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Inward FDI in the United Arab Emirates and its policy context

by
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Inward foreign direct investment (FDI) is important in building a sustainable and diversified economy as envisaged by the United Arab Emirates (UAE). The UAE's stock of inward FDI (IFDI) grew at an average annual growth rate of 49%, from US$ 1.1 billion (1.5% of GDP) in 2000 to US$ 85.4 billion (23.7% of GDP) in 2011. Many foreign multinational enterprises (MNEs), including several Fortune 500 companies -- have established affiliates in the country. The rapid growth of IFDI reflects confidence in the UAE economy and efforts to enhance its competitiveness. The recent global crisis has, however, significantly reduced IFDI flows. Efforts are under way to speed up the ratification of a new foreign investment law, which removes several of the current legal barriers to FDI and offers foreign investors similar rights to those of UAE nationals.

Trends and developments

The United Arab Emirates is one of the six members of the Gulf Cooperation Council (GCC) countries, and one of the four GCC members of OPEC.[1] The UAE is composed of seven emirates: Abu Dhabi, Dubai, Sharjah, Ajman, Umm AI Quwain, Fujairah, and Ras Al Khaimah.

Inward foreign direct investment is considered an important factor in the efforts by the UAE to build a sustainable and diversified economy. IFDI has been envisaged as one of

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[1] The six member countries of GCC are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. GCC members of OPEC include, in addition to the UAE, Kuwait, Qatar, and Saudi Arabia.

the pillars in the establishment of a knowledge economy, according to the UAE 2021 Vision,[2] which charts the goals and steps for the next stage of the nation's progress leading up to the year 2021. Studies have shown IFDI to contribute, under appropriate conditions, to increasing capital formation, employment and exports of host economies, and to technology transfers and productivity spillovers to local firms through forward and backward linkages or through local firms imitating MNEs or hiring workers trained by them.[3] Technology, which includes product, process and distribution technologies, in addition to management and marketing skills, is particularly important for the diversification of the UAE economy and its transformation to a knowledge-based economy. IFDI can therefore be socially beneficial, in particular in the long run, to the UAE economy.

Country level developments

The country's IFDI stock grew from US$ 1 billion (1% of GDP) in 2000 to US$ 85 billion (24% of GDP) in 2011, rising at an average annual (compound) growth rate of 49%, a rate that far exceeded those of the IFDI stocks of comparator GCC countries (annex table 1).[4] The stock of IFDI relative to GDP grew at an average annual growth rate of 33%, the fastest growth rate in the region. The take-off point for the UAE's IFDI was 2003, when the IFDI stock rose to US$ 7 billion (5.3% of GDP) -- compared to a constant level of US$ 2 billion in the previous two years. From 2004 to 2011, the UAE's IFDI stock exceeded the total stock of Bahrain, Kuwait, Oman, and Qatar taken together, reflecting the competitiveness and attractiveness of the UAE as an investment destination not only within the GCC but also within the wider Middle East and North Africa region.

IFDI flows to the UAE grew from US$ 1.2 billion (1.1% of GDP) in 2001, to a peak of US$ 14.2 billion (5.5% of GDP) in 2007, followed by a slight decline to US$ 13.7 billion (4.4% of GDP) in 2008 (annex table 2). The impact of the global financial crisis on IFDI flows to the UAE is reflected in the decline in 2009 of about 70% in flows from the 2008 level, to US$ 4 billion (1.5% of l GDP). Flows rose slightly in 2010 and 2011 (to 1.8% and 2.1% of GDP, respectively), but remained well below the peak of 2007. Between

[2] In February 2010, the UAE cabinet released the UAE 2021 Vision (available at www.vision2021.ae). Theme 3 of the Vision – "United in Knowledge" – states that, in creating a sustainable and diversified economy, home-grown entrepreneurship is to be stimulated and FDI to be attracted.

[3] See, for example, Magnus Blomström and Ari Kokko, "Multinational corporations and spillovers," *Journal of Economic Surveys*, volume 12, issue 2 (July 1998), pp. 247-77, on the role of FDI in technology transfer and the associated productivity spillovers. See also UNCTAD, *World Investment Report 1999*: *Foreign Direct Investment and the Challenge of Development* (Geneva: United Nations, 1999) for the positive impact that FDI has in terms of enhancing technological capabilities, generating employment, boosting export competitiveness, and protecting the environment.

[4] It should be noted that outward FDI from the UAE has also grown noticeably since 2000, rising from US$ 2 billion in 2000 to US$ 58 billion in 2011. (Data are from UNCTAD, FDI statistics, available at http://www.unctad.org.) Most of the OFDI is undertaken by the Abu Dhabi Investment Authority (ADIA), the largest UAE sovereign wealth fund (SWF), whose assets amount to US$ 627 billion in 2012, according to the SWF Institute (information available at: http://www.swfinstitute.org/). Other UAE SWFs include Abu Dhabi Investment Council, Emirates Investment Authority, International Petroleum Investment Company, Investment Corporation of Dubai, Mubadala Development Company, and RAK Investment Authority.

2003 and 2008, IFDI flows to the UAE exceeded the total of flows to Bahrain, Kuwait, Oman, and Qatar.

The WTO's 2012 *Trade Policy Review* of the UAE provides data on the sectoral distribution of IFDI for the period 2005-2009, reproduced in annex table 3 below.[5,6] In 2009, financial institutions accounted for nearly one fourth (23%) of the stock of inward FDI, followed by construction (22%), real estate (17%), wholesale and retail trade (14%), manufacturing (10%), and transportation and communications (7%).

The sectoral distribution of IFDI can also be judged from information on cross-border mergers and acquisitions (M&As) and greenfield FDI projects. In recent years, the services sector and construction have been major recipients of IFDI in the UAE, according to the information on M&As and greenfield projects provided and discussed in the section on corporate players below.

The same information suggests that important home countries for FDI in the UAE include the United Kingdom, some other European countries and the United States. Although data on the geographical distribution of FDI in the UAE are not published,[7] data on OECD countries' outward FDI flows to the UAE confirm this perception and throw further light on the sources of FDI in the UAE (annex table 4). According to those data on annual FDI flows to the UAE, in 2005-2010 as a whole, the top home countries for FDI in the UAE were Luxembourg (US$ 13.1 billion), Switzerland (US$ 5.3 billion), United Kingdom (US$ 2.7 billion), United States (US$ 2.4 billion), Hungary (US$1.6 billion), France (US$ 1.5 billion) and Italy (US$ 1.4 billion). The most recent (2010) statistics show Italy and Chile topping the list of home countries. Outside the group of OECD countries, according to the information on cross-border M&As and greenfield FDI projects, FDI flows also originated from fellow-GCC economies, China, India and Malaysia.[8]

The corporate players

Data on the principal foreign affiliates in the UAE are not available. However, an idea of the role of foreign affiliates in the UAE in 2010-2011 can be obtained from data on greenfield FDI projects and cross-border M&As. According to UNCTAD's *World Investment Report 2012*, the number of greenfield FDI projects established in 2010 and

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[5] The World Trade Organization's "Trade policy review: United Arab Emirates," Report by the Secretariat, WT/TPR/S/262, February 21, 2012, available at http://www.wto.org/english/tratop_e/tpr_e/tp362_e.htm reports (on p. 12) that the Government is working on the improvement of the collection of FDI statistics, particularly by source.

[6] It should be noted that the figures for the total IFDI stock in annex table 3 differ from the UNCTAD data in annex table 1.

7 FDI data collection and dissemination need to be improved in the MENA and GCC countries. In the past, there were discussions on FDI-related technical assistance spearheaded by the IMF. The IMF Middle East Regional Technical Assistance Centre's (METAC) 2009 Programme document sheds light on FD technical assistance for the region as a whole.

[8] India's FDI outflows to the UAE amounted to US$ 2.2 billion in 2002-2009. See Premila Nazareth Satyanand and Pramila Raghavendran, "Outward FDI from India and its policy context," *Columbia FDI Profiles,* Vale Columbia Center on Sustainable International Investment, September 22, 2010, available at: www.vcc.columbia.edu.

2011 amounted to 323 and 369, respectively.[9] The number of cross-border M&As by inward-investing firms numbered 20 in 2010 and 31 in 2011.[10]

The UAE has a high inward FDI potential, reflected in its high ranking by UNCTAD's Inward FDI Potential Index:[11] in 2009, the UAE ranked fifth among 142 economies.[12] Accordingly, the UAE aspires to becoming a global investment hub, which also helps the Government to fulfill its vision for diversifying the economy. Many foreign MNEs, including some of the top financial and non-financial MNEs, are operating in the UAE. Many of the U.S. financial and non-financial MNEs operating in the UAE are Fortune 500 companies (annex table 5).

The total number of U.S. MNEs' affiliates in the UAE with assets, sales or net income greater than US$ 25 million amounted to 113 in 2010, according to U.S. Bureau of Economic Analysis data, and 95 of them were majority-owned affiliates.[13] Those majority-owned affiliates employed about 19,500 employees, of whom 4,400 were in professional, scientific and technical services, 4,300 in manufacturing, 1,900 in wholesale, and 1,900 in mining. The total compensation paid to employees of the majority-owned affiliates was US$1.2 billion, and the value-added generated by those affiliates amounted to US$ 5.9 billion, of which about US$ 4.1 billion was generated in the mining industry alone.

Although information on the principal foreign affiliates could not be obtained, data on the largest M&As in the UAE by inward investing firms for the period 2008-2010 are available (annex table 6). Out of 38 top M&A deals by inward investing firms that took place during this period, six originated from the United States, seven from the United Kingdom, nine from other GCC countries (Kuwait, Qatar, Saudi Arabia), three from India, and two from Malaysia. More than half the M&A deals took place in services, in particular in finance, but also a variety of other services such as transportation, communications and utilities[14]

Data on the largest announced greenfield FDI projects for the period 2008-2010 suggest that they were highly concentrated in construction (annex table 7). This perhaps explains why the UAE Government undertook business reforms making it easier to obtain construction permits, as mentioned below in the discussion of the policy scene. Over the period 2008-2010, the total value of the largest greenfield investments announced by

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[9] See UNCTAD, *World Investment Report 2012: Towards a New Generation of Investment Policies* (Geneva: United Nations, 2012), annex table I.9, available at http://www.unctad-docs.org/files/UNCTAD-WIR2012-Annexes-Tables-en.pdf.
[10] Ibid., annex table I.4.
[11] See UNCTAD, *World Investment Report 2011: Non-Equity Modes of International Production and Development* (Geneva: United Nations), annex tables, web table 28, "Inward FDI Performance and Potential Index rankings, 1990-2010," available at: http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx
[12] The ranking for 2010 is not available.
[13] Data on U.S. foreign affiliates in the UAE are from the Bureau of Economic Analysis, U.S. Department of Commerce, available at http://www.bea.gov/international/di1usdop.htm.
[14] U.S. Census Bureau's Standard industry classification (SIC) is followed for the classification of sectors and industries mentioned.

inward-investing firms in the construction industry amounted to nearly US$ 20 billion. The largest greenfield investments announced during the period also included projects in transportation, communications and utilities, and in manufacturing, amounted to more than US$ 4 billion.

Effects of the recent global crisis

The recent global financial and economic crisis has taken its toll on inward FDI flows to the UAE economy. FDI flows dropped by about 70% between 2008 and 2009, from US$ 13.7 billion (4.4% of GDP) to about US$ 4 billion (1.5% of GDP) and, as noted, rose only modestly in 2010 and 2011 (annex table 2). It is unknown how exactly this decline was distributed across the different industries, sectors and emirates in the UAE, though it is believed that the real estate and financial sectors were perhaps the worst hit with the collapse of the real estate bubble and global financial crisis.[15]

The policy scene

According to the WTO's 2012 and 2006 *Trade Policy Reviews* of the UAE, the UAE's investment policy limits foreign investment, except in the free zones where 100% foreign ownership is allowed, and thus reduces competition between local and foreign investors in the economy. The Federal Commercial Companies Law (No. 8 of 1984) and its amendments stipulate that UAE nationals must hold at least 51% of the capital of any company established in the UAE. However, there are exceptions to this provision for a) other GCC countries' nationals, who are granted national treatment and may have up to 100% ownership in most activities, and for b) companies registered as branches or representative offices of foreign companies established in Dubai.

The UAE Government has established nearly 40 free zones, in which 100% foreign ownership is allowed and no taxes are levied. The highest concentration of the free zones is in Dubai, with more than half of the total number of free zones (23), followed by Abu Dhabi (5), Ras Al Khaimah (4), Fujeirah (3), Sharjah (2), Ajman (1), and Umm Al Quwain (1).[16] Outside the free zones, local sponsors are needed for foreign companies to be established, and foreign ownership is limited to a maximum of 49%.

Free zones have recently been noted to contribute to the development of Abu Dhabi's manufacturing base and to the diversification of its economy.[17] This has strengthened the Abu Dhabi Government's commitment to encouraging foreign investment and diversification. According to the 2011 annual Economic Report of the Emirate of Abu

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[15] See for example "Dubai hit hard by financial crisis", available at http://www.globalcrisisnews.com/real-estate/dubai-hit-hard-by-financial-crisis/id=625/ , and "Impact of the global financial crisis still causing jitters for UAE", available at http://topnews.ae/content/21158-impact-global-financial-crisis-still-causing-jitters-uae .

[16] For a list of UAE free zones, see for example http://www.uaefreezones.com/, and http://www.indexuae.com/Top/Business_and_Economy/Free_Trade_Zones.

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[17] See Oxford Business Group's economic update on Abu Dhabi entitled "Abu Dhabi: shifting priorities," available at: www.oxfordbusinessgroup.com/economic_updates/abu-dhabi-shifting-priorities.

Dhabi,[18] issued by the Emirate's Department of Economic Development, the nominal value of GDP of Abu Dhabi expanded by 15.9% in 2010, from AED 535 billion (US$ 145.6 billion) to AED 620 billion (US$168.8 billion). In real terms, such a growth rate amounts to 6.8%.[19] Although oil continued to account for about 50% of (nominal) GDP, non-oil activities, including in the manufacturing sector, achieved notable growth, of about 11%. The Khalifa Industrial Zone Abu Dhabi, one example reported in the newspapers, is expected to boost the manufacturing base in the Emirate. By 2030, it is expected to account for 15% of the Emirate's non-oil GDP and to add 100,000 jobs.[20]

The perception of Dubai's free zones is less favorable, in contrast.[21] Output of the mostly labor-intensive industries in these free zones is driven by highly elastic, low-skilled, cheap labor supply from neighboring Asian countries. Rather than being driven by productivity growth, output growth is instead driven by the increase in the labor input.

According to a February 2008 report by the United States Government Accountability Office, in addition to the Federal Commercial Companies Law and its amendments (company law), the Commercial Agencies Law (Federal Law No. 13 of 2006 on Deregistration of Trade Agencies) represents another legal barrier to FDI in the UAE, as it stipulates that the operations of foreign importers need to be done through a sole UAE agent, either a national or a fully national-owned company, and the terms of the agency relationship.[22,23] However, changes were introduced in 2009 with modifications to make contracts more easily enforceable. Modifications, for example, limited the agency contract to a fixed time period, required mutual consent to renew an agency agreement and allowed either party to file for damages.[24] However, Federal Law No. 2 of 2010 introduced further amendments to the Commercial Agencies Law, which seem to have partly reverted changes introduced in 2009.[25]

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[18] See http://www.emirates247.com/news/government/abu-dhabi-ded-releases-annual-economic-report-2011-11-13-1.427938.

[19] Based on GDP deflator figures for the UAE of 103 in 2009 and 111.8 in 2010, and 2007 as the base year, real GDP amounted to AED 519 billion and AED 554 billion in 2009 and 2010, respectively, resulting in real GDP growth rate of 6.8%. GDP deflator figures are obtained from the World Bank's World Development Indicators database, available at http://data.worldbank.org/data-catalog.

[20] Saifur Rahman, "Khalifa Port: industrial zone to open by year-end," *Gulf News*, March 1, 2012, available at http://gulfnews.com/business/shipping/khalifa-port-industrial-zone-to-open-by-year-end-1.988353. It is possible though that the figures and projections mentioned are overly optimistic.

[21] The author is grateful to Raimundo Soto for drawing his attention to this point.

[22] U.S. Government Accountability Office, Report to the Honorable Richard Shelby, Ranking Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, "Laws and policies regulating foreign investment in 10 countries," Washington, D.C., 2008, available at www.gao.gov/assets/280/272998.pdf.

[23] There are a number of provisions relating to commercial agencies, both registered and unregistered: Federal Law No. 18 of 1981 (Organization of Commercial Agencies); and Federal Law No. 18 of 1993 (Commercial Procedure) and Federal Law No. 5 of 1985 (Civil Code) govern unregistered commercial agencies. The main legislation that governs (registered) commercial agencies (Federal Law No. 18 of 1981) was amended several times by Federal Law No. 14 of 1988 (Agency Law) which applies to all registered commercial agents, Federal Law No. 13 of 2006 (Deregistration of Trade Agencies) and Ministerial Resolution No. 381 of 2006, and Federal Law No. 2 of 2010 amending certain provisions of Federal Law No. 18 of 1981. The author is indebted to Mohammed Zaheeruddin for this information.

[24] See World Trade Organization, "Trade policy review: United Arab Emirates", February 21, 2012, op. cit.

[25] Ibid.

The UAE Cabinet has mandated the Ministry of Economy to implement a National Investment Reform Process that improves the country's investment policy. In November 2011, the Dubai Economic Council (DEC) called for speeding up the ratification of the draft Foreign Investment Law, which offers foreign investors similar rights to those extended to UAE nationals.[26] It also called for clearer regulations governing foreign investment, especially on property rights protection, business disputes settlement and corporate governance. Resolving insolvency, enforcing contracts and protecting investors are business aspects in which the UAE was ranked the lowest according to the World Bank's 2012 Ease of Doing Business Index, compared to its ranking with respect to paying taxes, trading across borders, getting electricity, registering property, dealing with construction permits, and starting a business.[27]

Investment freedom in the UAE is by far the lowest scored among the ten economic freedoms included in the Heritage Foundation's Index of Economic Freedom.[28] Although the UAE's 2012 overall economic freedom score was 69.3, positioning it in the 35th rank among the world's countries in terms of overall economic freedom, its investment freedom score was only 35, positioning it in the 123rd rank. Compared to other GCC countries, the investment freedom ranking of the UAE lags behind that of Bahrain (75), Kuwait and Oman (55), Qatar (45), and Saudi Arabia (40).

Despite some legal barriers to foreign investment in the UAE, the rapid growth of IFDI during most of the period since 2000 reflects an overall confidence of investors in the UAE economy, its business environment and growing competitiveness, both regionally and globally, over time. The World Bank's *Doing Business* reports show that the UAE's ease of doing business rank had improved from the 69th position in 2006 to the 46th in 2009 and further to 33rd in 2010; it held the same rank in 2012.[29]

Seeking to improve its competitiveness, the UAE has undertaken reforms that have eased doing business and encouraged investment, both domestic and foreign. Some of the

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[26] "Attracting more foreign investment," *Gulf News*, November 26, 2011, available at http://gulfnews.com/opinions/editorials/attracting-more-foreign-investment-1.937549 .

[27] See The World Bank, *Doing Business 2012: Doing Business in a More Transparent World* (Washington, D.C: World Bank, 2012), available at http://www.doingbusiness.org/reports/global-reports/doing-business-2012.

[28] In addition to investment freedom, the index of economic freedom includes property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labor freedom, monetary freedom, trade freedom, and financial freedom. UAE's world rank is highest in fiscal freedom and lowest on investment freedom. In between, freedom from corruption (30th), labor freedom (35th), monetary freedom (40th), government spending (47th), property rights (49th), trade freedom (57th), financial freedom (72nd), and business freedom (83rd) lie in descending order. See The Heritage Foundation, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation, 2012), available at http://www.heritage.org.

[29] See The World Bank, *Doing Business 2012*, op. cit. The World Bank's Doing Business reports for 2006, 2009 and 2010, entitled *Doing Business 2006: Creating Jobs*, *Doing Business 2009*, and *Doing Business 2010: Reforming Through Difficult Times,* are available at http://www.doingbusiness.org/reports/global-reports/doing-business-2006, http://www.doingbusiness.org/reports/global-reports/doing-business-2009, and http://www.doingbusiness.org/reports/global-reports/doing-business-2010, respectively.

reforms relate to starting a business. In 2010/2011,[30] the UAE eased the process of starting new businesses by merging the requirements for a) filing company documents with the Department for Economic Development, b) obtaining a trade license and c) registering with the Dubai Chamber of Commerce and Industry.[31] In 2008/2009, the UAE had eased the requirements relating to documents needed for business registration, abolished the minimum capital requirement for establishing a business and removed the requirement that proof of deposit of capital be shown for registration.[32]

The UAE has also made obtaining credit easier.[33] In 2009/2010,[34] His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE, issued Decree no. 8, which formally established a federal Dubai-based credit bureau (Emcredit) under the supervision of the central bank.[35,36] The aim of this decree is to establish a credit reporting system that provides lenders with the necessary information to support sound lending decisions, and stability to the financial services industry. The decree also regulates the operations of Emcredit and information sharing in the Emirate pursuant to the criteria and instructions stipulated by the Dubai Department of Economic Development (DED) and to the instructions and guidelines issued by the UAE Central Bank. According to reports in several newspapers and websites, the decree was published in the Dubai Government's *Official Gazette* number 348.[37] Emcredit began functioning in February 2007 when it started to collect information on the repayment patterns of individual borrowers as well as firms, allowing better supervision of the debt level of banks and borrowers.

Measures have also been taken to make it easier to obtain construction permits. The UAE has shortened the time for delivering building permits in 2008/2009 by improving its online system for processing applications.[38]

Aspects of international trade have also been reformed. In 2009/2010, the UAE launched Dubai Customs' comprehensive new customs system, Mirsal 2, which streamlined document preparation and reduced trading time.[39] A year earlier, the UAE increased the capacity at the container terminal, eliminated the terminal handling receipt as a required document and increased trade finance products.[40]

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[30] The year 2010/2011 refers to the period June 2010 to May 2011.
[31] See The World Bank, *Doing Business 2012*, op. cit.
[32] See The World Bank, *Doing Business 2010*, op. cit.
[33] See The World Bank, *Doing Business 2011: Making a Difference for Entrepreneurs* (Washington, D.C.: World Bank, 2011) available at *http://www.doingbusiness.org/reports/global-reports/doing-business-2011*.
[34] The Decree was issued on May 3, 2010.
[35] See The World Bank, *Doing Business 2012*, op. cit.
[36] More information on Emcredit is available at http://www.emcredit.com/en/default.aspx.
[37] See for example "Decree No. 8 of 2010 concerning Emcredit published in Dubai government official gazette No. 348," July 3, 2010, available at http://www.ameinfo.com/236864.html and "Emcredit decree published in official gazette," July 03, 2010, available at http://www.emirates247.com/eb247/banking-finance/finance/emcredit-decree-published-in-official-gazette-2010-07-03-1.262275.
[38] See the World Bank, *Doing Business 2010*, op. cit.
[39] See the World Bank, *Doing Business 2011*, op. cit.
[40] See the World Bank, *Doing Business 2010*, op. cit.

To strengthen the protection of foreign investors' property rights and encourage foreign investments, the UAE Government had signed a total of 38 bilateral investment treaties (BITs) as of June 1, 2012.[41] Of the 38 treaties concluded, 14 were signed with OECD countries: Austria, Belgium and Luxembourg (one treaty), Czech Republic, Finland, France, Germany, Italy, Republic of Korea, , Poland, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom. The UAE has also signed 48 double taxation treaties (DTTs), with 46 countries, of which 18 treaties were signed with 17 OECD countries: Austria, Belgium, Canada, Czech Republic, Finland, France, Germany (two treaties), Greece, Ireland, Italy, Republic of Korea, Netherlands, New Zealand, Poland, Portugal, Switzerland, and Turkey.

The ranking by A.T. Kearney's Foreign Direct Investment Confidence Index (FDICI), which assesses the impact of economic, political and regulatory changes on FDI intentions based on responses by corporate executives of top companies around the world, placed the UAE 22nd among the countries ranked in 2005, eighth in 2007 and 11th in 2010, although the rank fell to 15th in 2012.[42] Despite the drop in the ranking, it is worth noting that Dubai and Abu Dhabi were the two most preferred destinations for future investments in the Middle East: 28% of respondents surveyed by A.T. Kearney for the 2010 ranking indicated that Dubai was their preferred destination, and 18% indicated a preference for Abu Dhabi.[43] This compares to 8% for Oman, 5% for Bahrain and 3% for Qatar.[44]

With its legal barriers and scope for further business reforms, the UAE has inward FDI potential with plenty of room for improving FDI performance. According to UNCTAD's Inward FDI Performance and Potential Indexes, the UAE has underperformed over the second half of the 2000-2010 decade. UNCTAD's Inward FDI Potential Index ranking suggests that the UAE's IFDI potential has improved during the past decade, with the ranking rising from 22 in 2000 to 14 in 2005, 3 in 2008 and 5 in 2009, but it slipped back to 19 in 2011.[45] The ranking by the Inward FDI Performance Index, however, took an inverted U-shape, improving during the first half of the 2000s from 137 in 2000 to 19 in 2005, but slipping back gradually during the second half of the 2000s until it reached 103

[41] Data on BITs and DTTs signed are from UNCTAD's International Investment Agreements databases, available at http://unctad.org/en/pages/DIAE/International%20Investment%20Agreements%20(IIA)/IIA-Tools.aspx.

[42] See the following reports by the A.T. Kearney Global Business Policy Council: *FDI Confidence Index 2005* (Alexandria, Virginia: ATK, 2006); *New Concerns in an Uncertain World: The 2007 A.T. Kearney FDI Confidence Index* (Vienna, Virginia: ATK, 2008); *Investing in a Rebound: The 2010 A.T. Kearney FDI Confidence Index* (Vienna, Virginia: ATK, 2010); and *Cautious Investors Feed a Tentative Recovery: The 2012 A.T. Kearney FDI Confidence Index* (Vienna, Virginia: ATK, 2012). All reports are available at http://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index.

[43] See A.T. Kearney Global Business Policy Council, *Investing in a Rebound: The 2010 A.T. Kearney FDI Confidence Index*, op. cit. This is the last report in the series that surveyed respondents for their favorite investment destinations in the Middle East.

[44] Data are not available for Kuwait. Egypt, Jordan and Lebanon were the preferred destinations for 15%, 5%, and 3% of respondents, respectively.

[45] See UNCTAD, *World Investment Report 2011*, op. cit., annex table 28.

in 2010.[46] The recent crisis may have negatively affected inward FDI flows to the UAE relative to the world's more significantly than the UAE's GDP relative to that of the world, resulting in a deterioration of the Inward FDI Performance Index and the country's rank on it. FDI underperformance may be also attributed to restrictions limiting foreign ownership to not more than 49%, except in the free zones,[47] limits on sectors that foreign investors can invest in and the degree of protection of foreign investors' property rights.[48]

Conclusions

The UAE Government understands the strategic importance of IFDI in building a sustainable and diversified economy and is aware of the current barriers to FDI in the economy. In the more recent and farther-future stretching Abu Dhabi Vision 2030, compared to the UAE Vision 2021, the UAE plans to "build a sustainable and diversified, high value-added economy that is well integrated into the global economy and that provides more accessible and higher-value opportunities for all its citizens and residents."[49] The sustainability of the economy is viewed as being founded on economic diversification, which is envisaged in terms of not only broader economic sectors but also of a larger enterprise base. Building such a base rests heavily on encouraging small businesses and entrepreneurship and on strategically promoting FDI in the economy.

Additional readings

Mina, Wasseem Michel, "The institutional reforms debate and FDI flows to the MENA region: the "best" ensemble", *World Development*, vol. 40 (9) (2012), pp. 1798-1809.

Mina, Wasseem, "Do bilateral investment treaties encourage FDI in the GCC countries?", *African Review of Economics and Finance*, vol. 2 (1) (2010), pp. 1-29.

Mina, Wasseem, "External commitment mechanisms, institutions, and FDI in GCC countries", *Journal of International Financial Markets, Institutions, & Money*, vol. 19 (2) (2009), pp. 371-386.

Mina, Wasseem, "The location determinants of FDI in the GCC countries," *Journal of Multinational Financial Management*, vol. 17 (4) (2007), pp. 336-348.

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[46] UNCTAD, *World Investment Report 2011*, op. cit. In comparison, Qatar's Inward FDI Performance Index ranking consistently improved from 131 in 2000 to 19 in 2009, though it slipped back to 29 in 2010.

[47] World Trade Organization, "Trade Policy Review: United Arab Emirates," Report by the Secretariat, WT/TPR/S/162, March 20, 2006, available at http://www.wto.org/english/tratop_e/tpr_e/tp362_e.htm.

[48] Wasseem Mina, "United Arab Emirates trade policy review", *The World Economy*, vol. 31 (11) (2008), pp. 1443-1453.

[49] See, Government of Abu Dhabi, *The Abu Dhabi Economic Vision 2030* (Abu Dhabi: Abu Dhabi Government, 2008), p. 17, available at *http://www.abudhabi.ae/egovPoolPortal_WAR/appmanager/ADeGP/Citizen?_nfpb=true&_pageLabel=p_citizen_homepage_hidenav&did=131654&lang=en.*

Useful websites

Abu Dhabi Government Portal:
https://www.abudhabi.ae/egovPoolPortal_WAR/appmanager/ADeGP/Citizen?_nfpb=true&_pageLabel=p_citizen_homepage_hidenav&lang=en

Abu Dhabi Department of Economic Development:
http://www.adeconomy.ae/english/mediacenter/pages/newsitem.aspx?itemid=176

The American Business Council of Dubai & the Northern Emirates:
http://abcdubai.olasoft.com/site/home?nav=02

Dubai Government Portal:
http://dubai.ae/en/pages/default.aspx

The U.S.-UAE Business Council: http://www.usuaebusiness.org/index.cfm

U.S. Department of Commerce – Bureau of Economic Analysis: http://www.bea.gov/

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The Vale Columbia Center on Sustainable International Investment (VCC –www.vcc.columbia.edu), led by Lisa Sachs, is a joint center of Columbia Law School and The Earth Institute at Columbia University. It seeks to be a leader on issues related to foreign direct investment (FDI) in the global economy. VCC focuses on the analysis and teaching of the implications of FDI for public policy and international investment law.

Statistical annex

Annex table 1. UAE: inward FDI stock, 2000-2011

(US$ billion and percent of GDP)

Economy	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
UAE	1.1	2.3	2.3	6.6	16.6	27.5	40.3	54.5	68.2	72.2	77.7	85.4
	Percent of GDP											
	1.0	2.2	2.1	5.3	11.2	15.2	18.2	21.1	21.7	26.7	26.1	23.7
Memorandum:												
Comparator economies	(US$ billion)											
Saudi Arabia	17.6	17.3	17.7	18.5	20.5	33.5	50.7	73.5	110.2	142.3	170.5	186.9
Qatar	1.9	2.2	2.8	3.5	4.7	7.2	10.7	15.4	17.8	25.9	30.6	30.5
Oman	2.6	2.6	1.9	2.4	2.5	4.1	5.7	9.2	11.7	13.2	14.2	15
Bahrain	5.9	6	6.2	6.7	7.4	8.3	11.2	12.9	14.7	15	15.2	15.9
Kuwait	0.6	0.4	0.4	0.4	0.4	0.6	0.8	0.9	0.9	10.3	11.2	10.8

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics.

Annex table 2. UAE: inward FDI flows, 2000-2011

(US$ billion and percent of GDP)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
UAE	-0.5	1.2	0.1	4.3	10	10.9	12.8	14.2	13.7	4	5.5	7.7
	Percent of GDP											
	-0.5	1.1	0.1	3.4	6.8	6.0	5.8	5.5	4.4	1.5	1.8	2.1
Memorandum:												
Comparator economies	(US$ billion)											
Saudi Arabia	0.2	0.5	0.5	0.8	1.9	12.1	17.1	22.8	38.2	32.1	28.1	16.4
Qatar	0.3	0.3	0.6	0.6	1.2	2.5	3.5	4.7	3.8	8.1	5	-0.1
Oman	0.1	0	0.1	0	0.1	1.5	1.6	3.4	2.5	1.5	2	0.8
Bahrain	0.4	0.1	0.2	0.5	0.9	1	2.9	1.8	1.8	0.3	0.2	0.8
Kuwait	0	-0.2	0	-0.1	0	0.2	0.1	0.1	0	1.1	0.3	0.4

Source: UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

Annex table 3. UAE: sectoral distribution of inward FDI stock, 2005-2009

(Percent of total and total in US$ billion)

	2005	**2006**	**2007**	**2008**	**2009**
Agriculture and fisheries	0.2	0.1	0.2	0.3	0.3
Extraction industries	1.6	1.9	4.0	4.8	5.1
Manufacturing industries	6.2	7.2	10.5	12.7	18.9
Electricity and water	1.3	1.6	6.2	7.4	4.1
Construction and building	15.0	16.4	24.7	29.8	42.9
Wholesale and retail trade	8.9	10.3	13.2	16.0	26.9
Hotels and restaurants	1.3	1.3	1.3	1.6	3.5
Transportation and communications	2.8	5.4	5.3	6.4	14.3
Financial institutions	16.0	17.1	26.5	32.0	44.9
Real estate	8.2	12.8	35.7	43.1	33.6
Other	0.4	0.5	0.4	0.5	1.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total in US$ billion	**16.7**	**20.2**	**34.6**	**41.8**	**52.9**

Source: World Trade Organization, "Trade Policy Review: United Arab Emirates", Report by the Secretariat, WT/TPR/S/262, February 21, 2012, table I.3, available at www.wto.org/english/tratop_e/tp362_e.htm.

Annex table 4. UAE: geographical distribution of inward FDI flows from OECD economies, 2005-2010

(US$ million)

	2005	2006	2007	2008	2009	2010
Australia	..[c]	30.0	..	114.0	57.0	..
Austria	..	..	..	..	..	..
Belgium	-8.0	51.0	347.0	-253.0	-25.0	188.0
Canada	..	..	..	..	..	..
Chile	..	503.0	145.0	-101.0	224.0	1,192.0
Czech Republic	735.9	-2,548.0	-6.1	64.5	40.0	5.7
Denmark	253.0	871.0	1,187.0	1,231.0	-3,193.0	41.0
Estonia	..	2.2	0.3	0.2	..	..
Finland	41.0	-20.0	-3.0	14.0	7.0	6.0
France	100.0	229.0	175.0	799.0	28.0	158.0
Germany	-31.0	260.0	176.0	434.0	-149.0	16.0
Greece	2.4	-1.2	0.0	8.3	9.9	-2.3
Hungary	55.0	265.0	200.2	17.6	-103.2	1,152.5
Iceland	0.0[z]	0.0[z]	2.7	11.1	5.3	452.9
Ireland	..	..	..	..	..	..
Israel	..	..	..	..	..	..
Italy	8.0	18.0	57.0	74.5	54.9	1,222.2
Japan	2,100.0	-6,600.0	6,900.0	19,800.0	13,000.0	-49,300.0
Korea, Republic of	-	96.0	67.5	30.9	79.3	52.4
Luxembourg	0.7	2.8	352.8	12,631.7	-4.8	100.2
Mexico	..	..	..	..	..	..
Netherlands	-48.0	-127.0	196.0	..	..	..
New Zealand	..	..	..	..	-15.7	-1.0
Norway	..	..	..	66.0	764.0	585.0
Poland	..	..	..	..	..	9.2
Portugal	..	..	..	..	..	..

	2005	2006	2007	2008	2009	2010
Slovak Republic	..	..	..	..	..	..
Slovenia	..	0.4	3.9	..	5.0	3.0
Spain	..	..	..	..	..	..
Sweden	-56.0	12.0	..	739.0	-124.0	392.0
Switzerland	-47.4	178.2	-213.6	7,966.9	-808.5	-1,755.1
Turkey	1.0	1.0	13.0	30.0	17.0	10.0
United Kingdom	393	238.0	357.0	202.0	1254.0	231.0
United States	-64.0	1322.0	255.0	286.0	502.0	93.0

Source: The author, based on individual OECD countries' reporting on outward FDI flows, obtained from OECD, *StatExtracts,* available at http://stats.oecd.org/.

Note: '..' indicates that data are not available.

Annex table 5. UAE: selected top foreign MNEs with affiliates in the economy, 2011

Fortune 500 U.S. companies with affiliates in the UAE			
Abbott Laboratories	Eli Lilly & Company	Honeywell International	Occidental Petroleum
Boeing Company	ExxonMobil	HP	Oshkosh
Booz Allen Hamilton	Fedex	IBM	Pepsi
CH2M HILL	Fluor	J.P. Morgan Chase	Pfizer
Chevron	General Dynamics	Kellogg	Starbucks
Coca-Cola	General Electric	Lockheed Martin	3M
ConocoPhillips	General Mills	Mastercard	Tyson Foods
Dow Chemical	General Motors	McDonald's	UPS
DuPont	Goldman Sachs	Motorola	Visa
		NCR	Western Union
		Northrop Grumman	

Source: The author, based on information from the U.S.-UAE Business Council website, available at http://usuaebusiness.org, and the American Business Council of Dubai and the Northern Emirates website, available at **http://www.abcdubai.com;** and the *Fortune Magazine's* ranking of Fortune 500 companies for 2011, available at **http://money.cnn.com/magazines/fortune/fortune500/2011/index.html.**

Annex table 6. UAE: top M&A deals, by inward investing firm, 2008-2010

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/announced transaction value (US$ million)
2010	Undisclosed acquirer	Unknown	The Ritz Carlton Hotel-Dubai	Hotels and motels	100	299.5
2010	Afren PLC	United Kingdom	Black Marlin Energy Holding Ltd	Investors	100	106.3
2010	Oaktree Capital Management LP	United States	Gulmar Offshore Middle East	Crude petroleum and natural gas	..	100
2010	Undisclosed Acquirer	Unknown	Ensco Offshore Co-Ensco 51	Crude petroleum and natural gas	100	95
2010	Zee Entertainment Enterprises	India	Taj Television Ltd Mauritius	Television broadcasting stations	45	44.1
2010	Renaissance Services SAOG	Oman	Al Wasita Emirates for Services and catering LLC	Eating and drinking places	100	15.2
2010	Warba Insurance Co KSC	Kuwait	Al Ghazal Logistics	Air transportation, nonscheduled	5	11
2010	Dice Holdings Inc	United States	WWW.com-Online Related Bus	Employment agencies	100	9
2010	Undisclosed Acquirer	Unknown	Dubai Pipe Factory Co LLC	Steel pipe and tubes	22.5	8.2
2010	HCL Infosystems Ltd	India	NTS Group	Business consulting services	60	6.5
2009	Khazanah Nasional Berhad	Malaysia	Fajr Capital Ltd	Investors	25	150
2009	Tradelabs PLC	United Kingdom	Real Value Consultancy FZE	Security and commodity brokers and services	100	130
2009	Securities Group Co KSCC	Kuwait	RAK Real Estate Ltd	Real estate investment trusts	9.9	91.8
2009	Huntsworth PLC	United Kingdom	Momentum International Ltd	Advertising	100	12
2009	Zylog Systems Ltd	India	Ducont FZ-LLC	Computer integrated systems design	100	7.5
2009	RDS(Technical) Ltd	Jersey	TTERS	Equipment rental and leasing	66.7	0.3
2009	Natural Bio Resources Berhad	Malaysia	Synergy Distribution FZC	Durable goods	51	0
2009	Jabbar Internet Group	Jordan	Ikoo	Computer related services	100	..
2009	Toll Holdings Ltd	Australia	Logistics Distribution System	Arrangement of transportation of freight and cargo	100	..

Year	Acquiring company	Home economy	Target company	Target industry	Shares acquired (%)	Estimated/announced transaction value (US$ million)
2009	Averda	Lebanon	Al Ghadeer Waste Collections	Air and water resource and solid waste management	100	..
2009	Mawarid Group	Saudi Arabia	Showtime Arabia	Cable and other pay television services	100	..
2009	SS8 Networks Inc	United States	OCI Mobile	Prepackaged Software	100	..
2009	QFIB	Qatar	ENPI Group	Plastics products	71.3	..
2009	International Assets Holding	United States	INTL Commodities DMCC	Commodity contracts brokers and dealers	50	..
2009	Undisclosed Acquirer	Unknown	OGEC Group	Engineering services	50	..
2009	Eaton Corp	United States	SEG Middle East Power	Switchgear, switchboard apparatus	49	..
2009	Franklin Resources Incorporated	United States	Algebra Capital Ltd	Investment advice	15	..
2009	Shore Capital Group PLC	United Kingdom	Full Circle Investments FZC	Investment advice	5	..
2008	Saudi Telecom Co	Saudi Arabia	Oger Telecom Ltd	Telephone communications, except radiotelephone	35	2,850.0
2008	Commercial Bank of Qatar QSC	Qatar	United Arab Bank	Banks	40	599.6
2008	QNB	Qatar	Commercial Bank International	Banks	23.8	302.4
2008	Eitzen Maritime Services ASA	Norway	Seven Seas Shipchandlers LLC	Repair shops and related services	100	112.4
2008	Thomas Cook UK Ltd	United Kingdom	TC Overseas Ltd	Travel agencies	100	70.5
2008	Diamant Co Ltd	Korea (Rep. of)	SMI Hyundai Corp Ltd UAE	Residential construction	100	57.8
2008	Al-Safat Investment Co KSCC	Kuwait	Orimix Concrete Products LLC	Ready-mixed concrete	60	49.8
2008	Undisclosed [acquirer	Unknown	United Printing & Publishing	Book publishing, or publishing and printing	40	31.3
2008	Hyder Consulting PLC	United Kingdom	Holford & Associates	Business consulting services	100	30.5
2008	Tarsus Group PLC	United Kingdom	Fairs & Exhibitions(1992)Ltd	Amusement and recreation services	100	22.2

Source: The author, based on Thomson Reuters, Thomson ONE Banker.

Note: '..' indicates that data are not available.

Annex table 7. UAE: main greenfield projects, by inward investing firm, 2008-2010

Date	Investing company	Home economy	Industry	Estimated/announced investment value (US$ million)
2010	National Real Estate Company	Kuwait	Construction	1,000.0
2010	CapitaLand	Singapore	Construction	484.1
2010	Giorgio Armani	Italy	Construction	484.1
2010	Realty Capital	United States	Construction	484.1
2010	Aegean Marine Petroleum Network	Greece	Transportation, communications and utilities	472.4
2010	Royal Dutch Shell Plc	Netherlands	Transportation, communications and utilities	472.4
2010	Metalloinvest	Russia	Manufacturing	320.0
2010	Abengoa	Spain	Construction	281.7
2010	Polo Group	India	Construction	217.9
2010	Accor	France	Construction	201.5
2010	Marriott International	United States	Construction	201.5
2010	TUI	Germany	Construction	201.5
2010	TUI	Germany	Construction	201.5
2010	Whitbread	United Kingdom	Construction	201.5
2009	Hydrogen Energy	United Kingdom	Transportation, communications and utilities	2,000.0
2009	National Ranges Company (Mayadeen)	Kuwait	Construction	952.8
2009	Crown Dilmun Development Company	Bahrain	Construction	500.0
2009	Smartlink	Jordan	Transportation, communications and utilities	500.0
2009	Hiranandani Developers	India	Construction	479.7
2009	Sika	Switzerland	Manufacturing	460.8
2009	EMC Corporation	United States	Transportation, communications and utilities	400.0
2009	Millenium Energy Industries (MEI)	Jordan	Transportation communications and utilities	243.1
2009	Fashion Hotels	Austria	Construction	206.9

Date	Investing company	Home economy	Industry	Estimated/announced investment value (US$ million)
2009	Hyatt International	United States	Construction	206.9
2009	The Grand Midwest Group	Ireland	Construction	206.9
2009	The Grand Midwest Group	Ireland	Construction	206.9
2009	Rezidor Hotel Group	Belgium	Construction	206.9
2009	Shangri-La Hotels and Resorts	Hong Kong (China)	Construction	206.9
2009	Starwood Hotels & Resorts	United States	Construction	206.9
2009	Whitbread	United Kingdom	Construction	206.9
2009	Whitbread	United Kingdom	Construction	206.9
2008	DSECO	Korea, Rep. of	Construction	4,002.0
2008	Sunland Group	Australia	Construction	2,200.0
2008	IT Holding	Italy	Construction	1,200.0
2008	Giga Group	Pakistan	Construction	735.0
2008	Merlin Entertainments Group	United Kingdom	Construction	641.6
2008	Anheuser-Busch Companies Inc	United States	Construction	641.6
2008	Hit Entertainment	United Kingdom	Construction	641.6
2008	Six Flags	United States	Construction	641.6
2008	Viacom	United States	Construction	641.6
2008	Yash Raj Films	India	Construction	641.6

Source: The author, based on fDi Intelligence, a service from the Financial Times Ltd.