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An Analytical Study of the Foreign Direct Investment Attractiveness Gap in Arab States

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Abstract

This study aims to diagnose and analyze the reality of the foreign direct investment (FDI) attractiveness gap in Arab countries, identifying the most influential factors in order to enhance their competitive position in attracting foreign investment. To achieve this, the paper seeks to establish specific metrics for measuring this gap in Arab countries. This is done by relying on the descriptive approach and examining the economic conditions of Arab countries during the period spanning from 2013 to 2023. The study concludes by proposing a set of metrics to measure FDI attractiveness, such as the quota criterion, the average global ranking index for the business climate, and the composite guarantee index. By analyzing the results of various measurements of the FDI attractiveness gap in Arab countries, the study reveals significant disparities among Arab countries in attracting FDI, as well as a decline in its volume. It attributes the reasons for the reduced flow of FDI to Arab countries and the emergence of this gap to a number of factors, the most important of which are: the slow pace and limited scope of economic reform programs, bureaucracy, weak government oversight in enforcing laws, and the capacity of Arab countries to absorb foreign direct investment, among others.

Keywords

Foreign Direct Investment (FDI) ;
Measuring the FDI Attractiveness Gap ;
Guarantee Index ;
Determinants of the Gap ;
Arab Countries.

دراسة تحليلية لفجوة جاذبية الاستثمار الأجنبي المباشر لدى الدول العربية

ملخص

تهدف هذه الدراسة إلى تشخيص وتحليل واقع فجوة جاذبية الاستثمار الأجنبي المباشر لدى الدول العربية، وحصر أهم العوامل المؤثرة فيها، من أجل تحسين موقعها التنافسي في استقطاب الاستثمار الأجنبي. ولأجل ذلك تسعى هذه الورقة إلى وضع بعض المقاييس الخاصة لقياس هذه الفجوة لدى الدول العربية. وذلك كله بالاعتماد على المنهج الوصفي ودراسة حالة اقتصادات الدول العربية خلال الفترة الممتدة ما بين 2013 وبين 2023. وتوصلت الدراسة إلى وضع مجموعة من المقاييس التي تسمح بقياس جاذبية الاستثمار الأجنبي المباشر مثل معيار الحصص ومؤشر متوسط الترتيب العالمي لمناخ الأعمال، ومتوسط المؤشر المجمع ضمان. وبتحليل نتائج القياسات المختلفة لفجوة جاذبية الاستثمار الأجنبي المباشر لدى الدول العربية خلصت الدراسة إلى التباين الكبير بين الدول العربية في جذب الاستثمار الأجنبي المباشر، وإلى انخفاض حجمه، وعزت أسباب انخفاض تدفق الاستثمار الأجنبي المباشر إلى الدول العربية وبروز هذه الفجوة إلى جملة من الأسباب من أهمها: بطء ومحدودية برامج الإصلاح الاقتصادي، البيروقراطية وضعف الرقابة الحكومية على تنفيذ القوانين، قدرة الدول العربية على استيعاب الاستثمار الأجنبي المباشر...الخ.

الكلمات المفتاحية

استثمار أجنبي مباشر ؛
قياس فجوة جاذبية الاستثمار الأجنبي المباشر؛
مؤشر ضمان؛
محددات الفجوة؛
البلدان العربية.

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I- Introduction :

The concept of a country's attractiveness to foreign direct investment (FDI) is a complex and multifaceted concept, much like the concept of competitiveness in terms of trade flows, or the complex and intertwined economic and development concepts. This complexity has contributed to the multiplicity and divergence of viewpoints among those interested in defining and measuring the components of attractiveness and devising the most appropriate and effective policies to attract a greater share of FDI. As a result of developments and changes in the global and regional economic environment, international competition to attract foreign investment has intensified as a tool for achieving and sustaining growth and social welfare, especially in light of the failure of the development model based on external borrowing. Given the limitations of partial indicators in fully encompassing the scope of countries' attractiveness to foreign capital flows, specialized international bodies, such as the United Nations Conference on Trade and Development and the Organization for Economic Co-operation and Development, have developed composite indicators to measure countries' attractiveness and use them in preparing periodic reports on this matter.

In this context, the Arab Investment and Export Credit Guarantee Corporation (Dhaman) has developed an index to measure the trend of improvement or decline in the business environment in the Arab region as part of its periodic publication of the Investment Climate in Arab Countries. The index aims to support capital and trade flows to the Arab region and guide investment promotion agencies and decision-makers on the challenges facing Arab countries in attracting a greater share of foreign direct investment.

Based on the above, the following question can be raised:

- *What are the determinants of foreign direct investment attractiveness? How can the foreign investment attractiveness gap be measured? What are the most important factors contributing to the emergence of this gap in Arab countries?*

I.1. Importance of the Study:

The study derives its significance from the importance of foreign direct investment (FDI), which has proven its effectiveness as an alternative financing method to external debt. It has become clear that FDI flows are no longer governed by the privileges granted by countries. Multinational corporations, when assessing the status of the host country, rely on a broad combination of economic, legal, and political indicators. This study addresses this by examining the reality of Arab countries as host countries for investment flows.

Despite adopting numerous reforms by most governments in the region, including legislative, institutional, procedural, and infrastructure development reforms, Arab economies have not succeeded in becoming significant destinations for FDI compared to other developing countries. The study also reveals disparities in performance and a high geographical concentration in total FDI flows to the Arab region during the current period.

The added value of the study also lies in understanding the ranking of Arab countries as a group and measuring the gap between them and the first group.

I.2. Aims of the study:

The main aims of the study can be summarized as follows:

- Identifying the various factors that determine countries' attractiveness to foreign investment.
- Revealing the potential attractiveness of Arab countries compared to other regions of the world.
- Determining the strengths and weaknesses of Arab countries as a group regarding their attractiveness to investment.
- Diagnosing the opportunities and challenges facing Arab countries in attracting investment, taking into account their potential elements.

I.3. Study methodology:

In this study, we relied on the usual methods adopted in such type of studies, employing the descriptive approach when addressing the abstract conceptual framework of foreign investment, the investment attractiveness gap, and the "Dhaman" index and its subcomponents. Then, we employed the comparative approach in an attempt to encompass the most significant differences between Arab countries as a single group and the rest of the world and to compare them as well. We also used the analytical approach when analyzing the reality of investment attractiveness in Arab countries and the reasons for their unattractive investment climate.

I.4. Review of Previous Studies

Among the most important studies that addressed the topic of foreign direct investment attractiveness we mention:

1. Study by Elhiraika, A. B. & Mbekeani, K. K. (2019) [1]on "The Role of Bureaucracy and Corruption in Reducing the Attractiveness of Foreign Direct Investment in Arab Countries." This article discusses the negative impact of bureaucracy and corruption on the attractiveness of Arab countries for foreign direct investment (FDI). The researchers concluded that the lack of transparency and the presence of significant bureaucratic obstacles reduce foreign investors' interest, particularly in countries with weak rule of law.
2. Study by Ahmed, S. (2020) [2] on "The Impact of Foreign Direct Investment on Economic Growth in the Middle East and North Africa (MENA) Region." This study examines the relationship between FDI and economic growth in MENA countries. The article highlights that countries with diverse and attractive economies, such as the United Arab Emirates and Saudi Arabia, significantly benefit from FDI inflows. The study also points out the challenges faced by countries with less stable economies, such as Yemen and Libya.
3. Study by Al-Khouri, R., & Khoury, S. (2021) [3] on "Foreign Direct Investment in the Arab World: Challenges and Opportunities." This study explores the factors influencing the attractiveness of Arab countries for FDI. The researchers concluded that political stability, infrastructure improvements, and legislative flexibility are among the key factors that contribute to attracting foreign investments. The study also highlighted the huge gap between Gulf countries and the rest of the region due to differences in economic and political stability.
4. Study by The World Bank (2021) [4] on "Challenges of Foreign Direct Investment in Arab Countries: The Role of Economic and Political Reforms." This study, conducted by the World Bank, examines the impact of political and economic reforms on the attractiveness of FDI in Arab countries. The study emphasizes the importance of comprehensive reforms in improving the business environment and attracting more foreign investments, with a focus on the reforms adopted by countries like the UAE and Saudi Arabia to achieve this goal.
5. Report by UNCTAD (2022) [5] entitled "World Investment Report 2022: International Production After the Pandemic." This report indicates that FDI inflows to Arab countries after the COVID-19 pandemic showed important variations in Arab countries region, particularly Saudi Arabia and the UAE, that managed to attract investments due to economic diversification policies, while conflict-affected countries such as Syria and Yemen experienced a sharp decline in FDI inflows.

Our study aligns with the previous researches in confirming the existence of a large gap between Arab countries regarding FDI attractiveness. Gulf countries exhibit high attractiveness for investments due to stable economic policies and infrastructure development, whereas politically unstable countries such as Yemen and Syria face considerable challenges in attracting these investments. However, our study differs in that it employs the "Dhaman" index as a primary analytical tool.

I.5. Study Axes:

- **First Axis:** Introduction to Foreign Direct Investment Literature.
- **Second Axis:** Determinants of FDI Attractiveness.
- **Third Axis:** The FDI Attractiveness Gap Among Arab Countries.
- **Fourth Axis:** Factors Contributing to the Decline of FDI Inflows to Arab Countries.

II- Introduction to Foreign Direct Investment Literature

Foreign direct investment (FDI) is a vital element for achieving economic growth and development in all countries. But what does it mean? What are its types and forms? Where does its significance lie?

First: Definition of Foreign Direct Investment:

The International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) define FDI as an activity through which a resident investor (the direct investor) obtains a lasting interest and a significant influence in the management of an entity residing in another country (the FDI enterprise). This process can be based on the establishment of a completely new entity (greenfield investment) or the alteration of ownership of existing enterprises through mergers and acquisitions.

FDI encompasses the total financial resources allocated by the foreign investor to the related enterprises, leading to direct control by foreign companies. The IMF has set a threshold of 10% ownership of social capital as the criterion for exercising control over a resident enterprise; investments below this threshold are considered portfolio investments.

According to IMF and OECD recommendations, FDI consists of three main components: net equity capital, reinvested earnings, and intercompany debt.

- **Net Equity Capital:** Shares purchased by a foreign direct investor residing in a different country from that of the enterprise.
- **Reinvested Earnings:** Includes undistributed earnings of foreign investors, whether retained as reserves or allocated differently. Unallocated earnings of subsidiary companies in favor of the parent company are also considered reinvestments.
- **Intercompany Debt:** Encompasses both short- and long-term loans between the parent company as a lender and its foreign subsidiaries.

It is important to note that in some countries, FDI flows do not include reinvested earnings and/or intercompany loans[6].

Foreign Direct Investment (FDI) refers to the process by which a company from one country provides capital to an existing or newly established company in another country. Companies that establish production sites in more than one country are often referred to as multinational corporations (MNCs). Over the past four decades, the number of multinational corporations and the level of foreign direct investment in the global economy have increased dramatically. Global FDI flows have grown 120-fold, from $13 billion in 1970 to $1,492 billion by 2000. This increase is not only significant in absolute terms, but it also highlights the importance of FDI in the global economy. In 2000, FDI flows accounted for nearly $50 per $1,000 of global GDP, compared to less than $1 in 1970[7].

From the above, it is clear that foreign direct investment (FDI) represents foreign financial flows that generate field investments, making it a **Greenfield Investment**. It also includes investment portfolios that exceed 10% of the social capital of an existing company, allowing the foreign investor, in both cases, to participate in voting and managing the invested company. In this sense, FDI is considered one of the most important sources of external financing, bringing technology, technical training, and managerial expertise for human resources, especially in the case of **Greenfield Investments.**

III- Modern Classifications of FDI and Its Forms:

The classifications and types of foreign direct investment (FDI) vary from one researcher to another. Here, we will review the most important classifications, focusing on horizontal and vertical FDI:

1. Vertical FDI

In this type, foreign companies invest in a country within the same sector in which the parent company operates, but at different stages of the production chain. For example, a manufacturing company may establish a raw material plant in another country, where these materials are used in the production process.

Vertical FDI decisions are primarily based on international cost differences in production, which align with the theory of comparative advantage. Multinational corporations (MNCs) can fragment their production chains to locate different production stages in various parts of the world, allowing them to optimize comparative advantages.

For instance, Intel, a leading company in semiconductor manufacturing, has divided its production process into three main stages: Silicon wafer fabrication, Assembly, and Testing.

Silicon wafer manufacturing, alongside research and development (R&D), requires highly skilled labor, which explains why Intel chose to manufacture them in countries with high levels of education and expertise, such as the United States and Ireland. In contrast, assembly and testing are routine tasks that rely more on labor intensity than expertise. This explains why Intel has located these processes in low-wage countries such as Malaysia, the Philippines, Costa Rica, and China.

The vertical investment strategy plays a vital role in the rapid growth of FDI inflows, contributing significantly to the attractiveness of developing countries.

2. Horizontal FDI

This type of FDI involves a parent company opening or establishing a subsidiary in another country that operates in the same business as the parent company. For example, an automobile company may set up an assembly plant in another country to sell its products in the local market.

Unlike vertical investments, which are often directed toward developing countries, horizontal investments primarily target developed countries. The main motivation for these investments is proximity to markets by establishing multiple production sites (subsidiaries of MNCs). This enables companies to reduce transportation costs and enhance competitiveness in host country markets.

For example, in the early 1980s, Toyota manufactured most of its cars and trucks in Japan and exported them globally, mainly to North America and Europe. However, long-distance vehicle transportation was costly, and Western countries imposed high tariffs and trade barriers during the 1980s to protect their markets from foreign competition.

To bypass these restrictions and gain a competitive advantage, Toyota significantly expanded its foreign investments by establishing subsidiaries abroad. By 2010, the company produced more than half of its vehicles outside Japan[8].

This classification allows MNCs to choose between exporting and investing abroad by establishing subsidiaries. The analysis is based on weighing the costs associated with an export strategy versus the costs of setting up new branches abroad.

Export strategies minimize fixed costs related to setting up new subsidiaries and factories in host countries. Where FDI strategies reduce variable costs, which consist of:

1- The cost of producing a single unit of a product.
2- Broad transportation costs, including logistics, insurance, customs duties, and other fees incurred to deliver the product to foreign markets under an export strategy.

Thus, the decision to choose between exporting and foreign investment results from a trade-off between the costs associated with each strategy[9].

3. Conglomerate FDI

This type occurs when a company **invests in a completely different sector from its core business**. For instance, a **food manufacturing company** investing in **the technology sector** in another country.

4. Mergers and Acquisitions (M&A) FDI

This form of FDI involves a **foreign company acquiring an existing company** in the host country or merging with it. **M&A investments are common in mature markets** that have a well-developed infrastructure and a stable business environment.

5. Greenfield FDI

Greenfield FDI refers to a **foreign company establishing an entirely new project in another country**. This includes building **new facilities and hiring local workers**. Greenfield investments are one of the most significant types of FDI for **developing countries**, as they contribute to **job creation**.

6. Expansionary FDI

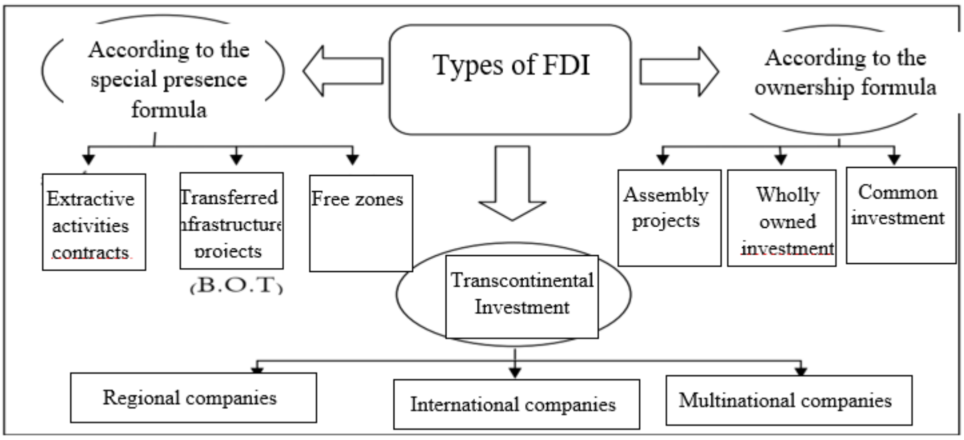
This occurs when a **foreign company expands its existing operations in another country**. Expansion FDI includes **increasing production or expanding services**, and it is common among global corporations that already have a **strong presence in multiple markets.**

7. Reinvestment FDI

In this type, foreign companies **reinvest their earnings** from their operations in the host country to **expand their business or increase production** within the same market.

The different forms of FDI can be summarized in the following diagram:

Diagram of Different Types of Foreign Direct Investment



المصدر: ميدون إلياس، "الاتجاهات الحديثة لتصنيف الاستثمار الأجنبي المباشر وطرق إحصائه"، مجلة البحوث والدراسات التجارية، مجلد04، عدد02، سبتمبر 2020، ص. ص. 34-50.

Source: Midoun Ilyas, *"Modern Trends in the Classification and Statistical Methods of Foreign Direct Investment,"* Journal of Commercial Research and Studies, Vol. 04, Issue 02, September 2020, pp. 34-50.

Third: The Importance of FDI in Developing Economies

Foreign direct investment (FDI) is a key driver of economic growth, contributing to technology transfer, job creation, and productivity enhancement. In Arab countries, FDI is a vital tool for supporting economic diversification efforts, especially given the heavy reliance on the oil sector in some nations.

Second Axis: Determinants of FDI Attractiveness

The attractiveness of foreign direct investment (FDI) refers to a country's ability to attract external investments by providing a favorable environment for foreign investors. This environment includes various factors such as political stability, advanced infrastructure, favorable economic policies, and investment-stimulating regulations. FDI is considered a crucial factor in achieving sustainable economic development, as it facilitates technology transfer, job creation, and productivity improvement.

First: Factors Influencing Investment Attractiveness

Economic literature highlights that a country’s ability to attract FDI is closely linked to three main groups of determinants. Each group consists of several core components, which in turn comprise multiple sub-variables. These variables collectively define the macroeconomic and institutional factors that multinational corporations -the key players in foreign investment- consider when evaluating a potential host country[10].

The relationship between a country's investment attractiveness and the skill transfer associated with direct investment forms a complex, dialectical interaction rather than a simple one-way causal link. The rationale behind government efforts to attract foreign investment lies in the expectation that FDI will help overcome structural weaknesses in the domestic economy. Therefore, insisting that a country’s economic and institutional environment must be perfect before attracting investment would be a misconception. In reality, if such perfection were attainable, there would be no need for additional efforts to promote investment, as capital flows would occur naturally.

Thus, defining the minimum requirements for investment attractiveness is crucial. The optimal approach involves prioritizing key factors and marketing the country's attractiveness. A country's investment appeal cannot be assessed without considering corporate investment strategies, which require highlighting specific local advantages in alignment with potential investors' demands.

In this context, a survey conducted by **Charles Albert Michalet** revealed that many countries in East and Southeast Asia have successfully achieved this balance. While this does not imply that conditions in Asian countries are flawless, it indicates that multinational corporations find the necessary elements to enhance their global competitiveness and profitability there.

The direct benefit of this approach lies in the ability to assess a country's potential investment attractiveness based on the three priority groups identified through interviews conducted by *Charles Albert Michalet*. These groups include factors related to economic and political stability, a non-restrictive government stance, market strength, technological capacity, and labor availability[11].

Accordingly, the factors influencing a country's ability to attract foreign direct investment (FDI) are diverse and can be categorized into the following key areas:

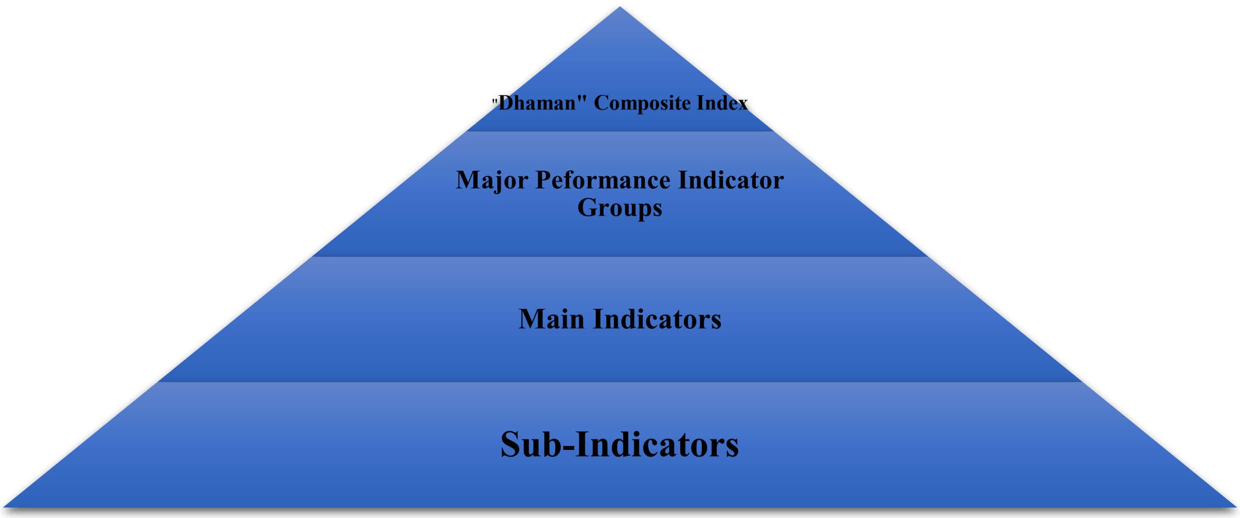
1. Political Factors: Political stability is one of the most crucial elements in attracting foreign investment, as investors seek to avoid unstable environments that may put their capital at risk.
2. Economic Factors: These include market size, economic growth rates, the availability of natural resources, and infrastructure. Large and diverse markets are particularly attractive to investors due to the potential for high returns.
3. Social and Technological Factors: The quality of education and the availability of skilled labor, along with technological advancement, play a significant role in attracting investors.

Second: FDI Attractiveness in Light of the "Dhaman" Index

The *Dhaman*[12] Index for FDI attractiveness in 2023 is a standardized tool launched by the Arab Investment and Export Credit Guarantee Corporation (*Dhaman*). Its goal is to evaluate and analyze the investment climate in Arab countries. The index is a composite of nearly 190 indicators (both primary and secondary), covering 158 countries, including 21 Arab nations. The data is sourced from 33 specialized international agencies. The index is structured into four main groups that collectively measure a country's ability to attract foreign investment:

1. Political and Security Performance Indicators: Comprising 37 primary and secondary indicators.
2. Economic Performance Indicators: Including 14 primary and secondary indicators.
3. Regulatory and Legislative Environment Indicators: Encompassing 55 primary and secondary indicators.
4. Production Factors Indicators: Consisting of 84 primary and secondary indicators.

Figure (01): The Composite "Dhaman" Index for Investment Attractiveness in 2023.



المصدر: من إعداد الباحثين بالاعتماد على: المؤسسة العربية لضمان الاستثمار وائتمان الصادرات. التقرير السنوي " مناخ الاستثمار في الدول العربية". الكويت. 2024.

Source: Prepared by the researchers based on: The Arab Investment & Export Credit Guarantee Corporation. Annual Report *"Investment Climate in Arab Countries."* Kuwait, 2024.

The comprehensive nature of the "Dhaman" Investment Attractiveness Index is evident in its ability to assess the investment climate in host countries. The evaluation of investment attractiveness is no longer confined to traditional economic indicators such as market size and financial capacity. Instead, it now encompasses a broader range of indirect factors that play a crucial role in the success of foreign investments. These include human capital efficiency, trade, economic, and financial openness and integration, and the technological gap. Such factors have gained increasing significance for multinational corporations and foreign investors, as they enhance investment transparency and provide greater clarity on the future trajectory of their investments.

Moreover, the "Dhaman" Index remains flexible in terms of its constituent indicators, adapting to the evolving investment landscape at both local and international levels. It also adjusts to changes in the member countries included in the index, increasing or decreasing, particularly for nations that have yet to achieve stability in terms of security, politics, and society. This is due to the lack of sufficient data for some variables under observation.

Third: The Overall Status of the Attractiveness of Arab Countries for Foreign Direct Investment under the "Dhaman" Composite Index

Before analyzing the overall attractiveness of Arab countries for foreign direct investment under the "Dhaman" composite index, we will first examine and analyze the current state of foreign direct investment attractiveness in Arab countries.

1. The Share of Arab Countries in Total Inflows of Foreign Direct Investment

The year 2023 witnessed a decline in the share of Arab countries in foreign direct investment (FDI) inflows compared to 2022. The share of FDI inflows to Arab countries from the global total stood at **5.1% in 2023**, down from **5.7% in 2022**. Similarly, the share of FDI inflows to Arab countries from total inflows to developing countries dropped to **7.8% in 2023**, compared to **8.3% in 2022.** Additionally, the share of FDI stock in Arab countries from the global total decreased to **2.2% in 2023**, down from **2.4% in 2022** (refer to the table below).

Shares of FDI Flows and Stocks Inward to Arab Countries of Total World & Developing Countries

Arab Countries Shares	Change	2023	2022
FDI inflows of Total World	(0.6)	5.1%	5.7%
FDI inflows of Total Developing Countries	(0.5)	7.8%	8.3%
FDI Instocks of Total in World	(0.2)	2.2%	2.4%
FDI Outstocks of Total Developing Countries	(0.3)	6.9%	7.2%

Source: UNCTAD, World Investment Report - June 2024

2. Inward Foreign Direct Investment (FDI) Flows to Arab Countries in 2023

In 2023, foreign direct investment (FDI) inflows to Arab countries declined by **12.4%**, reaching **$67.7 billion**. This accounted for **7.8% of total FDI inflows to developing countries** and **5.7% of global FDI inflows**, which amounted to approximately **$1.3 trillion**.

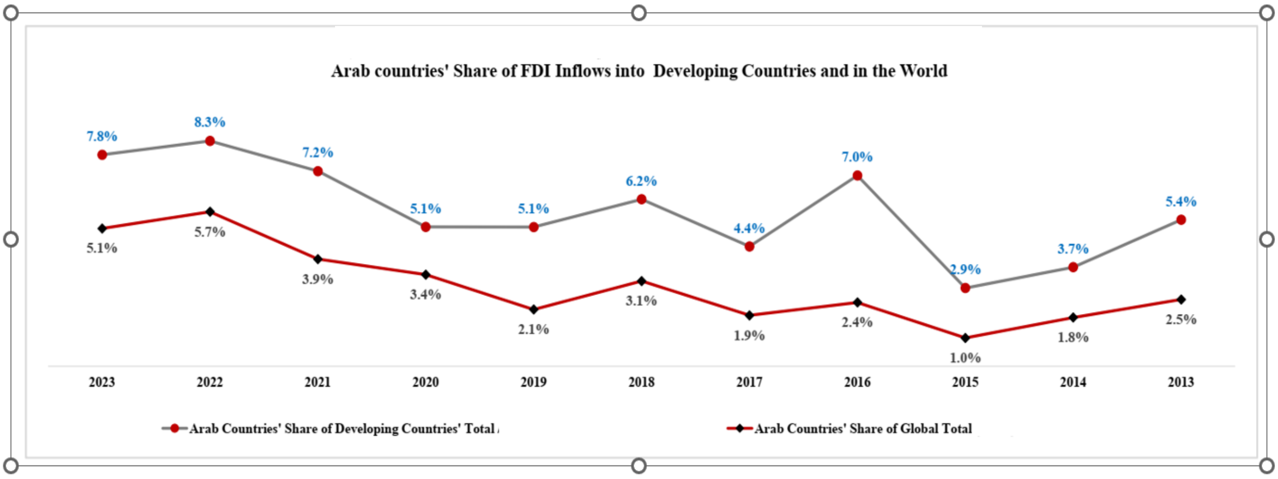
The **United Arab Emirates (UAE)** ranked first among Arab countries, attracting **$30.7 billion**, which represented **45.4% of total FDI inflows to the region. Saudi Arabia** followed in second place, securing **$12.3 billion** (equivalent to **18.2%** of total inflows), while **Egypt** ranked third with **$9.8 billion**, accounting for **14.5%**.

Meanwhile, **Algeria** ranked seventh, with FDI inflows amounting to **$1.2 billion**, representing **1.845,4%** of the region's total (refer to the table below).

FDI inflows to Arab Countries 2023 (US$ million)						
Arab Ranking 2023	Country	Share in Total Arab	% of Change	Cange	2023	2022
1	UAE	45.4%	35.0	7951	30688	22737
2	Saudi Arabia	18.2%	(56.1)	(15736)	12319	28055
3	Egypt	14.5%	(13.7)	(1559)	9841	11400
4	Bahrain	10.1%	147.8	4079	6840	2760
5	Oman	7.0%	(13.4)	(734)	4745	5480
6	Kuwait	3.1%	178.8	1355	2113	758
7	Algeria	1.8%	377.5	962	1216	255
8	Morocco	1.6%	(51.6)	(1165)	1095	2260
9	Mauritania	1.3%	(38.4)	(545)	873	1419
10	Jordan	1.2%	(32.7)	(409)	843	1251
11	Tunisia	1.1%	7.6	54	768	714
12	Somalia	1.0%	6.4	41	677	636
13	Lebanon	1.0%	24.4	129	655	527
14	Sudan	0.8%	(4.4)	(25)	548	574
15	Djibouti	0.2%	(28.2)	(54)	137	191
16	Palestine	0.1%	(84.8)	(198)	35	233
17	Comoros	0.0%	30.2	1	5	4
18	Libya	0.0%	....	0	0	0
19	Syria	0.0%	....	0	0	0
20	Yemen	0.0%	....	0	0	0
21	Qatar	-0.7%	....	(550)	(474)	76
22	Iraq	-7.8%	152.5	(3185)	(5273)	(2088)
	Total	100%	(12.4)	(9590)	67650	77240

Source: UNCTAD, World Investment Report - June 2024

The Arab countries successfully attracted **$446 billion** in **foreign direct investment (FDI)** between **2014 and 2023**, with an annual average of **$44.6 billion**. During the period **2013–2023**, the Arab region's share of global FDI inflows averaged **3%**, peaking at **5.7% in 2022** and reaching its lowest level of **1% in 2015**. Additionally, the region's share of FDI inflows to developing countries averaged **5.7%** over the same period[13]. *(See the following figure.)*



المصدر: المؤسسة العربية لضمان الاستثمار وائتمان الصادرات، (2024)، التقرير السنوي " مناخ الاستثمار في الدول العربية". الكويت، ص 85.

Source: Arab Investment & Export Credit Guarantee Corporation (Dhaman), (2024), *Annual Report: Investment Climate in Arab Countries*. Kuwait, P 85.

3. The Attractiveness of Arab Countries for Foreign Direct Investment under the "Dhaman" Composite Index (2013–2023)

The results of the 2018 General Investment Attractiveness Index indicated that the group of Arab countries ranked fourth globally among seven geographical regions, with an average index score of 40.9 points and an average country ranking within the group of 68. The Organization for Economic Cooperation and Development (OECD) countries secured the top position, followed by East Asia and the Pacific in second place, and Europe and Central Asia in third place. Latin America and the Caribbean ranked fifth, followed by South Asia in sixth, while Africa occupied the seventh and final position.

Compared to the 2017 report, the attractiveness of Arab countries for foreign direct investment experienced a slight decline due to a decrease in the index value for Arab states[14].

Figure (03): Evolution of Index Values and Rankings for Investment Attractiveness in Arab Countries (2013–2018)

المرجع: المؤسسة العربية لضمان الاستثمار وائتمان الصادرات، التقرير السنوي " مناخ الاستثمار في الدول العربية"، مرجع سابق، ص 26.
Source: Arab Investment & Export Credit Guarantee Corporation, *Annual Report: Investment Climate in Arab Countries,* Previously cited reference, P 26.

The Arab region's average ranking in the "Dhaman Composite Index" declined by two positions in 2023, settling at 104th globally—two places lower than in 2022—yet still below the global average of 79. The Gulf Cooperation Council (GCC) countries topped the Arab rankings, with performances surpassing the global average. The United Arab Emirates ranked 18th globally, followed by Qatar at 34th, and then Saudi Arabia, Kuwait, Oman, and Bahrain, positioned between 36th and 59th, respectively. On the other hand, countries such as Morocco, Jordan, Algeria, and Egypt ranked above the Arab average, occupying positions between 82nd and 103rd globally. Meanwhile, 11 Arab countries ranked below the regional average, with Tunisia positioned at 114th and Somalia recording the lowest rank at 158th globally[15].

IV- FDI Attractiveness Gap in Arab Countries

The FDI attractiveness gap refers to the disparity among countries in their ability to attract foreign investments. This issue significantly affects many nations, particularly in the Arab world. The gap varies based on a range of economic, political, and social factors, resulting in substantial differences in FDI inflows among countries.

First: Measuring the FDI Attractiveness Gap in Arab Countries Using the Market Share Criterion

To assess the FDI attractiveness gap based on the market share criterion, several key indicators can be utilized:

Average Share of Inward FDI Flows Index = (Total inward FDI flows / Number of countries)

As previously mentioned, the total FDI inflows to Arab countries in 2023 were approximately $67.7 billion. Given that the Arab region comprises 21 countries, the average FDI inflow share per country in 2023 is estimated at $3.2 billion. This index highlights a clear FDI attractiveness gap, positioning the UAE, Saudi Arabia, Egypt, Bahrain, and Oman as the leading FDI destinations, while the remaining Arab countries fall below the regional average.

FDI Inflow Concentration Index at a Specific Threshold = Cumulative share of FDI inflows up to a defined threshold

For instance, using the 95% FDI inflow concentration index for 2023, it becomes evident that a significant disparity exists between the UAE, Saudi Arabia, Egypt, Bahrain, and Oman and the rest of the Arab countries.

Second: Measuring the FDI Attractiveness Gap in Arab Countries Using the Dhaman Index

To measure the **Foreign Direct Investment (FDI) Attractiveness Gap** in Arab countries using the **Dhaman Index**, we can rely on either the **composite Dhaman Index** or the values of its **main component indicators**, which include:

1. Average Global Ranking of Investment Climate

According to the **2023 rankings**, the **average global ranking of the investment climate in Arab countries** stood at **104**. The **United Arab Emirates (UAE)** led the region, ranking **18th globally**, followed by **Qatar (34th), Saudi Arabia (36th), Kuwait (41st), Oman (51st), and Bahrain (59th)**—all of which performed **better than the global average of 79**. Meanwhile, **Morocco (82nd), Jordan (87th), Algeria (95th), and Egypt (103rd).** Conversely, **Syria (154th), Yemen (155th), Palestine, Sudan, and Somalia** ranked at the bottom due to **political and security challenges**.

2. Average Score of the Dhaman Composite Index

In **2023**, the **average global score of the Dhaman Composite Index for Arab countries** was **101.1.** The UAE, Qatar, and Saudi Arabia consistently held the **top three positions**, while **Syria, Yemen, Palestine, Sudan, and Somalia** were at the bottom of the rankings.

Evaluation of the Regulatory and Legislative Environment

The 2023 indicators for the regulatory and legislative environment highlight a significant disparity among Arab countries. The UAE ranked 37th globally, well ahead of Qatar (58th), Kuwait (64th), and other Arab nations**.**
Evaluation of Production Factors

The **2023 rankings for production factors** also revealed a **large gap** among Arab countries. The **UAE ranked 37th**, followed by **Qatar (55th) and Saudi Arabia (55th),** with other nations trailing behind.

Evaluation of Political Stability and Country Risk

The 2023 rankings for political stability and country risk **showed another** stark divide **in the region. The** UAE ranked 28th globally**, followed by** Saudi Arabia (31st), Qatar (31st), Kuwait (42nd), and Oman (54th)**, outperforming other Arab nations.**

Evaluation of Economic Performance

The 2023 Economic Performance Indicators reveal a significant FDI attractiveness gap among Arab countries as well. The UAE ranked 35th globally, followed by Saudi Arabia (36th), Qatar (41st), Kuwait (44th), and Oman (57th)**,** with other Arab countries scoring significantly lower.

The Ranking of Arab Countries in the Investment Climate Combined Index and its Sub-Components for 2023 (average global ranking)

Arab Ranking	Country	Indicators for Evaluating the Economic Performance		Indicators for Evaluating the Political Situation & Country Risk		Indicators for Evaluating Production Factors		Indicators for Evaluating the Legislative and Regulatory Environment		The Combined Index for Investment Climate Assessment		Global Ranking		
		Change	2023	Change	2023	Change	2023	Change	2023	Change	2023	Change	2023	2022
1	UAE	(4)	35	(1)	28	(1)	37	2	37	(1.0)	34.5	(1)	18	17
2	Qatar	(6)	44	0	33	(1)	55	1	58	(1.4)	47.6	(3)	34	31
3	Saudi Arabia	(13)	36	2	31	(1)	55	13	71	0.6	48.2	(2)	36	34
4	Kuwait	(9)	41	(8)	42	2	74	11	64	(1.2)	55.2	2	41	43
5	Oman	(5)	57	(7)	54	(5)	73	9	73	(2.1)	64.1	1	51	52
6	Bahrain	(7)	78	4	68	(3)	72	6	68	0.2	71.5	5	59	64
7	Morocco	4	106	9	71	(1)	82	1	83	3.1	85.7	3	82	85
8	Jordan	(1)	127	(11)	89	1	76	1	67	(2.8)	89.4	(4)	87	83
9	Algeria	(18)	80	7	94	(3)	100	7	107	(1.8)	95.2	(5)	95	90
10	Egypt	(9)	116	(7)	107	(1)	85	5	94	(3.1)	100.3	(6)	103	97
11	Tunisia	0	132	0	122	(4)	86	(4)	85	(2.1)	106.4	(7)	114	107
12	Iraq	(23)	73	(10)	134	0	122	0	131	(8.3)	115.1	(16)	128	112
13	Libya	22	51	5	138	(12)	156	(1)	122	3.9	116.4	3	130	133
14	Djibouti	8	99	(5)	136	(5)	137	2	122	(0.1)	123.2	0	139	139
15	Mauritania	8	104	2	142	(4)	132	2	122	1.9	125.1	4	140	144
16	Lebanon	(10)	156	(3)	146	0	100	1	102	(3.2)	125.9	(3)	141	138
18	Syria	1	116	(4)	169	(4)	156	(1)	125	(2.1)	141.3	(1)	154	153
19	Yemen	3	119	2	164	(9)	156	(2)	129	(1.3)	141.8	2	155	157
17	Palestine	(14)	127	2	175	(7)	122	(1)	157	(5.1)	145.3	0	156	156
20	Sudan	(3)	129	(2)	166	(3)	158	(1)	130	(2.2)	145.8	1	157	158
21	Somalia	4	113	(8)	167	(18)	166	0	138	(5.8)	145.9	(3)	158	155
Average Arab Countries		(3)	92	(1)	108	(4)	105	3	99	(2)	101.1	(2)	104	102

المصدر: المؤسسة العربية لضمان الاستثمار وائتمان الصادرات، التقرير السنوي " مناخ الاستثمار في الدول العربية"، المرجع السابق، ص 10.

Source: Arab Investment & Export Credit Guarantee Corporation, *Annual Report: Investment Climate in Arab Countries*, previous reference, p. 10.

Third: Measuring the Foreign Direct Investment (FDI) Attractiveness Gap in Arab Countries Based on the "Dhaman" Index

In the Arab region, there is a significant disparity among countries in terms of investment attractiveness. While some nations capture the majority of foreign direct investment (FDI) inflows, others struggle with weak investment inflows. This disparity is clearly illustrated in the table below, which presents the distribution of foreign direct investment projects across Arab countries in 2023.

Arab Countries Receving FDI According to Number of Projects-2023			
Ranking	Country	الحصة من الاجمالي Share of total	عدد المشاريع Number of projects
1	UAE	60.8%	1216
2	Saudi Arabia	17.8%	356
3	Egypt	6.5%	131
4	Morocco	4.7%	95
5	Qatar	3.1%	63
6	Oman	1.8%	36
7	Bahrain	1.2%	25
8	Iraq	0.9%	19
9	Jordan	0.9%	18
10	Tunisia	0.6%	12
11	Algeria	0.4%	8
11	Kuwait	0.4%	8
13	Lebanon	0.3%	7
14	Djibouti	0.1%	2
14	Libya	0.1%	2
14	Palestine	0.1%	2
17	Mauritania	0.05%	1
	Total	100%	2001

Source: FDI Markets database

The data presented in the table highlights that the UAE accounted for 60.8% of the total 1,216 investment projects, reaffirming its position as the leading destination for foreign investment in the Arab world. This significant advantage is attributed to its attractive business environment, advanced infrastructure, and investment-friendly policies. Saudi Arabia ranked second, attracting 17.8% of the total projects (equivalent to only 356 projects), demonstrating a considerable gap between it and the UAE.

These numbers suggest that Saudi Arabia is still far from competing with the UAE in terms of the number of projects. Additionally, the table reveals a clear disparity in FDI attraction among Arab countries. Egypt, Morocco, and Qatar occupy the next three positions with relatively small shares of the total projects. Meanwhile, countries such as Algeria, Iraq, and Tunisia attract very few investments despite their significant economic potential. Furthermore, investment inflows have declined in other countries such as Libya, Palestine, and Djibouti, each securing only two projects. Mauritania, on the other hand, received just one project (representing a percentage of 0.05% of the total projects.)

To reinforce the trends observed in the previous table, the following table further illustrates the stark investment gap between high-performing countries such as the UAE, Saudi Arabia, and Egypt compared to lower-performing countries. This confirms the significant role played by the stable investment environment and the strong infrastructure in attracting foreign capital.

New FDI projects into Arab Region During 2023 by Destination Country

Ranking by No.of projects	Country	Jobs created (Avg)	Jobs created	Capex (Avg)	Capex (USD m)	Companies	Number of projects
1	UAE	37	44717	12	14064	1170	**1216**
2	Saudi Arabia	113	40221	80	28450	343	**356**
3	Egypt	440	57644	306	40074	111	**131**
4	Morocco	583	55401	214	20324	86	**95**
5	Qatar	20	1247	3	181	63	**63**
6	Oman	63	2255	49	1758	26	**36**
7	Bahrain	70	1746	16	405	24	**25**
8	Iraq	402	7641	1360	25838	18	**19**
9	Jordan	221	3979	610	10979	18	**18**
10	Tunisia	162	1945	32	386	11	**12**
11	Algeria	182	1458	85	684	5	**8**
12	Kuwait	41	329	10	83	8	**8**
13	Lebanon	19	135	2	16	7	**7**
14	Djibouti	1809	3617	817	1635	2	**2**
15	Libya	1700	3400	1042	2083	2	**2**
16	Palestine	82	163	32	64	2	**2**
17	Mauritania	1000	1000	34000	34000	1	**1**
Total & Average		**113**	**226898**	**90**	**181023**	**1779**	**2001**

Source: FDI Markets database

The table above presents the ranking of Arab countries in terms of the number of newly established FDI projects in 2023, based on a report issued by an international institution.

The United Arab Emirates (UAE) leads the region, securing the top position with 1,216 projects**,** underscoring its strong appeal to foreign investors. Saudi Arabia follows in second place with 356 projects, significantly fewer than the UAE. However, it boasts the highest capital expenditure (Capex)**,** amounting to $28,450 million. Egypt ranks third with 131 projects, yet it maintains a relatively high average capital investment per project. Other countries among the top ten include Morocco**,** Qatar, Oman, and Bahrain, reflecting a diverse distribution of investment across the region.

Meanwhile, Algeria ranks 11th, attracting only 12 projects**,** which indicates weak FDI inflows compared to other countries.

At the lower end of the ranking, Palestine, Libya, Djibouti, and Mauritania register the fewest projects**,** with minimal or even negative investment volumes.

This analysis highlights that countries with **a** stable investment climate, advanced infrastructure, and investor-friendly policies—such as the UAE and Saudi Arabia—attract the largest share of foreign investment. Conversely, despite having large populations, some nations, like Algeria**,** continue to struggle with attracting FDI. In the case of Mauritania**,** FDI inflows appear extremely weak, reflecting structural deficiencies **in** its investment environment.

V- Factors Contributing to the Decline in FDI Inflows to Arab Countries and the Emergence of the Attraction Gap

According to a 1996 UNCTAD study, investment incentives rank relatively low in the decision-making process of multinational corporations compared to other factors, such as: market size and growth rate, production costs, political, social, and economic stability, and regulatory framework[16].

The key reasons for the decline in FDI inflows to Arab countries can be summarized as follows[17]:

First: Slow and Limited Economic Reform Programs

Despite extensive efforts by Arab countries to reform their economies, including reducing state intervention and promoting private sector participation, these reforms remain slow and limited in many countries.

While Arab nations have made progress in macroeconomic policy reforms, institutional reforms lag behind. This is evident in the delayed or inadequate development of key investment-related laws, such as: corporate law, competition law, intellectual property protection, privatization regulations, commercial law reforms, including faster resolution of commercial disputes.

Second: Bureaucracy and Weak Government Oversight in Law Enforcement

Despite shifting economic policies to encourage FDI, skepticism persists regarding the relationship between foreign investment and host countries. Some policymakers and segments of the public still **fear that foreign investors** prioritize their own profit rather than contributing to local economic growth**.** Additionally, foreign investors often criticize investment promotion policies in the region for being temporary and prone to changes due to economic or political shifts in the host country.

Third: Limited Capacity of Arab Countries to Absorb FDI

In addition to the low volume of foreign direct investment (FDI) inflows into Arab countries, several other challenges may hinder these nations from fully benefiting from such investments. One key factor is what is referred to as the absorptive capacity of their economies to leverage FDI inflows. In this context, four main barriers limit the absorptive capacity of these countries: technological gaps, the level of education, the development of the financial sector, and institutional advancement. Arab countries experience varying degrees of these challenges, with some facing one or more of the aforementioned barriers. Consequently, this limits their ability to fully capitalize on incoming FDI.

Fourth: Lengthy Procedures for Starting a Business or Project

The procedures required to establish businesses or investment projects are among the most crucial factors investors consider when deciding to invest in a host country. These procedures play a significant role in shaping the investment climate, posing a challenge for decision-makers and policymakers responsible for implementing foreign direct investment (FDI) strategies. Improving the investment environment is not feasible without substantial progress in streamlining business startup procedures and reducing the associated costs.

The ease or difficulty of establishing a business in a host country is determined by the number of required procedures and the time needed to complete them. The fewer the procedures and the shorter the timeframe required to obtain all necessary approvals and signatures, the more attractive the country is for investment.

An analysis of the business startup process in Arab countries reveals significant variations. For instance, setting up a project in Morocco requires five procedures and takes approximately 11 days, whereas in Kuwait, 13 procedures are needed, taking around 25 days. In Oman, nine procedures are required, with the process taking up to 34 days. In contrast, starting a business in Australia involves only 11 procedures, which can be completed in just two days.

This comparison highlights Australia's highly favorable investment environment and its efficient administrative procedures for business establishment compared to several Arab countries. It underscores the need for these countries to intensify their efforts to enhance the investment climate by minimizing bureaucratic obstacles and administrative burdens that hinder investors.

In terms of costs, the expenses associated with establishing a business in Arab countries are also relatively high compared to some developed nations. For example, in the United Arab Emirates, the cost of starting a business can reach up to 70% of per capita income. This figure drops to approximately 5% in Oman and 2.3% in Kuwait, while in Denmark, business startup costs are effectively 0%.

Fifth: Contract Enforcement

The enforcement of contracts applies to agreements between investors and the various entities they engage with, including traders, suppliers, and other business partners essential to the early stages of operations. The cost of enforcing contracts is influenced by the number of legal procedures required from the moment a dispute arises until the investor successfully obtains their contractual rights. This process includes the time taken from filing a lawsuit to receiving a final ruling from the court or other relevant dispute resolution bodies.

The fewer the required procedures and the shorter the resolution period, the more transparent and efficient a country’s legal system is in protecting investors' rights. This positively impacts the investment climate and encourages higher inflows of foreign direct investment (FDI). Conversely, when contract enforcement is prolonged, it reduces transparency making the country less attractive to foreign investors.

VI- Conclusion

Amid the ongoing global financial and economic crises and the shifting trends in foreign capital flows -particularly the increasing investment influx into developing and transitional economies- competition among nations, including Arab countries, to attract foreign direct investment (FDI) has intensified. FDI is regarded as a key driver for local economic growth, enhancing its capacity to expand while promoting integration, sustainability, and global trade exchange.

This study has established a set of metrics to assess FDI attractiveness, including market share indicators, the average global business climate ranking, and the composite Dhaman index. Based on an analysis of the FDI attraction gap across Arab countries, the following key findings were reached:

- The significant disparity among Arab countries in attracting foreign direct investment.
- The overall volume of FDI inflows into Arab countries declined during the study period (2013–2023).
- Despite numerous legislative, institutional, and procedural reforms, as well as infrastructure development initiatives, Arab economies have struggled to position themselves as competitive FDI destinations compared to other developing nations. This is largely due to slow and limited economic reforms, bureaucratic inefficiencies, weak regulatory enforcement, and prolonged business establishment procedures.
- The Gulf countries have maintained their position as the top-performing Arab region in terms of FDI attractiveness since the launch of the Dhaman Investment Attractiveness Index in 2023. They are followed by the Levant region, represented by Egypt, Jordan, and Lebanon, while the Maghreb region ranks third. This ranking clearly highlights the weak performance of the Maghreb economies, especially considering that the lowest-performing group includes Yemen, Syria, Libya, Sudan, and Mauritania, which consistently occupy the bottom of the index.
- The Gulf countries exhibit homogeneous economies, characterized by abundant natural resources and substantial financial capabilities. Additionally, their relatively small populations facilitate better human capital development and training, which has contributed to their top ranking in the 2023 overall FDI attractiveness index.
- Interestingly, the study’s findings challenge traditional perspectives that emphasize natural and financial resources as primary determinants of FDI attractiveness. Despite their resource limitations, the Levant region countries, including Egypt, Jordan, and Lebanon, outperformed the Maghreb region, securing the second spot in the index for 2023. In contrast, oil-rich Maghreb nations, such as Algeria, ranked third despite their wealth in natural and financial resources.

These findings underscore the need for further research into the policies and strategies required to establish a unified Arab vision for attracting FDI. Key priorities should include accelerating economic integration, harmonizing investment policies, and prioritizing human capital development to create a more investor-friendly business environment particularly in low-performing countries.

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