacts are much more pronounced and the Arab region will face a serious problem in terms of financing investment, creating jobs and even achieving external payments balance. In fact, under this hypothesis, FDI inflows will drop at least 33% but may reach 51%.
- The most affected country is Iraq followed by Egypt, Saudi Arabia, Mauritania and Tunisia. Kuwait and Lebanon are expected to be less affected.

Impact of Covid-19 on greenfield FDI in the Arab countries (weighted linear summation)



Impact of Covid-19 on greenfield FDI in the Arab countries (geometric aggregation)

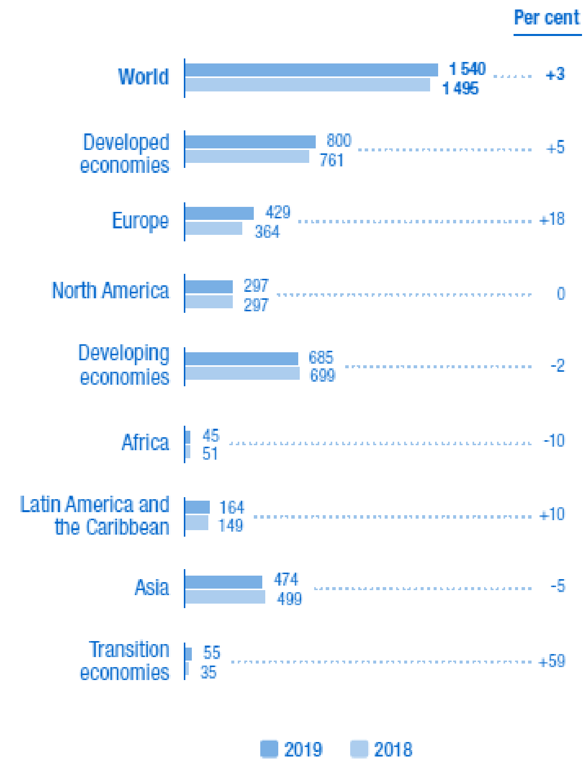


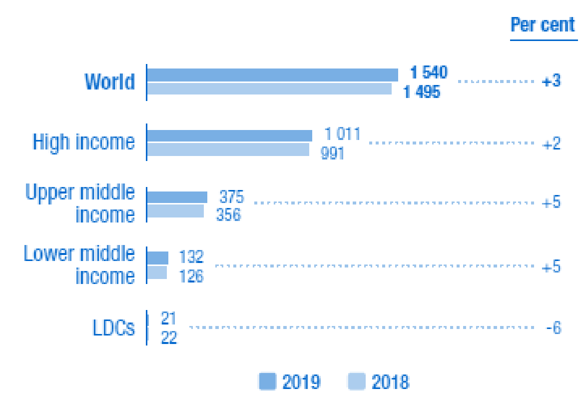
- The impact of the pandemic on the region's FDI inflows will be immense. The estimated total losses of FDI inflows for the Arab region will be between $7.1 and $17.2 billion.
- Regardless of which sectors suffer more in relative terms, a drop in investment of that scale will be economically and socially costly for many Arab economies, both through direct and indirect effects.
- Meanwhile, the sectoral distribution of the loss in FDI inflows is uneven in terms of size. Manufacturing and mining are likely to be hit particularly hard, followed by construction and education. These have severe implications, given the job creation by each sector and type of investment.
- Based on these new estimates at country and sectoral level, economy-wide assessments of the impacts of the reduction in FDI inflows in the region will be carried out in a second stage, which represents a major improvement compared with the previous ex ante assessments of the economic impacts of Covid-19.
- The findings of this exercise call for the importance of mainstreaming investment policies in general and those for foreign investors in particular in all stimulus programs for economy recovery currently in progress.
- Indeed, the projected FDI falls will have effects across the economy, choking off financing, business expertise, market access and other factors that are needed to help the region grow and develop.
- Furthermore, temporary controls on capital flight similar to those employed successfully in Malaysia during the 1997-98 financial crisis can be explored as a means to stem harmful and severe investment outflows, while also ensuring long-term returns for the investors.

2019 FDI inflows trends

- Global FDI flows rose modestly in 2019, following the sizable declines registered in 2017 and 2018. At $1.54 trillion, inflows were 3% up. They remained below the average of the last 10 years and some 25% off the peak value of 2015. The rise in FDI was mainly the result of higher flows to developed economies, as the impact of the 2017 tax reforms in the United States waned. Flows to transition economies also increased, while those to developing economies declined marginally. FDI stock increased by 11%, reaching $36 trillion, on the back of rising valuations in global capital markets and higher MNE profitability in 2019.
- FDI flows to developed economies rose by 5%, to $800 billion, from their revised level of $761 billion in 2018. The increase occurred despite weaker macroeconomic performance and policy uncertainty for investors, including trade tensions and Brexit.
- FDI flows to developing economies declined marginally, by 2%, to $685 billion. Since 2010, flows to developing economies have been relatively stable, hovering within a much narrower range than those to developed countries, at an average of $674 billion.
- The slump in FDI flows to Africa in 2019, by 10% to $45 billion, was due to more moderate economic growth and dampened demand for commodities. This reduced flows to countries with relatively more diversified FDI inflows (e.g. South Africa, Morocco and Ethiopia) as well as flows to commodity-exporting economies (e.g. Nigeria, the Sudan). Few countries received higher inflows in 2019. Flows to Egypt – the largest recipient of FDI in Africa – increased by 11% to $9 billion.
- In 2019, FDI flows into developing Asia declined by 5 per cent, to $474 billion. Despite the decline, it remained the largest FDI recipient region, hosting more than 30% of global FDI flows. The decline was driven primarily by a 34% fall in Hong Kong (China). The largest five recipients were China, Hong Kong (China), Singapore, India and Indonesia. With reported inflows reaching an all-time high, China continued to be the second largest FDI recipient after the United States.
- FDI flows to Latin America and the Caribbean (excluding financial centres) increased by 10% to $164 billion. FDI rose in Brazil, Chile, Colombia and Peru, much of it in commodities, although investment in utilities and services increased as well. In 2019, Latin America and the Caribbean also became a hotspot for FDI in renewable energy.
- Transition economies saw FDI inflows increase by 59 per cent, to $55 billion, prompted by a recovery of FDI in the Russian Federation, an uptick in Ukraine following two years of decline and an increase in newly liberalizing Uzbekistan.

FDI inflows, by region, 2018 and 2019 (Billions of dollars and per cent)





Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

2019 FDI inflows in the Arab countries

- Inward FDI flows in Arab countries increased slightly by 2.3%, to 34.7 billion dollars in 2019.
- Inward investments in Arab countries represented 2.3% of the world total amount of 1,540 billion dollars, and 5.1% of the developing countries' total amount of 685 billion dollars. Over the last decade, the share of Arab countries of the total world flows had been stable at 3% from 2008 to 2012 before starting to decline in 2013 to 1.3 and 1.7% in the years 2015 and 2016, then to 1.8% in 2017 before rising slightly to 2.3% in 2018.
- The United Arab Emirates was the largest FDI recipient in the Arab region, with flows of almost $14 billion, growing by a third from the previous year. This was largely due to major investment deals in oil and gas, primarily in Abu Dhabi. For example, BlackRock (United States) and KKR Global Infrastructure (United States) acquired a 40% ownership interest in the pipeline assets of the Abu Dhabi National Oil Company for about $4 billion. Also, Eni SpA (Italy) acquired a 20% stake in Abu Dhabi Oil Refining Company for more than $3 billion. Abu Dhabi has supported FDI inflows to the United Arab Emirates for the past few years with its streamlined procedures and capacity in facilitating megadeals. In 2019, the Emirate further strengthened its commitment to foreign investment by launching the Abu Dhabi Investment Office under the Ghadan 21 program, a broad-based initiative to enhance the commercial ecosystem, including by cultivating an attractive and diversified environment for FDI.
- Flows to Saudi Arabia increased for the second consecutive year by a further 7% to $4.6 billion, mainly because of a few large M&A deals. The new investment policy and a broader economic reform program under the Saudi Vision 2030 initiative are intended to improve the country's investment environment and promote economic diversification. Several large non-oil investment deals took place in 2019. For instance, Tronox (United States) acquired a stake in National Titanium Dioxide Company for more than $2 billion, RAM Holdings (United Arab Emirates) invested $600 million to increase its ownership in Banque Saudi Fransi and Tenaris (Luxembourg) acquired a stake in Saudi Steel Pipe Company for $144 million. A major greenfield project is being implemented by Pan-Asia Pet Resin (China), a plastic bottle supplier, which launched a facility in Jazan City valued at approximately $1 billion.
- FDI inflows to North African Arab countries decreased by 11% to $13.7 billion, with reduced inflows in all countries except Egypt. Egypt remained the largest FDI recipient in Africa in 2019, with inflows increasing by 10.7% to $9 billion. Economic reforms instituted by the Government have improved macroeconomic stability and strengthened investor confidence in the country. Although FDI was still driven by the oil and gas industry, investments have been made in the non-oil economy as well, notably in telecommunication, consumer goods and real estate. One of the largest investments was by an Israeli consortium, which acquired a 39% stake in East Mediterranean Gas, an oil and gas pipeline service provider, for more than $500 million. FDI flows to Morocco decreased by more than 55% to $1.6 billion in 2019. FDI to the Sudan fell by more than 27% to $825 million in 2019, primarily in oil and gas exploration and in agriculture. In Tunisia, FDI flows decreased by 18.5% to $845 million due to slow economic growth (1% in 2019). Most FDI went to the industrial sector ($450 million), followed by energy ($300 million) and services ($95 million). There was a sharp decline in investment in the services sector.

FDI inflows in the Arab countries, 2018 and 2019
(Millions of dollars)

Economy	2018	2019
United Arab Emirates	10385.3	13787.5
Egypt	8141.3	9010.0
Saudi Arabia	4247.0	4562.0
Oman	4190.5	3124.6
Lebanon	2653.9	2128.3
Morocco	3558.9	1599.1
Algeria	1466.1	1381.9
Bahrain	1654.3	941.8
Jordan	954.9	915.8
Mauritania	772.9	885.3
Tunisia	1035.9	844.8
Sudan	1135.8	825.4
Somalia	408.0	447.0
Djibouti	170.0	181.9
Palestine	251.6	175.7
Kuwait	204.0	104.4
Comoros	6.9	7.9
Yemen	-282.1	-371.0
Qatar	-2186.3	-2812.6
Iraq	-4885.1	-3075.6

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

FDI inward Stocks in the Arab countries, 2000 and 2010-2019
(Millions of dollars)

Region/economy	2000	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Algeria	3 378.9	19 540.2	22 120.8	23 620.3	25 317.1	26 823.9	26 239.3	27 875.6	29 108.0	30 574.1	31 956.0
Bahrain	5 905.8	15 154.0	22 332.4	23 875.0	27 603.7	25 747.1	25 812.0	26 055.3	27 481.4	29 135.6	30 077.4
Comoros	20.6	59.5	82.6	93.0	97.2	101.9	106.9	110.4	114.3	121.2	129.1
Djibouti	40.1	331.6	408.3	513.7	799.7	952.8	1 078.4	1 238.4	1 403.4	1 573.4	1 755.4
Egypt	19 955.0	73 094.6	72 611.9	78 643.0	82 893.0	87 485.0	94 307.0	102 324.0	109 677.0	117 728.0	126 639.0
Iraq	- 48.0	7 965.3	9 847.6	13 248.0	10 912.7	736.3	0.0	0.0	0.0	0.0	-
Jordan	3 135.1	21 898.6	23 384.6	24 933.1	26 945.9	29 059.4	30 628.5	32 162.5	34 250.4	35 114.1	36 202.5
Kuwait	608.5	11 883.5	15 176.0	18 144.3	16 097.2	15 732.9	14 620.5	14 968.3	15 207.1	14 601.0	14 903.9
Lebanon	14 233.0	44 285.0	47 422.1	50 533.4	53 194.5	56 057.0	58 216.3	60 784.8	63 307.2	65 961.1	68 089.4
Libya	471.5	16 334.5	16 334.5	17 759.5	18 461.5	18 461.9	18 461.9	18 461.9	18 461.9	18 461.9	18 461.9
Mauritania	146.0	2 372.2	2 961.0	4 349.6	5 475.2	5 976.3	6 478.4	6 749.6	7 336.8	8 109.7	8 995.0
Morocco	8 841.7	45 081.6	44 515.9	45 245.7	51 816.0	51 192.0	49 670.5	54 784.2	63 204.8	64 135.3	66 523.5
Oman	2 576.5	14 986.9	16 739.8	18 105.3	19 717.7	21 005.1	18 833.5	21 098.8	24 016.8	28 207.3	31 332.0
Qatar	1 911.7	30 549.5	30 357.1	30 714.3	29 873.9	39 615.4	38 626.4	36 456.0	35 522.0	33 873.6	31 061.0
Saudi Arabia	17 577.0	176 377.9	186 758.1	199 032.1	207 897.0	215 908.7	224 049.8	231 502.3	227 566.4	231 603.5	236 165.5
Somalia	3.6	566.2	668.2	775.5	1 033.5	1 294.5	1 597.5	1 927.5	2 296.5	2 704.5	3 151.5
State of Palestine	1 417.8	2 176.0	2 328.0	2 336.0	2 459.0	2 487.0	2 511.0	2 660.0	2 647.0	2 756.0	2 777.0
Sudan	1 397.8	15 690.3	17 424.7	19 736.2	21 424.0	22 675.3	24 403.7	25 467.5	26 613.8	27 668.5	28 493.9
Syrian Arab Republic	1 244.0	9 938.7	10 742.9	10 742.9	10 742.9	10 742.9	10 742.9	10 742.9	10 742.9	10 742.9	10 742.9
Tunisia	11 544.8	31 363.8	31 543.4	32 604.2	33 772.4	31 562.4	31 771.6	28 940.1	29 171.1	26 781.0	29 541.9
United Arab Emirates	1 069.2	63 868.8	71 020.9	80 587.5	90 352.4	101 424.0	109 974.9	119 579.6	129 933.9	140 319.2	154 106.6
Yemen	843.0	4 857.6	4 339.1	3 808.1	3 674.5	3 441.4	3 426.0	2 865.0	2 595.1	2 313.0	1 942.1
World	7 377 272.0	19 922 422.3	20 645 322.2	22 980 800.8	24 955 527.3	26 191 314.0	26 577 573.2	28 496 361.6	33 218 362.2	32 943 943.3	36 470 161.6
Developed economies	5 779 574.5	13 137 112.2	13 525 960.1	14 893 007.3	16 367 089.5	17 227 264.2	17 436 602.1	18 654 038.3	22 095 209.7	21 511 507.0	24 285 679.0
Developing economies	1 545 733.9	6 086 960.4	6 428 169.2	7 335 931.8	7 778 963.6	8 342 074.5	8 543 081.4	9 091 708.3	10 303 505.9	10 633 902.1	11 311 556.5
Transition Economies	51 963.7	698 349.6	691 192.9	751 861.7	809 474.2	621 975.3	597 889.7	750 615.0	819 646.6	798 534.2	872 926.1

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Dhaman’s research insights

5

Section

FDI projects and political risk

Dhaman Working Papers describe research in progress by the Research & Country Risk Assessment Department and are published to elicit comments and to encourage debate. Of course, the views expressed in Dhaman Working Papers are those of the author(s) and do not necessarily represent the views of Dhaman, its Executive Board, or Dhaman management.

This section of the report is dedicated to the general presentation of the working paper WP/2019/02: How Does Political Risk Matter for Foreign Direct Investment into Arab Economies? A Gravity Model Analysis.

Rising political risk in the Arab region: What impact on FDI projects?

by Riadh Ben Jelili

Riadh Ben Jelili is director of research and country risk assessment department of Dhaman.

The political landscape in the Arab region has undergone considerable changes over the last decade in response to the massive and unexpected wave of social and political unrest. This changing political landscape combined with the continuing geopolitical tensions in the Middle East, sparked uncertainty about the economic outlook and led to an increased exposure to political risk (PR) of foreign companies conducting business with or in the Arab countries. Likewise, the demand for PR insurance has grown especially for insuring risks in post-conflict countries and those undergoing economic and political transformation. The market capacity for PR insurance coverage has also increased considerably over recent years. It has surpassed USD 3 billion in 2018, more than doubling the capacity of USD 1.2 billion available a decade ago .

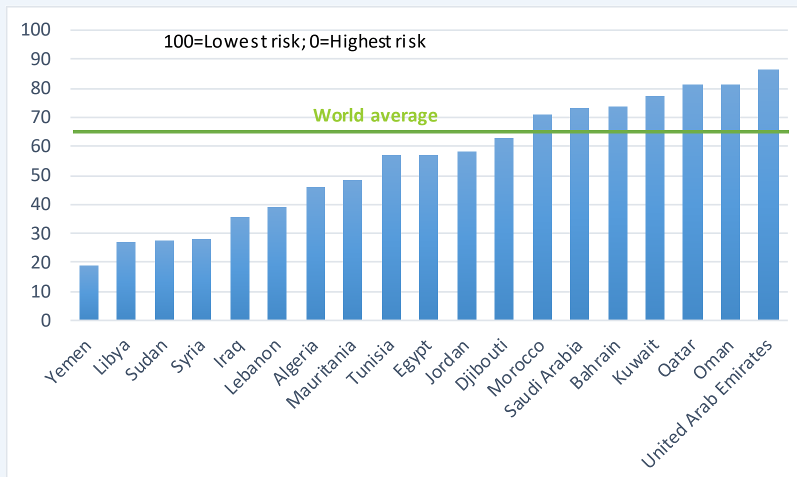
Regional fragmentation and conflict not only increased exposure to PR but also suck up resources needed to set the path of a sustainable economic reform and growth trajectory, with the region's economic prospects still anchored in the trajectory of global oil and gas prices.

More specifically, FDI flows into the Arab region have been adversely affected by political risk since the end of 2010. Investor perceptions of political risks in the region remain elevated across a range of risks, particularly in the Arab Spring countries. The risk perception of civil disturbance and political violence, but also breach of contract and transfer/convertibility restrictions, is especially prominent in these countries. The issue of PR is therefore especially relevant in the Arab region where FDI inflows experimented a negative trend since 2008 and informal barriers to invest are higher than elsewhere. The relative attractiveness (FDI per capita) of the region also remains low.

This is reflected in Fitch Solutions' Arab region short-term political risk index which shows that all countries (barring the GCC and Morocco) rank lower than the global average, indicating a challenging political landscape across the board.

Most of Arab countries below global average in Political Risk

Short-Term Political Risk Index (Fitch Solutions, Higher is better)



Many Arab countries have not addressed the underlying causes of the Arab Spring and as such, remain potentially vulnerable to further bouts of unrest over the coming years. Indeed, the risk of renewed instability varies quite significantly across the region depending on a wide number of economic and social factors.

In a recent study, Dhaman's research department has shown that the perceived political risk in the Arab host-country reduces significantly greenfield FDI inflow regardless of the estimation method used. As well, the study highlighted in the following pages establishes that there is significant heterogeneity in foreign firms' investment responses to PR in Arab countries. This heterogeneity reflects differences in the component of PR and sectoral characteristics. In this respect, the considered three components expropriation/breach of contract, transfer/convertibility and war/political violence risks have a negative and statistically significant impact on the probability that bilateral investment takes place. However, only the transfer/convertibility risk negatively and significantly affects the size of foreign investments made. In addition, the findings reveal striking differences from sector to sector as concerns the relevance of home country PR components. While the FDI participation probability is strongly negatively correlated with at least two of the three PR components, irrespective of the investment sector, the size of the FDI projects in resources and energy sector has the particularity of being insensitive to any component of PR.

Dhaman's research insights

The working paper addresses the following important **research questions** in the context of Arab host region: how does a host country's political instability and institutional fragility impact the bilateral inward greenfield FDI project? Is there any sectoral specificity to this impact if it exists? Which component of political risk poses the most threat for the foreign investor in a specific sector?

This study builds on the work of Burger et al. (2016) and extends it by implementing gravity model approach to empirically investigate the possible answers to the above research questions. For that purpose, an annual panel dataset on greenfield FDI projects in Arab countries from 2003 to 2018 have been assembled from an online database developed by fDi Intelligence, a specialist division of the Financial Times, which monitors cross border investments in new projects and expansions of existing ventures, covering all sectors and countries worldwide since 2003.


WP/2019/01

Dhaman Working Paper

Does FDI Affect Growth in MENA Countries?
A Semi-Parametric Fixed-Effects Approach
Riadh Ben Jelili

The main results of the working paper can be summarized as follows:

1. The perceived political risk in the Arab host-country reduces significantly greenfield FDI inflow regardless of the estimation method used, while, in line with the results obtained by Méon and Sekkat (2012), the sensitivity of FDI to local political risk decreases when global volume of foreign investment in the considered Arab region is abundant. This suggest that relationship between new FDI and political risk in the Arab region may be unstable across years.
2. As well, the study establishes that there is significant heterogeneity in foreign firms' investment responses to political risk in Arab countries. This heterogeneity reflects differences in the component of political risk and sectoral characteristics.
3. In this respect, the considered three components expropriation/breach of contract, transfer/convertibility and war/political violence risks have a negative and statistically significant impact on the probability that bilateral investment takes place. However, only the transfer/convertibility risk negatively and significantly affects the size of foreign investments made.
4. In addition, the findings reveal striking differences from sector to sector as concerns the relevance of home country PR components in the two-step decision of foreign firms on FDI in the Arab countries. While the FDI participation probability is strongly negatively correlated with at least two of the three PR components, irrespective of the investment sector, the size of the FDI projects in resources and energy sector has the particularity of being insensitive to any component of PR.

The paper contributes to the existing literature by testing several hypotheses that help explain the mixed results of previous studies regarding the foreign investor's responses to political risk in developing countries. It establishes in particular that there is considerable heterogeneity in foreign firms' investment responses to political risk in Arab countries. This heterogeneity reflects differences in the type of political risk and sectoral characteristics.

Dhaman's research insights

Several policy implications emerge from this study:

1. First, because political uncertainties vary by sector and political risk component, it is imperative to collect and examine disaggregated greenfield FDI and political risk data when analyzing FDI in Arab countries.
2. Second, institutions offering investment guarantees must recognize the differential exposure and sensitivity of foreign firms to political and institutional fragility when pricing risk.
3. Third, political risk appears most detrimental to those types of investments that the Arab region most needs, notably in labor-intensive and high technology tradeable manufacturing and tradable services industries. Greenfield FDI in these activities could foster structural change and help countries create middle to high-skilled and higher wage jobs. FDI in non-tradables is also sensitive to political and institutional uncertainties, particularly those relating to transfer and convertibility risks, however this type of investment is largely based on market-seeking motives and hardly contributes to structural change. Likewise, FDI to resource-rich countries can hamper rather than facilitate countries' efforts to escape the resource trap or Dutch disease.
4. And last but not least, the efforts of Arab countries to diversify and attract FDI into manufacturing and tradable services sectors has to be accompanied by efforts to improve political stability and institutional quality. An adapted political risk insurance targeting prospective investors in a specific sector is an additional important factor worth looking into when balancing the risks investors face and the gains they anticipate.

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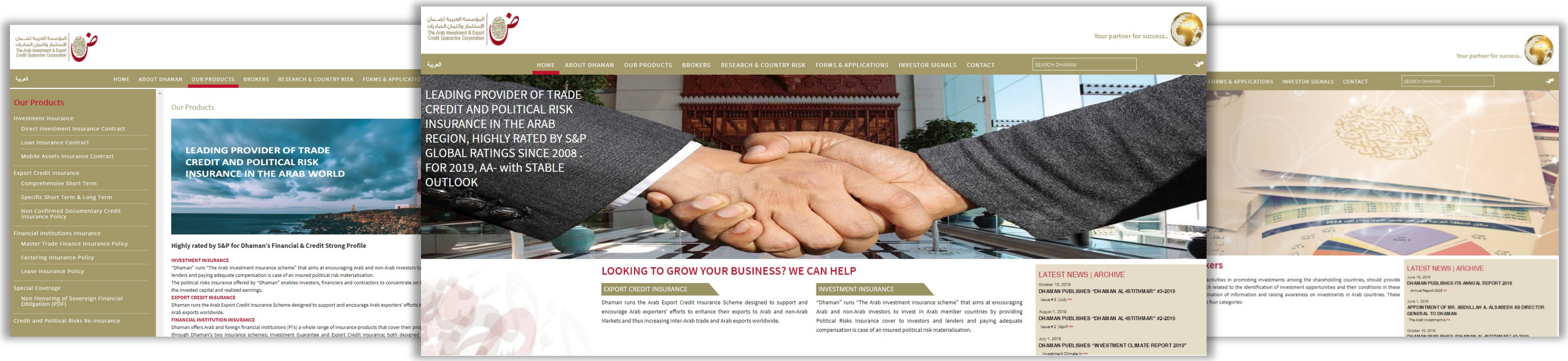

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