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THE COLUMBIA PROGRAM ON INTERNATIONAL INVESTMENT
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Press release

Rising political risks to constrain further foreign direct investment growth in the Middle East and North Africa

September 5, 2007–FDI grew strongly in 2006 in both North Africa and the Middle East to reach record levels. However, inflows are set to fall back in 2007-2008 as a result of the fallout from global financial turbulence, a relatively slow pace of improvement in business environments and the impact of rising political risks, according to *World Investment Prospects to 2011: Foreign direct investment and the challenge of political risk.* The report, produced by the Economist Intelligence Unit in co-operation with the Columbia Program on International Investment (CPII), charts global FDI trends over the next five years, including on the basis of a global survey of more than 600 direct investors.

FDI inflows into North Africa increased by 51% in 2006, to an estimated US$22.3bn. Inflows into the Middle East also reached a record total of US$32bn, an increase by 25% on 2005. The surge in FDI was driven by a boom in privatisation and strong regional liquidity. Egypt in particular received significant levels of FDI in 2006, of US$10bn (45% of the regional total)—which was almost double the previous record inflow attracted in 2005. FDI inflows into Israel almost tripled in 2006, to US$14.2bn, having also grown strongly in 2005. Inflows increased to just about every economy in both North Africa and the Middle East. It is well to keep in mind, however, that the 2006 growth was from a low base.

Heightened political risks

Political risk is nothing new to this region. What is significant, though, is that the survey conducted for this report revealed significantly heightened political risk perceptions among investors, compared with attitudes in the recent past. This was particularly the case for emerging markets, not least North Africa and the Middle East. Some 70% of respondents expect terrorism to be a “high risk” in the Middle East and North Africa in 2007-11; 71% agreed with the statement that Islamic radicalism will pose an increasing threat to business; almost 60% believed that a crisis over Iran would cause major disruptions for business; and 24% rated as "high" the risk of FDI protectionism in the region over the next five years.

The high political risks in the region—in particular in relation to the situation in Iraq, the tensions over Iran’s nuclear program and the Israeli-Arab conflict, and the threat of terrorist attacks in various parts of the region—could thus deter investors to an even greater extent than in the past.

	2004	2005	2006	2007	2008	2009	2010	2011
Middle East								
Inflows (US$ bn)	18.7	30.4	46.2	41.8	36.8	37.4	39.7	42.0
% of world total	2.6	3.1	3.5	2.8	2.6	2.5	2.6	2.6
% change, year on year	31.5	62.3	52.2	-9.4	-12.2	1.7	6.2	5.7
% of GDP	2.2	2.9	3.9	3.2	2.6	2.4	2.3	2.2
North Africa								
Inflows (US$ bn)	7.8	14.8	22.3	21.1	20.8	19.1	19.7	20.2
% of world total	1.1	1.5	1.7	1.4	1.5	1.3	1.3	1.3
% change, year on year	49.3	89.9	50.9	-5.4	-1.8	-7.8	2.8	2.6
% of GDP	2.6	4.3	5.6	4.7	4.3	3.7	3.6	3.5

Source: *World Investment Prospects to 2011*

Notwithstanding growing political risks, investors were generally bullish about prospects for global FDI in 2007-11. However, there was much less optimism about the investment outlook for the Middle East and North Africa. When asked to assess the importance in their companies' plans of various destinations for FDI, only 16% of surveyed companies considered the Middle East and North Africa to be of "critical importance" and 29% said these markets were of "moderate importance" - significantly lower percentages than for most other destinations (16 in all).

A difficult operating environment

The region's difficult operating environment is illustrated by some of the findings of the survey - 12% of companies operating in the region reported experiencing contract cancellations or official requests for renegotiations; 10% had been unable to convert or transfer currency; 9% had experienced payment defaults by a government buyer; and 7% had suffered the cancellation of import or export licences. On the positive side, very few had experienced asset expropriation or been subjected to litigation based on acts of political violence against their employees or premises in the region. The recent improvement in business environments in the region was reflected by the survey finding that a significantly higher proportion of respondents believed that attitudes of officials had become more receptive to foreign companies over the past five years than those who said that attitudes had become less receptive.

The massive oil reserves in the region are reason enough for many foreign companies to increase hydrocarbons investments in the area. However, the attractions of the Middle East and North Africa for other forms of FDI will remain fairly limited. Despite the recent moves towards liberalisation in the region, further progress in most countries in the area is likely to be slow in view of volatile politics and the resistance of entrenched vested interests. As noted by **Laza Kekic**, Director of Country Forecasting Service at the Economist Intelligence Unit and one of the report's editors, "the majority of countries in the Middle East and North Africa will continue to lag behind most other emerging market regions in the attractiveness of business environments". This lag behind other emerging market areas is also captured by the Economist Intelligence Unit's business environment rankings model which measures the attractiveness of the operating climate for investment across 82 countries on the basis of 91 qualitative and quantitative indicators for 10 categories of the business environment.

World Investment Prospects to 2011 is available from www.eiu.com/wip or www.cpii.columbia.edu

Copies are available for members of the press from the PR contacts below.

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The Emerging Markets Conference, 24-25 September

The main findings of the report will be presented at the Economist Conference's Emerging Market Summit at the Millennium Hotel London, on the 24-25th September. *For more information: http://www.economistconferences.com*

About the Economist Intelligence Unit

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of *The Economist*. Through our global network of over 500 analysts, we continuously assess and forecast political, economic and business conditions in 195 countries. As the world's leading provider of country intelligence, we help executives make better business decisions by providing timely, reliable and impartial analysis on worldwide market trends and business strategies. More information about the Economist Intelligence Unit can be found on the Web at www.eiu.com.

About the Columbia Program on International Investment

The Columbia Program on International Investment (CPII), headed by Karl P. Sauvant, is a joint undertaking of the Columbia Law School, under Dean David M. Schizer, and The Earth Institute at Columbia University, directed by Jeffrey D. Sachs. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. The CPII focuses on the analysis and teaching of the implications of FDI for public policy and international investment law. Its objectives are to analyze important topical policy-oriented issues related to FDI, develop and disseminate practical approaches and solutions, and provide students with a challenging learning environment. More information about the Program can be found on the Web at www.cpii.columbia.edu.

Business environment scores and ranks

	2007-11 Total score	2007-11 Global rank	2002-06 Total score	2002-06 Global rank	Change in total score	Change in rank
Israel	7.67	23	6.95	29	0.72	6
Qatar	7.60	24	6.93	30	0.66	6
UAE	7.48	28	7.27	24	0.22	-4
Bahrain	7.43	30	7.10	26	0.33	-4
Saudi Arabia	6.57	49	5.78	52	0.79	3
Jordan	6.46	50	5.72	54	0.74	4
Kuwait	6.34	55	6.37	43	-0.03	-12
Egypt	6.23	60	5.11	65	1.12	5
Tunisia	6.01	64	5.22	63	0.78	-1
Morocco	5.64	68	4.66	72	0.98	4
Algeria	5.25	73	4.31	77	0.94	4
Iran	4.35	79	3.59	81	0.76	2
Libya	4.33	80	4.30	78	0.03	-2