EU GCC INVEST REPORT 2013

Project Name:

'Promotion of Mutual investment opportunities and creation of a virtual European structure in the GCC'

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AHK Delegation der Deutschen Wirtschaft in Saudi-Arabien
German-Saudi Arabian Liaison Office for Economic Affairs (GESALO)
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Part one: Survey Report

EU GCC Invest

Investment Survey

Project:

'Promotion of Mutual investment opportunities and creation of a virtual European structure in the GCC'

German Emirati Joint Council for Industry and Commerce (AHK UAE)

German-Saudi Arabian Liaison Office for Economic Affairs (AHK Saudi Arabia)

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A. Introduction

Due to the ever increasing importance of trade between the Gulf Cooperation Council states (GCC) and the European Union (EU) the EU GCC Invest project was launched in the end of 2011 to promote understanding and debate about EU-GCC relations, as well as to promote public awareness and understanding of the EU among GCC citizens. The mission statement of the project stipulates the *"Promotion of Mutual investment opportunities and creation of a virtual European structure in the GCC".*

The EU GCC Invest is a joint project of the German Emirati Joint Council for Industry and Commerce (AHK UAE) and the Delegation of German Industry and Commerce in Saudi Arabia and Yemen (AHK Saudi Arabia) in cooperation with EUROCHAMBRES and the Federation of GCC Chambers (FGCCC). The project is divided into three phases, the initial phase consists of an investment survey, to increase understanding of foreign direct investment flows, the second phase consists of a symposium to discuss the findings of the survey, while the third phase includes training, in order to create a lasting impact. The following report (phase one) is based on the investment survey, which is co-financed and supported by the European Union (EU), assessing the investment climate between EU and GCC countries.

The purpose of this study is to gain a better understanding about foreign direct investment flows between the EU and the GCC, in order to foster sustainable cooperation. The study seeks to answer questions such as "What are the major impediments for EU companies investing in the GCC and vice versa?" as well as "What can be done to create a more favorable investment atmosphere?". The Survey was conducted between May and November 2012 and included questionnaires and structured interviews to both EU businesses which have invested, or have contemplated to invest in the GCC as well as GCC businesses which had invested, or had contemplated to invest directly into production or operations in the EU. In total 68 EU companies with investments interests in the GCC and 16 GCC companies with investment interest in the EU participated in the survey.

We would like to thank all participating firms for their time and efforts, making this study a success.

B. Executive Summary

a. GCC companies investing in EU

In conclusion, the survey of GCC investors in the EU has painted a generally favorable picture regarding the investment atmosphere for the GCC businesses interested in investing in the EU. There was no indication that a single factor was directly responsible for either attracting or discouraging FDI. According to the survey the investment process could be made more accessible and faster by addressing some of the issues mentioned. The majority of GCC businesses that participated in the research, represented medium to large companies, which covered more than one industry sector. Experiences and perceptions between the different surveyed companies were similar, despite a spread of participants across all 6 GCC countries.

The EU was valued especially for foreign direct investments in terms of its strong political stability and its good infrastructure. As expected, the EU was viewed primarily as a matured market which may not necessarily yield a high potential in terms of growth rates, yet remains very attractive for GCC investor in terms of its stable and highly developed business environment, as well as its access to leading technologies and a highly skilled labor market. Despite not necessarily impeding current investment projects, factors such as the current visa regulations, the varied corporate tax between member states and the length of judicial proceedings were outlined as impeding factors to the FDI flow.

b. EU companies investing in GCC

Overall, the survey of European companies investing or planning to invest in the GCC was received very positively. The businesses active in the GCC were mostly large to very large enterprises, based on their turnover and staff count. The most important factors for foreign direct investment in the GCC were mainly the positive economic situation, with high growth rates and a very positive future outlook which was followed and aided by the high government spending.

Factors influencing the investment decisions of EU companies adversely have generally been outside of the direct reach of policy makers, such as political instability surrounding the GCC Region. However, there are impediments for European companies investing in the GCC that could be addressed by policy makers. Legal aspects were mentioned to act as an impediment, equally ownership requirements and restrictions on hiring qualified staff were a concern to European companies investing in the GCC.

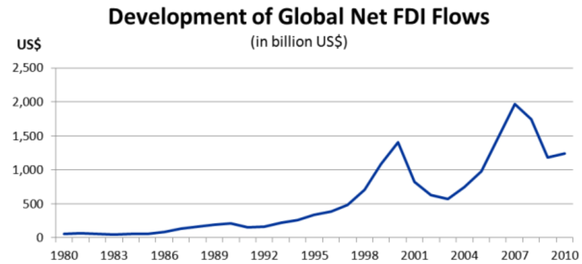
C. Recommendations

a. To EU Policy Makers

- Review visa policies in particular for business travelers to allow faster and more convenient access.
- Review legal aspects; especially the length of judicial proceedings and the varying regulations between countries.
- Emphasize further on the political and economic stability of the EU.
- Review Investment promotion tools and possibly publish clear legal and administrative guidelines in particular regarding the various tax regulations between EU member states.

b. To GCC Policy Makers

- Review ownership requirements; with regard to the obligation of having a local partner.
- Review legal aspects; especially the length of judicial proceedings and the overall high legal costs.
- Review access to qualified staff; lighten limitations on hiring women in certain areas and facilitate visa regulations (mainly Kingdom of Saudi Arabia).



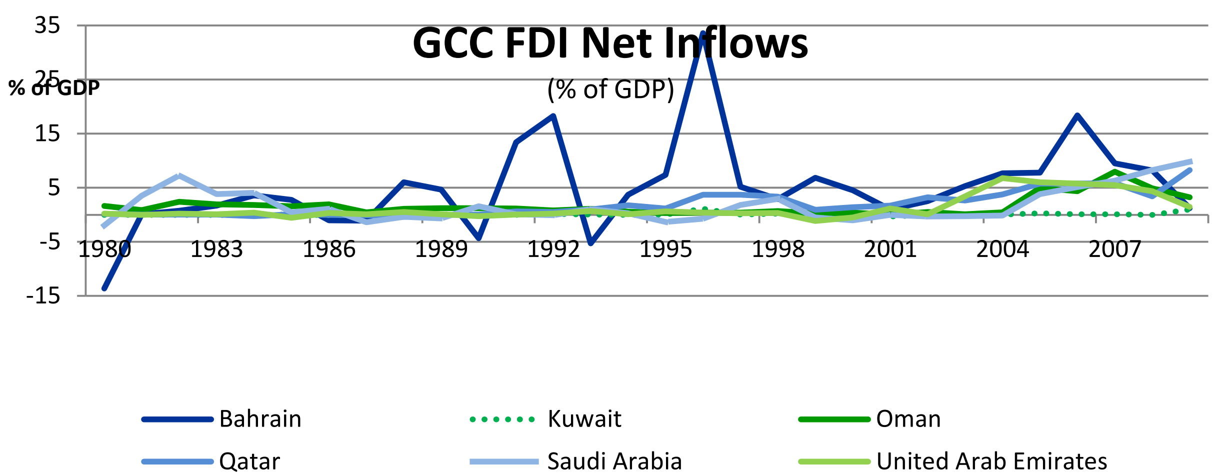
Source: UNCTAD (2012).

1. Global and GCC Framework

The importance of FDI in the world has been growing considerably over the last decades. Cross-border investments, driven by a further globalized and integrated world, are growing despite the setback of the dotcom bubble burst of 2000 and the financial crisis in 2007. While the FDI in matured markets such as Europe and Northern America is mainly characterized by M&A to gain market access, other economies (especially the MENA region) mainly attract Greenfield investments, the ratio of M&A to Greenfield Investments is 6% over the last ten years (UNCTAD 2011).

Transitional economies with the goal of developing an innovation driven structure are often competing for being the location of Greenfield Investments by TNC's. The main purposes for attracting FDI are technology transfers and absorption of intelligence into the local workforce, as well as job creation especially in the high skilled sector. Top determinants for FDI attraction are market size, political stability, growth and regulatory environment (Kearney, 2005).

In general, FDI's can be categorized in terms of the investor objectives and usefulness for the target country, e.g. resource seeking (investing in natural resources), efficiency seeking (outsourcing activities based on the availability of certain skills or lower costs), or market seeking (targeting a large or specific market). Until now, the largest share of FDI's in the GCC has been oriented to the hydrocarbons sector, which belongs to the first and highly capital intensive category. Usually this sector is less suitable for providing spillover effects to the local economy (WEF/OECD, 2011).



Source: World Bank (2012)

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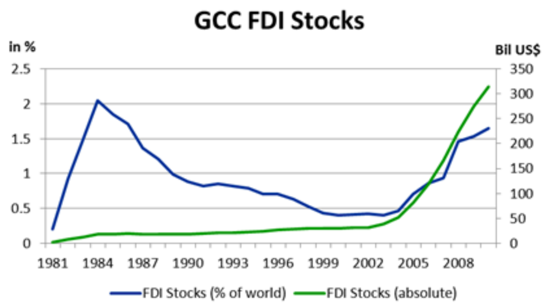
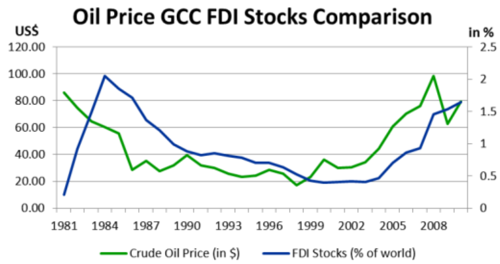
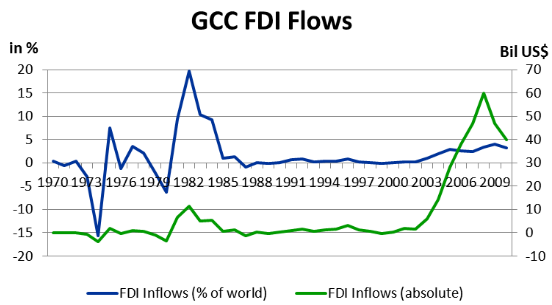


Source: Own Calculations based on UNCTAD (2012).



Source: Own Calculations based on UNCTAD (2012), BP (2011).

Nevertheless, over the past three decades, the region experienced a considerable change in the FDI development in terms of scale. After the end of the oil crisis' turbulences, the FDI began rising sharply for several years, only to stagnate afterwards for almost two decades.

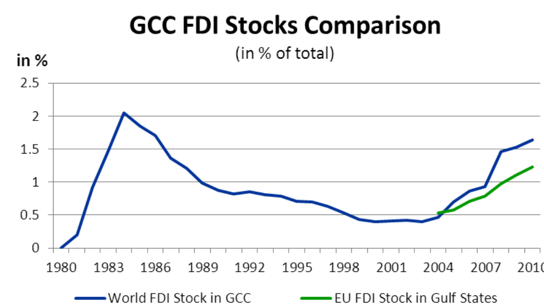


Source: Own calculations based on UNCTAD (2012).

A new rise in FDI started in 2003 and held on until now, throughout the financial crisis and the beginning of the debt crisis. The development coincides to a certain extent with the crude oil prices in both periods. This is a possible indicator for the still existing economic dependence on oil and gas resources and foreign investment interests, rather than diversification.

2. 2. European Involvement

The European share in this development is difficult to assess due to a lack of information. Just recently has data become available, and only for the Gulf States (GCC, Iraq and Yemen), as an aggregate. Compared to the world share of FDI to the GCC, the European share (which is only available for the last few years) seems to be roughly the same, although the initially small gap is widening.



Source: Own Calculations based on Eurostat (2012), UNCTAD (2012).

The biggest individual investor country by far, for those for which data is available, is the United Kingdom, followed by France and Italy. Together, they account for over 60% of all EU investments, 51 billion € in 2010, which is 1.2% of all extra-European investments (Eurostat, 2012).

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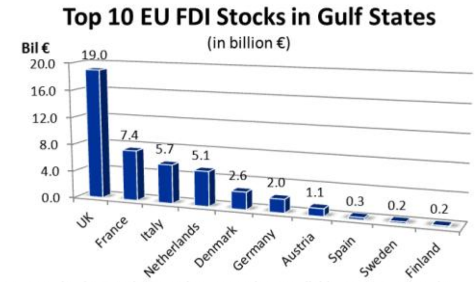

Source: Irland, Luxemburg, Malta, Portugal not available, Germany 2009 data. Eurostat (2012).

3. Background on GCC Investments in the EU

The European Union prides itself with being open for international FDI and accommodating interested investors by offering them an attractive and reliable investment framework. Steps have been taken on behalf of the European Union to promote FDI into its member countries. Examples of this include the EU's investment policy, which aims to bring the regulatory standard of its members and ensure their compatibility with international treaties and regulations, such as the OECDS Guidelines for Multinational Enterprises or the WTO General Agreement on Trade in Services (GATS). Other examples of European investment policies can be seen in separate trade agreements which the EU is negotiating with numerous countries and regions globally.

The current framework for economic and political cooperation is the 1989 EU-GCC cooperation agreement, which seeks to improve trade relations and stability in a strategic part of Europe's neighborhood. The negotiations for an EU-GCC Free Trade Agreement had been ongoing for a long period of time, yet were suspended by the GCC in 2008. Nevertheless, according to the EU, informal discussions regarding this topic do continue to take place (EU Website 2012). At the current point in time though, there have been no new announcements made in regards to renewed official talks concerning the Free Trade Agreement. Since the end of talks regarding the Free Trade Agreement, the GCC have implemented a common market policy in 2008, which has made it even more attractive for investments to be made between the two large markets of the EU and the GCC.

3.1 Forms of Investment

Inside the GCC the EU is first and foremost viewed as a matured market which primarily offers relatively safe investment opportunities, yet simultaneously low yields. As such, a majority of investments can be divided into one of three categories, which are private investments, portfolio investments by sovereign wealth funds or strategic foreign direct investments via state related bodies. Commercially driven FDI aimed at gaining access to foreign market and developing profitable foreign business entities continue to remain scarce. There are two prominent exceptions to this development, of GCC companies which have made strong foreign direct investments both vertically and horizontally in EU states. The first example being the Saudi Arabia based company SABIC's investments into research and development as well as production facilities for chemicals and polymers in the Netherlands, Germany, UK, Italy, Austria, Belgium and Spain.

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Although the Saudi Arabian government continues to be the majority owner of SABIC, around 30% of the company is in private ownership and the company is traded as a public company in Saudi Arabia. The second example is the UAE based company DP World's investment in various EU ports and logistics companies, as part of their global horizontal investment strategy. Among its more than 60 port terminal operations worldwide, DP World has acquired several major port concessions and invested into various operations. The most famous of these being the investments into acquiring and developing operations at the Port of Le Havre, the port of Southampton, parts of the Antwerp gateway, and most significantly its joint venture to develop the World Gateway at the Port of Rotterdam. DP World further acquired the UK based company Peninsular and Oriental Steam Navigation Company in 2006 for 7 billion USD and thereby expanded its EU investments further into the shipping, logistics and even tourism sector. Similarly to SABIC, DP World remains predominantly state owned, but has floated a minority percentage Of its shares on the Dubai and New York stock exchange. As such, these two primary examples of commercial FDI also continue to have strong links into the government sector and the national interests and economic development of the GCC states. As part of the EU GCC Invest study, both large semi-governmental investors as well as several of the fewer small and medium commercial investors were questioned in order to gain an overview of the investment atmosphere.

3.2 Private Investments

Private real estate investments are likely to be made for either purchasing a personal second or third home for private use or for diversifying an investment portfolio. A frequently cited reason for private home purchases is the perception of investors that, by having a property in an EU member state, their visa application process may be expedited or they may even become eligible for a residency visa if required at a future point in time. Although the ownership of property is currently no visa criteria, the expressed hope that a financial commitment to an EU state may ease the current visa process shows the dissatisfaction and problematic of the current visa regulations for GCC citizens. Primarily though, private investments into property are seen as a diversification to a local investment portfolio. Most EU countries have very few, if any restrictions for foreigners to invest into property in the country. The previously cited maturity of the EU market allows for relatively stable property investments, which are less likely to be subject to excessive currency fluctuations. The most frequent investments into private property were made in EU member countries such as the UK, France and Germany, thereby additionally adding the benefit of being invested in one of the most common held reserve currencies in the world, such as the Euro or the Pound Sterling. Given that aside from Kuwait, all GCC currencies are either officially or in practice pegged to the USD, which increases the investors risk spread further. The stable political environment of the EU was furthermore cited as one of the main positive investment factors for GCC investors in the EU. It is therefore primarily the political, economic and fiscal stability that has been of great interest for GCC private investors.

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3.3 Portfolio Investments

Additionally to the private residential investments, the majority of remaining investments in the EU can be either attributed to portfolio investments on behalf of GCC sovereign wealth funds, or strategic investments made via GCC government investment vehicles. These investments are primarily passive and aimed at achieving positive investment yields. Commercial business or policy objectives are rarely influences on their allocation. Instead It remains very difficult to exactly analyze and evaluate the fund's investments, as given their private nature; they are not required to openly publish or announce their investments. Indications seem to suggest though, that these sovereign wealth funds are invested by a substantial amount into European and EU based stocks, Bonds and other financial products. The probably second biggest sovereign investment fund in the world, the Abu Dhabi Investment Authority (ADIA), for example, stated in 2010 that "between 35 and 50 per cent of ADIA's assets are invested in the US, and between 25 and 35 per cent are invested in Europe" (Arnold 2010). Another good example of such financial investments can be seen in the company Daimler. In 2009, 9.1% of the company's shares were purchased by the UAE based investment fund Aabar, whilst another 6.9% were held by the Kuwait Investment Authority. Aarbar has since sold its shares, making the Kuwait Investment Authority now again the largest single shareholder of Daimler. As such, portfolio investments in the EU are undertaken primarily by various forms of sovereign wealth funds and focus on investing into so-called blue chip companies. investments are made based on financial concerns including the risk of the investment and its rate of return. GCC members such as the UAE, Kuwait, Qatar and Saudi Arabia are home to some of the world's largest sovereign funds. These investment funds were primarily set up to spread the excess revenues made by the GCC states across various investments around the world.

3.4 Strategic Investments

In terms of pure horizontal or vertical FDI, GCC investments in EU countries have been relatively limited to individual major capital intensive acquisitions and joint ventures from local sovereign wealth funds or strategic investment vehicles. Unlike the previously mentioned portfolio investment and other standard FDI's, these investments are characterized by being undertaken mainly for strategic purposes. As such they are less driven by corporate interests and profitability and are instead primarily focused around government policies of industrial development, security and knowledge transfers. An example of this can be seen in the UAE based investment funds such as Mubadala and the International Petroleum Investment Company (IPIC), which has made several direct investments in EU countries. In 2008, a subsidiary of Mubadala named ATIC, purchased the AMD semiconductor plant in Dresden Germany, as part of the industrial diversification policy of the Emirate of Abu Dhabi. Further direct investments in Spain and the United

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Kingdom and Germany were made via another subsidiary of Mubadala, called Masdar, within the renewable energy industry. Masdar has made several multimillion USD investments into Spanish power production facilities. By investing into power plants such as Gemasolarand Valle 1+2 through a Spanish Emirati joint venture called Torresol Energy, Masdar became a major GCC Investor in Spain. Masdar further invested into becoming one of the three joint venture partners of the 2.2 billion Euro London Array 1GW Wind park project, which is currently under construction. Finally, Masdar acquired full ownership of a German photovoltaic production plant in 2007 for 230million USD, in preparation for setting up photovoltaic production facilities in the UAE. As such, the primary investments of Masdar in the EU were made along strategic guidelines to guarantee a know-how transfer and prepare the UAE for stronger economic diversifications.

Two further major examples besides Mubadala of major UAE strategic investors in the EU are TAWAZUN strategic investment holding and the International Petroleum Investment Company (IPIC). These institutions were established by the government of Abu Dhabi as part of the economic development process of the emirate. TAWAZUN for example is aiming to establish a metal, vehicle and defense manufacturing industry in the emirate. As a direct consequence of this strategic goal, TAWAZUN acquired the full ownership of the German sport weapons manufacturer Merkel in 2007, through its firearms subsidiary Caracal. Through the investment into the German company, TAWAZUN directly aimed to add important know-how and expertise to its venture and has now successfully developed its own manufacturing facility in the UAE with the help of the foreign expertise. IPIC on the other hand side made major direct investments into EU companies such as Compañia Española de Petróleos, a Spanish multinational oil and gas company, S.A CEPSA (now fully owned by IPIC) and Austrian based oil and gas company OMV. Up until 2011 IPIC had also been the majority stakeholder of the German and Dutch industrial service provider called Ferrostaal for two years, with the aim to eventually acquire the whole company and integrating its know-how and facilities into the proposed Abu Dhabi oil and chemical cluster. The investment though was eventually withdrawn and IPIC sold its shares again in 2011. IPIC has also been known for having invested heavily in developing oil storage terminals at the Rotterdam Port as part of its global energy investment strategy.

Another relatively new trend in strategic investments of GCC government funds has been the purchasing of agricultural businesses and real estate abroad and particularly in the southern and eastern EU states. In fact, the Kuwait Investment Authority has been reported to have invested into several agricultural businesses and properties in Romania and Bulgaria. In 2012, Bulgarian state media further announced that the Kuwait Investment Authority is looking into investing an additional 480 million USD into a newly established joint venture company in the Bulgarian Agricultural sector, whilst Qatar exanimated investments of around 100 million Euros into the countries stock breeding sector (Dimitrova 2012). Such FDI’s should be viewed as state led strategic investments, as they are principally undertaken through sovereign wealth funds under food security initiatives. In particular, Kuwait and Saudi Arabia have announced extensive foreign direct investments in various countries round the world in order to ensure their future food security.

D. Background on EU Investments in the GCC

The GCC countries experienced a substantial surge in inward FDI with the rise of the oil price during the 2000s and through the subsequent investment into the economic development, ranging from energy and infrastructure to education and tourism. The GCC became the primary destination for investment in the MENA region, on the one hand due to the abundant oil and gas resources, yet on the other and more important hand due to the stability its member states offered to international investors. With the focus on key sectors to create competitive advantage, such as petrochemical, banking and financial services, airline, tourism, real estate, telecommunications, steel, and transportation the GCC managed to attract strong investment inflows from around the world and particularly the European Union (Bally *et al* 2010). The GCC is currently the EU's fifth largest export market. Meanwhile, the EU is the first trading partner for the Gulf. The growing importance of the GCC, especially for the EU, is resting on the dual pillars of its strong economic growth and the abundance of hydrocarbons in the region. This makes it vital for the EU to create a sustainable partnership, ensuring access to the GCC's strong growing market and its oil and gas deposits. Furthermore, there are various sectors and industries growing strongly, supported by local government spending and private sector investment, besides the oil and gas sector, which represent vast opportunities for European companies. Despite these facts, the EU is practically absent in the region: just one EU delegation exists and no European Union Chamber or business council has been created in any of the countries of the region, leaving European interests not sufficiently promoted. In addition, while in the past the GCC markets offered good export opportunities for European companies, GCC countries are now looking for long-term investments from foreign companies in order to continuously develop their national economies.

4.1 Promoting Investment in the GCC

As stated above, the EU-GCC Invest project is part of the 1989 EU-GCC Cooperation Agreement which has and continues to play a vital role in promoting an investor-friendly environment within the GCC amongst other issues, such as aiming to "help strengthen the process of economic development and diversification of the GCC countries" (EU-GCC Cooperation Agreement 2008). In addition, a further long-term project was launched on a wider scale with the 2004 MENA-OECD Investment Programme which was equally initiated to increase the participation of the private sector in the economies of the GCC, which were typically dominated by a large public sector. The program furthermore promoted best practices and investment policy reforms, to raise the attractiveness of the GCC for international investors (MENA-OECD Investment Program 2008).

Within the GCC itself, several authorities were charged with promoting an investor-friendly environment, which was established by each GCC member state. In the Kingdom of Saudi Arabia several institutions with far reaching powers were founded to spearhead the process of increased private sector participation and especially increasing international competitiveness and becoming an attractive destination for FDI. The Saudi Arabian General Investment Authority (SAGIA) was launched in 2000 with the mission to "act as a gateway to investment in Saudi Arabia" (SAGIA 2013). SAGIA is responsible for managing the investment environment in the Kingdom with the aim of achieving rapid and sustainable economic growth by creating a pro-business environment, providing comprehensive services to investors and fostering investment opportunities in key sectors of the economy including energy, transportation, ICT and knowledge-based industries.

In addition, Saudi Arabia pursues a large scale approach to economic development, through its economic cities, which are developed by the Saudi Industrial Property Authority (MODON) and SAGIA. MODON was established in 2001, and, besides developing existing infrastructure, it is planning and designing several cities. In developing the Economic Cities concept, over a thousand of the world's free zones were surveyed. The sixty most successful zones were selected and studied to determine key success factors. The result is the Economic Cities concept. An ultimate innovation in Public-Private-Partnership (PPP) is that the Economic Cities are comprehensive and fully integrated developments featuring a "live, work and play" design. The objectives of the Economic Cities are to:

- Promote balanced regional growth
- Achieve economic diversification
- Upgrade competitiveness and development
- Create jobs

SAGIA has launched a total of four integrated Economic Cities, one each in Rabigh (King Abdullah Economic City), Hail (Prince Abdul Aziz bin Mousaed Economic City), Madinah (Knowledge Economic City) and Jazan (Jazan Economic City). Specifically, SAGIA's vision for the Economic Cities is to contribute between a quarter and a third of the aspired national growth rate, to create over a million jobs, and to become home to 4 to 5 million residents by 2020 (SAGIA 2013).

Equally, in the United Arab Emirates a similar emphasis has been placed upon attracting foreign investment. In Dubai, especially the free zones were a particular focus for attracting foreign investment. Jebel Ali Free Zone was already established in 1980, which led to the subsequent establishment of further free zones. Incentives for foreign companies include up to 100% of foreign ownership without the need for a local partner, no need for local sponsors or limitation on foreign employees, (as the free zone authority acts as the sponsor),no corporate taxes (for a minimum of 50 years) while repatriation of profits and capital is allowed, no currency restrictions and no income tax.Particular sectors are further accommodated by the “specialized cities”, for instance Dubai Healthcare City, Dubai Media City and Dubai Textile City (Qudah and Khan 2010).Since 2000 Qatar has also strongly promoted foreign investment. Legal amendments allowed foreign businesses to own up to 100% in 13 business activities, including agriculture, industry, health, energy, and consulting. In the restricted sectors, similar to UAE, a cap of 49% for foreign ownership applies (Ministry of Business and Trade 2013). Several laws were issued in recent years, further liberalizing the economy, aimed at attracting more investment, such as the Property Law: Non-Qataris (2004), Qatar Financial Centre Law (2005) and Foreign Investment Law (2010). There are several incentives to foreign investors, especially within the tax-exempt free zones, therefore investors are allowed to “Incorporate a local company, or operate as a branch of a foreign company, 100 percent foreign ownership, trade without local agent or sponsor, sponsor expatriate employees, no taxes, duty-free import of goods and services, unrestricted repatriation of capital and profits.” (Qatar Investment Promotion Department 2012).

In the smallest state of the GCC, Bahrain, 100% ownership is allowed in 95% of business activities, with no need for a local participation. Bahrain is therefore ranked as the most liberal state in the Middle East and North Africa (Bahrain Economic Development Board 2012). Contrary to the other GCC members, 100% of ownership is allowed across the country.

4.2 Forms of Investment

For portfolio investments the GCC diverges, for example 51% of GCC capital markets cannot be accessed by foreign investors, particularly in the UAE and Qatar (Financial News 2011). In the United Arab Emirates foreign investors may acquire 108 of the 135 issues on the UAE stock markets, Abu Dhabi Securities Market (ADX) and Dubai Financial Market (DFM). Under UAE law, foreign investors are allowed to own up to 49 percent of a company. However, company by-laws in many cases prohibit foreign ownership (US Bureau of Economic and Business Affairs 2012a).

The financial markets of the Kingdom of Saudi Arabia are generally accessible, although non-GCC foreign investors may only invest in the stock market through swap agreements and exchange-traded funds. These limits are gradually relaxing, however foreign companies will be limited to a maximum ownership of 5% of a given stock’s traded shares. Financial policies generally facilitate the free flow of private capital, and currency can be transferred in and out of Saudi Arabia without restriction (with the exception of limits on bulk cash movements) (US Bureau of Economic and Business Affairs 2012b).

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With regard to foreign direct investment, in the timeframe between 2003 and 2011, within the Middle East, the GCC states alone attracted 79.1% of FDI projects (Ernst and Young 2012). Considering overall FDI inflows into the Middle East, the UAE, Saudi Arabia and Qatar alone accounted for 62% of the total FDI projects in the first two quarters of 2012 (GulfBase 2012). In 2011 the UAE attracted the most FDI projects in the GCC, standing at 368, while Saudi Arabia attracted 161, Qatar 85, Bahrain 70, Oman 68 and Kuwait 30 (Financial Times 2012: Ernst and Young 2012). These projects translated into the following US dollar terms: In 2012 the United Arab Emirates attracted $8.2 billion in foreign direct investment, down from $11.58 billion in the previous year. In 2011 the Saudi Arabia attracted the most FDI inflows in the GCC with $17 billion, followed by the UAE with $7 billion. The composition of inward FDI in the GCC can be categorized into 59% services, 27% manufacturing and 14% primary sector – where wide scale restrictions, especially on oil and gas upstream still apply. The services sector mainly consisted of business activities 19%, construction 14% and finance 9% (UNCTAD 2012). The foreign direct investment to the GCC, that originated from within the European Union amounted to a yearly average of €4.5 billion since 2006 (UNCTAT 2013; Ayadi et al 2013).

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E. EU GCC Invest - Investment Survey

The survey consisted of 35 possible questions geared towards GCC companies and 36 possible questions geared towards EU companies. Aside from the final three , all questions were closed ended; either a multiple choice style of question, or a Likert weighting scale from 1 to 10 to state that a certain factor influenced the decision either in a very positive, negative, or neutral way. Despite the survey participation being absolutely voluntary and anonymous, we allowed participants to skip any questions, which they preferred not to answer. Despite this option and the medium length of the survey questionnaire (35/36 questions) a relatively high completion percentage was achieved. 75.4% of the participating EU companies and 68.8% of GCC companies completed the whole questionnaire. The following graphs are all based on the EU GCC Investment Survey.

Survey of GCC Companies Investing in the EU

Findings from the survey of GCC companies, which have invested, or have contemplated to invest, in a production facility inside the EU.

5.1 Participant Profiles

As previously mentioned, 16 GCC based companies participated in this survey and shared their experiences regarding investment in the EU. The 16 companies industry sectors varied significantly and most participants mentioned at least two separate industry sectors, in which their core focus lay. This suggests that the companies surveyed were diversified with possible company group holdings. In total, the 16 participating GCC companies identified themselves as being engaged in 25 different core industry sectors, ranging from vehicles and parts, to agriculture or power and electricity. The two most frequently identified categories were power and electricity and Travel & Tourism, with 18.8% of all participants stating that their core business was focused on these sectors.

In terms of origin within the GCC, all GCC states were represented by at least one surveyed company and the UAE held the largest proportion of surveyed GCC institutions.

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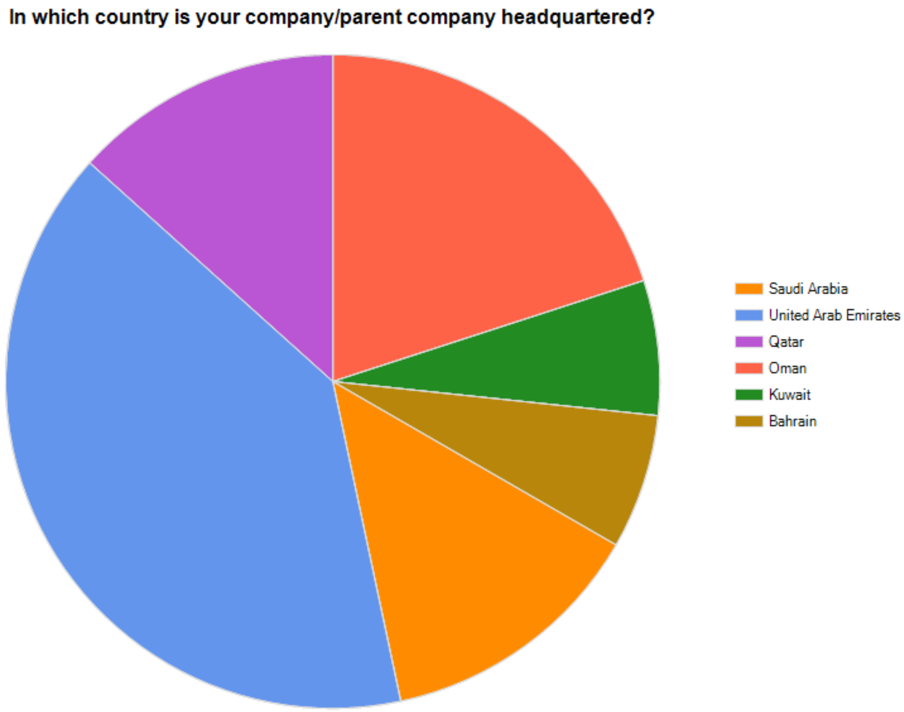
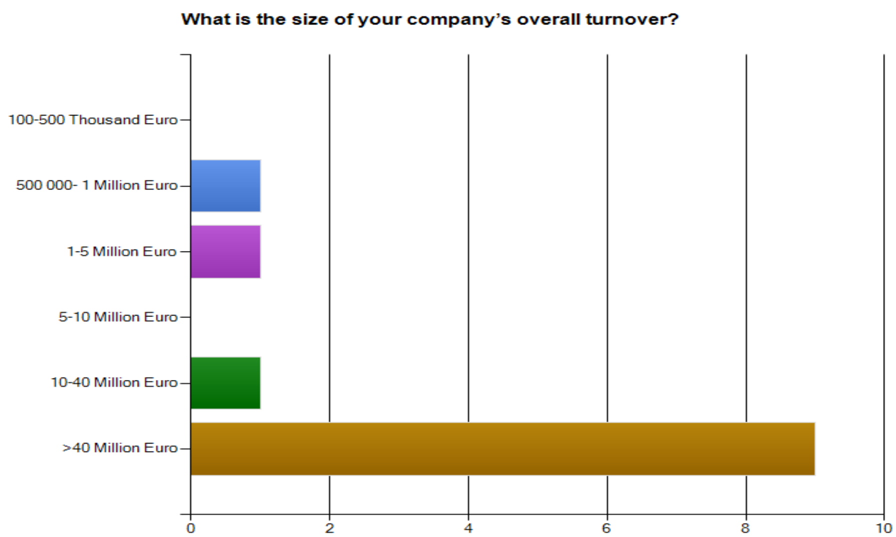
Figure 1. Location of Headquarter



The majority of the companies were already active in the EU (73.3%) yet only one third of them (33.3%) had already invested in production or service operation sites in the EU. According to the replies, these production site investments were made in Austria, Italy, Poland, Romania and Germany. The other two thirds were interested in investing in the EU. When asked in which countries, the most common response was Germany (5), the United Kingdom (3), Spain (2) and the Netherlands (2).

As shown in Figure 2, the large majority of surveyed GCC companies belonged to the biggest category with regard to overall company turnover. These stated their annual business turnover to be in excess of 40 Million Euros. Given that only companies were included in this survey that had investment interest in the EU, this seems to indicate that primarily large businesses instead of small or medium business, were involved in investment interests in the EU.

Figure 2. Overall Turnover



This Idea of primarily large businesses investing into foreign production sites in the EU is further supported by looking at the size of investment which companies have already made or are planning to make in the EU, as well as the size of turnover made inside the EU. As shown in the charts below, the most common category of investment made, or anticipated to be made, in the EU by the surveyed companies exceeded 40 Million Euros. This is a considerable amount of FDI for a company to make abroad. It also shows that polled company's FDI's are primarily geared towards medium to largely industry diversified GCC companies, and these investments are large ones. A total of 47.7% of the GCC companies surveyed also said that their turnover in the EU alone exceeded 40 Million Euros annually, and another 16.7% stated their turnover inside the EU to be between 10 and 40 Million Euros.

Figure 3. Investment in the EU

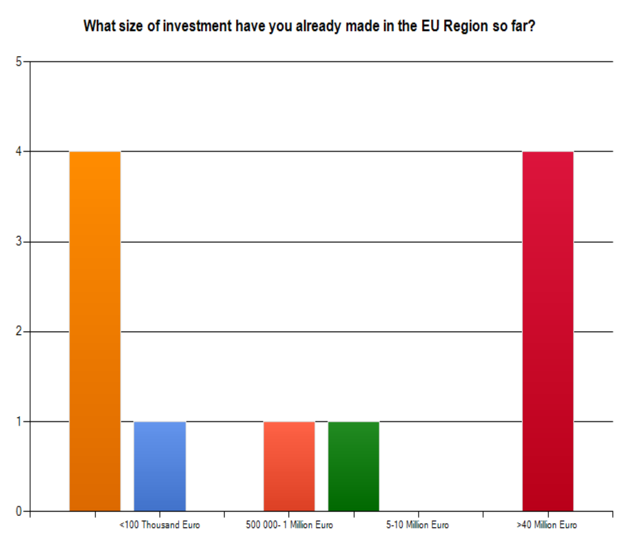
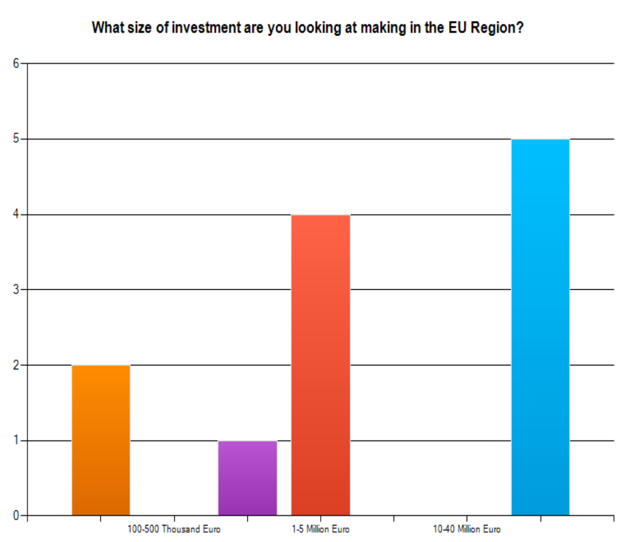


Figure 4. Planned Investment in the EU



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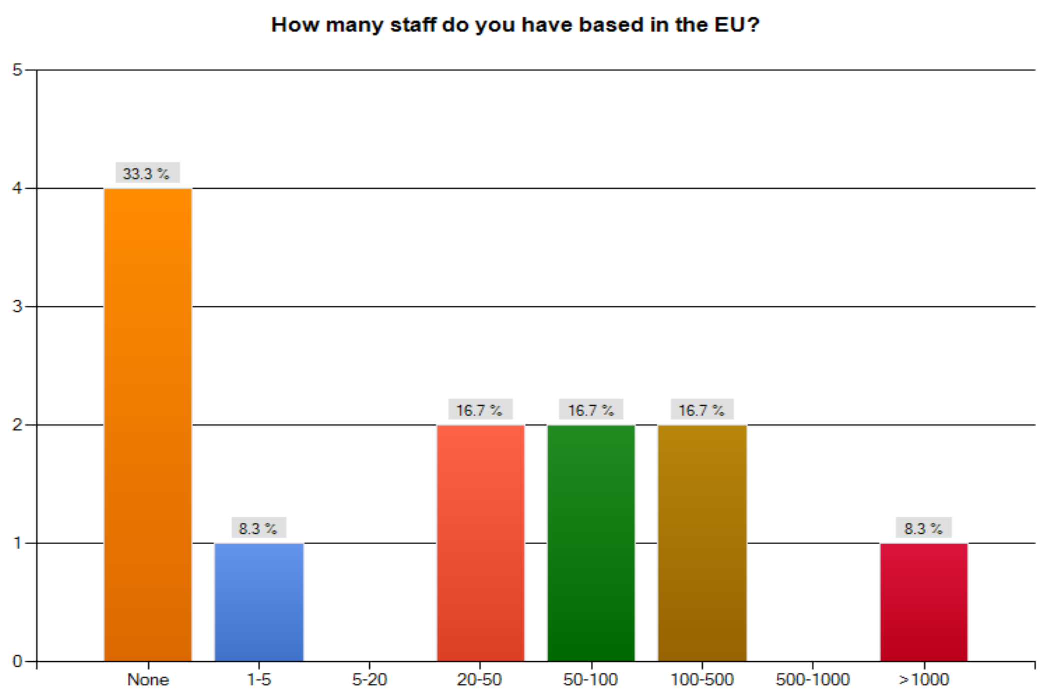
In terms of workforce make up, survey results show that from those two thirds of companies who were already active in the EU, the majority had more than 50 members of staff based there. One quarter of the surveyed companies had more than 100 staff based in the EU.

5.2 General Factors

In terms of general macroeconomic factors, the EU's FDI environment is generally rated as being positive, with the exception of two categories, namely Energy Costs and Real Estate Prices (see graph below). As a matter of fact, given that this graph below portrays the average aggregate points awarded for each category, the influence of energy costs and real estate would most likely have been even lower around a score of 3, had not three companies, which categorized themselves in the industry sector of Energy/Electricity an Real Estate earlier in the survey, awarded these categories with an exceptional score rating of 8, 9, and respectively 10. This therefore significantly increased the average score for these two categories. Given this, both Real Estate Prices and Energy Costs seem to be the biggest general deterrents, whereas the available infrastructure and surprisingly the economic situation, the EU have been seen as the most beneficial general factors to aid GCC investment.

Figure 5. Staff Count



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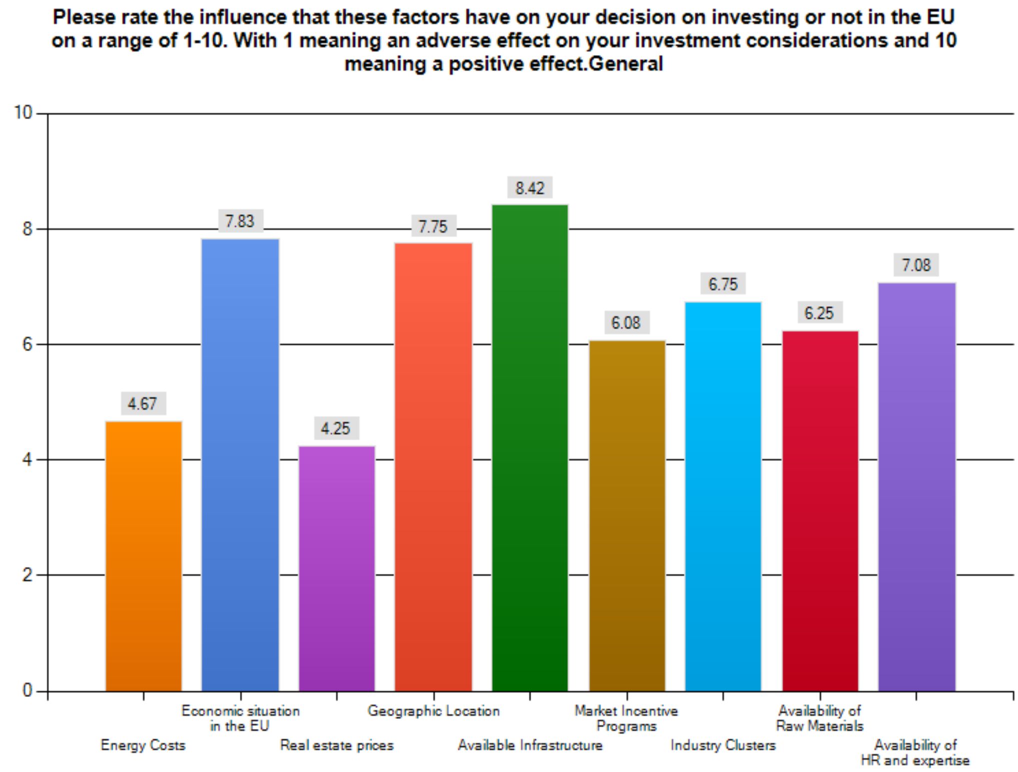

Figure 6. General Factors

5.3 Human Resources and Taxation Factors

The GCC companies viewed local labor laws as slightly positive in terms of impacting their decision to invest in the EU. The availability of HR and Expertise scores was relatively high with an average score of 7.08. The costs of labor were viewed slightly negative, with an average score of 4.58. Neither local working conditions nor Holidays significantly impacted the decision for investment. Similarly, in terms of ownership regulations, the EU was viewed generally favorable, with the right to own property in the EU being valued most, scoring an average score of 7.17. In this category, two individual companies voted 10 out of 10. A GCC company's feelings of exclusion from certain types of investments yielded an average score of 4.08. Three GCC companies rate this a 2 in terms of its negative impact suggesting negative feelings of exclusion from potential investments.

The Tax Regulations category inside the EU was rated as having a negative influence on FDI, with respondents rating the corporation tax as negative with 3.5 on average. Income tax on the other hand seems to have had much less of an impact on investment and was viewed as relatively neutral with and average score of 4.75.

5.4 Starting a Business and Investor Security Factors

Within the categories of Starting a Business and Obtaining Construction Permits, no factors seem to have had either a very positive or negative impact on the decision for GCC businesses to invest. Evidence of slight concerns was seen in terms of the availability of credit and bureaucracy, with average scores of 4.25 and 4.33. These relatively median scores, and the absence of any individual extreme scores, seem to suggest that this category is seen as rather neutral. The categories of protecting investors and security concerns on the other hand seem to suggest a rather positive influence on the investment atmosphere. As can be seen in the graph below, all questions in the category of investor protection had a positive average score.

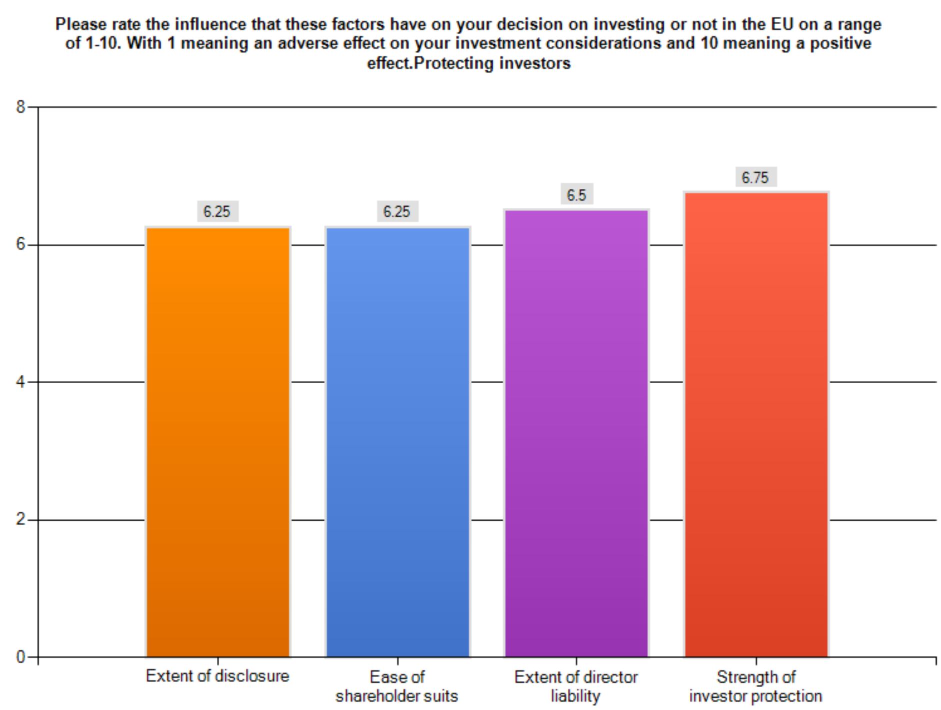

Figure 7. Investor Protection

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The rating of political stability received the highest average score within the survey, rating it 8.45 on average (which was closely followed by available infrastructure at 8.42). Given this high degree of importance awarded to political stability and the Strength of investor protection, it seems that the investment atmosphere in the EU as perceived by GCC investors benefits greatly from being seen as a politically and economically secure location.

Given the previous positive degree of influence which investor protection has had on the investment atmosphere, one might expect a generally positive view of the legal frameworks and procedures for foreign investors.

Contrary to this expectation though, the average scores within the categories of legal issues and enforcing contracts were mainly negative. As can be seen in the two charts below, particularly the length of judicial proceedings and the enforcement of judgment were seen as negative. The length of judicial proceedings has the second most negative rate on average within the whole survey and was even rated with a score on 1 by one respondent and 2 by two further respondents. As can be seen in a later part of this survey, the length of judicial proceedings was even named by several of the participating businesses as the single most negative factors that influenced their investment decisions. Given the relatively neutral scores in terms of legal costs and even trial and judgment, it seems that it is primarily only the timeframe in which legal decisions are made that negatively influences investment and not the actual decisions themselves or their costs.

5.5 Trading Across Borders and Other Factors

Within the category of Trading across Borders, all GCC businesses generally rated the different factors as largely positive. In fact, three companies had an average rating of 7 and above (see graph below). The ease of trading goods inside the EU and the previously positively mentioned good infrastructure seem to be another category that has a very positive impact on the investment atmosphere.

Figure 8. Legal Issues

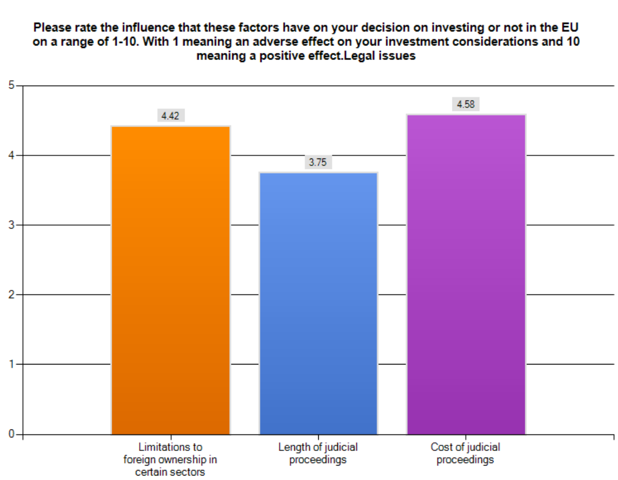
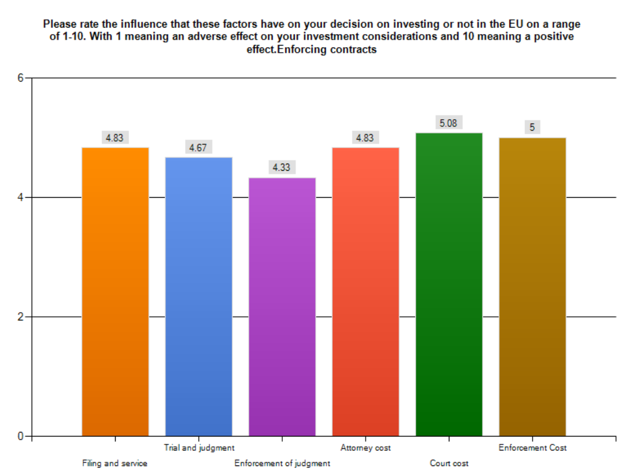


Figure 9. Enforcing Contracts



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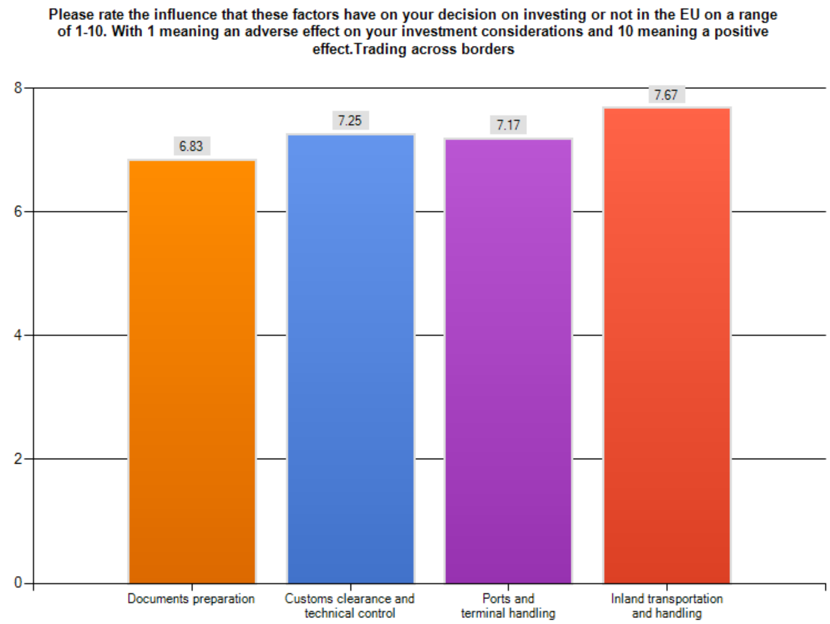

Figure 10.

The final category of factors that may influence the investment atmosphere for GCC companies included a variety of characteristics ranging from standard of living, Climate and Visa regulations. This category revealed that whilst many soft factors such as climate, social life, and standard of living were seen as having a positive influence on their decision to invest, visa regulations proved to be the most negative impact rating from any factor questioned in the survey. With an average rating of only 3.33 and a mode of only 2, visa regulations seem to be perceived as the most negative factor that has influenced GCC companies in their decision to invest in the EU.

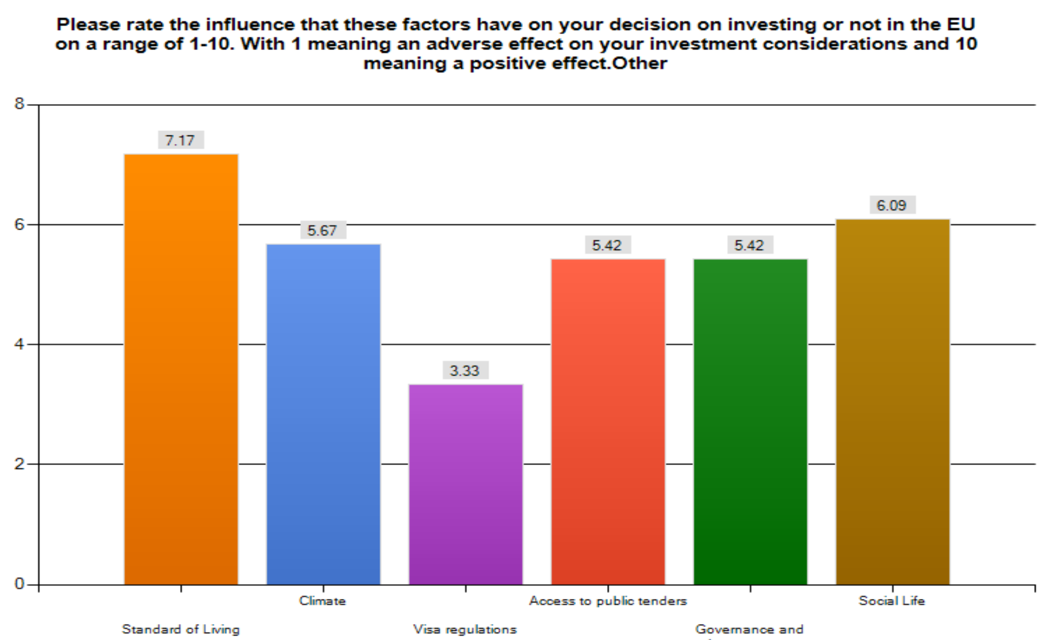

Figure 11. Other Factors

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5.5 Open-ended Question Responses

The final open-ended section of the survey allowed participants to outline their most negative and positive influences that has impacted their investment decision making process, and if they would have changed their investment if their concerns were to be addressed. The responses in this section further supported the largely negative influence of Visa Regulations. One third of all respondents explicitly referred to visa regulations as the factor with the single most negative impact on their decision to invest in the EU. When asked to state their most negative factor some of the responses given included "*Visa requirements slowing down visits*" ,"*business visas require invitation letter, no investments bodies willing to give that though.* ", as well as "*the visa issues is seriously hampering our market orientation and due diligence missed meetings already.*" Visa regulations not only had the lowest average score in the survey, but were also the most frequently named single most negative factor to impact the investment decision.

The second most frequently mentioned negative factor was shared between the high cost of real estate and the long waiting period for judicial decisions and building permits. Both these factors were named by 25% of respondents each as having the most negative impact on the investment atmosphere. Nevertheless, companies did not respond by stating that neither visa regulations nor real estate prices were an ultimate decision making factor.

One may point out that, although factors such as real estate prices, visa regulations and corporation tax had the most negative rating in the whole survey, their ratings between 3 and 4 could have been more dramatic. Given that they could have had an average rating of 1 or 2, this seems to suggest that although respondents viewed these two factors as having the most negative influence on their investment making process, these two factors will not necessarily stop any investment undertakings. Instead they primarily seem to be putting a certain degree of stress on the investment atmosphere between the EU and the GCC.

Besides these three factors of visa regulations, the high cost of real estate and the long waiting period for judicial decisions, there are only two other factors which were mentioned in the open-end questions. One being a lack in government support and funding, and the other a high labor cost. Both these factors were named by one respondent each. Given that in the previous survey questions the category of market incentive programs received a generally positive average mark of 6.08 and only one negative single review, the lack of government support and funding outlined by one of the respondents may be explained as a singular experience. Similarly, the average rating for the cost of labor before was 4.58, which would therefore not necessarily indicate a general strongly negative view towards this factor. Given the large size of the EU and the varying local economic situations in its member countries, the high labor cost may also be attributed as individual experience had by an GCC investor interested in investing in the EU and may therefore not necessarily represent a general trend regarding the investment atmosphere for GCC businesses in the EU.

In response to being asked what single factor has had the most positive impact on the investment climate, the responses were quite varied. Around 50% of responds said that having access to one of the largest economic markets in the world and a high price consumer market was very positive. The security and accessibility of the EU was a second factor. Example responses include “Strong economic market for geographic diversification”, “Political stability and right to own property” and “Great infrastructure links and no trade barriers”. These replies support data from the multiple choice portion of the questionnaire, and indicate that the main factors attracting investment in Political stability had the highest average positive ranking from any factor with 8.45, followed by the second highest average rating of 8.42 for Available Infrastructure. Also the Economic Situation and Right to Own Property both received some of the highest ratings in terms of average scores, by being rated 7.83 and 7.17 respectively.

5.6 Conclusion

In conclusion, the survey of GCC investors in the EU has painted a generally favorable picture regarding the investment atmosphere for the GCC businesses interested in investing in the EU. The majority of GCC companies who already have invested, or are about to invest, in the EU and participated in the research, represented medium to large companies, who frequently covered more than one industry sector. The majority of respondents had a turnover in excess of 40 Million Euros per annum in the EU. Experiences and perceptions between the different surveyed companies were similar, despite a spread of participants across all 6 GCC countries.

The majority of factors influencing investment in the EU received a positive feedback in the survey. Categories such as trading across border as well as Protecting Investors all received a positive average feedback. Most significantly, political stability had the highest average positive ranking from any factor with a ranking of 8.45, followed by the second highest average rating for available Infrastructure. Also the economic situation and right to own property both received some of the highest ratings in terms of average scores. The final section of the survey, in which participants were asked to outline the single most positive and negative factor influencing their investment decision, further supported these findings. Political stability, available infrastructure and access to a large market economy were here reoccurring answers, which therefore support the three most positive factors.

In terms of having a negative impact on the decision to invest in the EU, the survey highlighted three categories, which can be seen as being adverse to a positive investment atmosphere. Despite a generally very positive view regarding the legal right to own property and investor protection, scores were generally negative for the category of legal issues and enforcing contracts. The length of judicial proceedings was particularly noted as having a negative influence (average rating of 3.75) on the investment decision-making process alongside corporation tax (average rating of 3.5) and the price of real estate (average rating of 4.25). The most negative rating though was given to Visa Regulation, which only scored an average rating of 3.33. All of these factors besides corporation tax were also mentioned by separate companies as having the most negative impact on their decision to invest in the EU.

There was no indication that a single factor was directly responsible for either attracting or discouraging FDI. The majority of respondents replied that their investments would not necessarily be bigger or smaller if a certain concern of them was addressed, yet the investment process could be made more accessible and faster by addressing some of the issues mentioned. On average, the majority of categories received a positive feedback though and no single individual factor was rated lower than 3 in the survey. Naturally, the surveys size will only allow it to a limited extend, to make conclusions upon the whole EU investment atmosphere. Nevertheless, the findings of the survey should be seen as a tool, which has helped to identify both the strong factors, which have supported and improved the investment atmosphere for GCC companies in the EU and has furthermore highlighted some of their concerns.

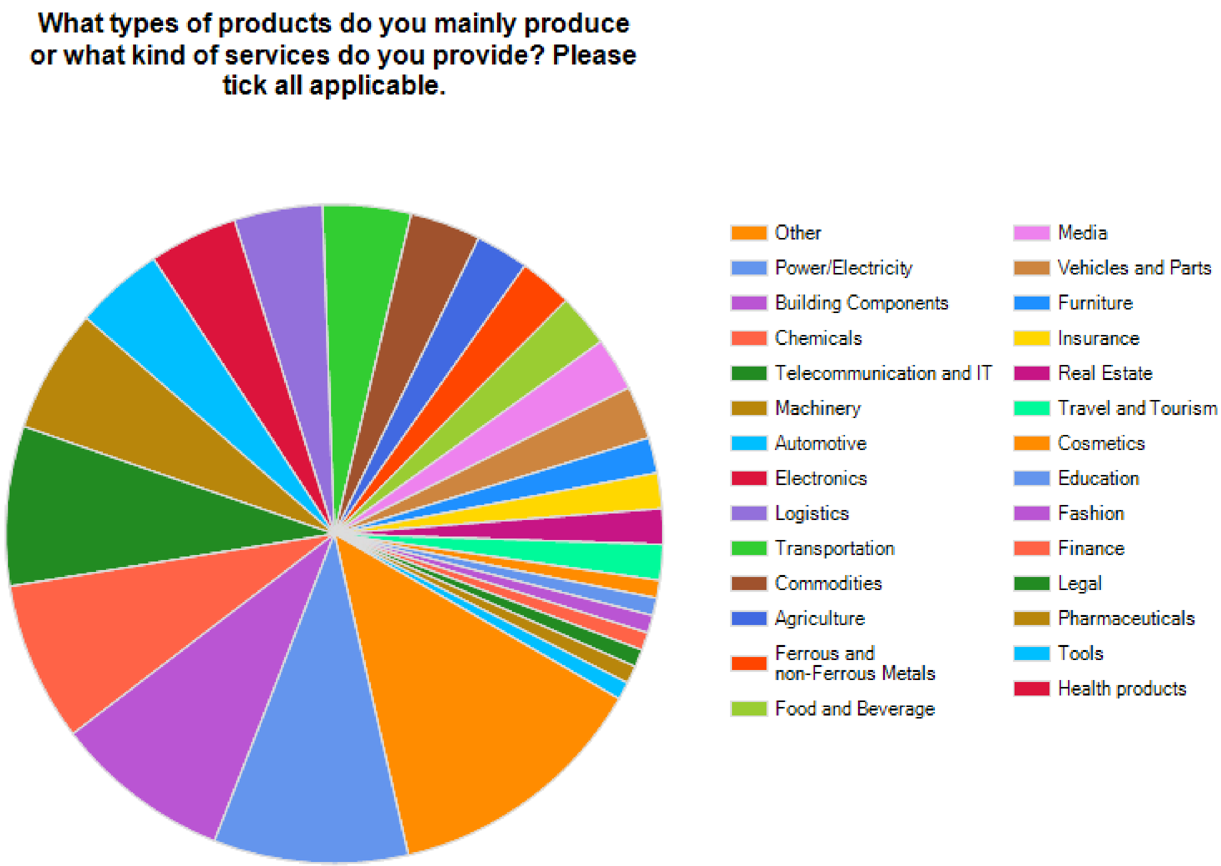
F. Survey of EU Companies Investing in the GCC

Findings from the survey of EU companies, which have invested, or have contemplated to invest, in a production facility inside the GCC.

6.1 Participant Profiles

68 companies from Europe participated in this survey and shared their experiences regarding investment in the GCC. The surveyed companies were diversified, coming from several industrial sectors (The surveyed companies were coming from several industrial sectors and therefor enabled a certain amount of diversity). In total the companies identified themselves as being engaged in 27 different core industry sectors, ranging from vehicles and parts, to agriculture or power and electricity.

Figure 12. Industrial Sectors



Most interviewed companies were mainly active in the areas of Power/Electricity, Construction, Chemicals and Telecommunications/IT. The majority of companies came from Germany, followed by Italy, Denmark, Austria and the UK. The vast majority of the companies were already active in the GCC (89.7%), while the remainder was considering investing in the GCC in the near future. Of the active participants 40% had already invested in a production facility or service operation sites in the GCC.

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Figure 13. Forms of Business Presence

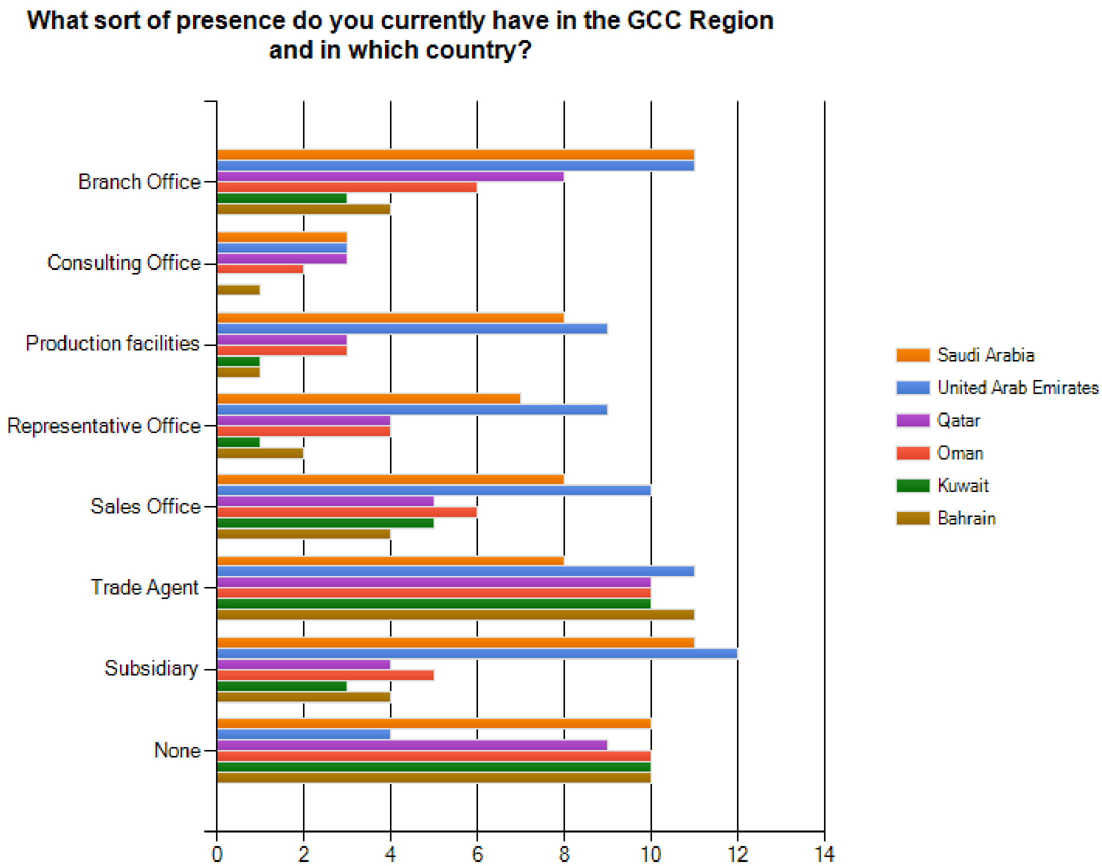


Figure 13 (above) gives an overview of the depth of investment within the GCC. Most firms were active in some form in the United Arab Emirates, while there is still strong potential for growth concerning the other GCC members. More than two thirds (70%) of the companies adapted their services and/or products specifically to the GCC market (as a whole). Within the GCC half of the European businesses (49%) further adapted their products and/or services to the respective market. On the one hand the high market adaption rate is a sign of the local differences. On the other hand though, it equally is a sign of the importance of the GCC and the individual markets within the GCC.

Two thirds of the surveyed businesses belonged to the biggest category in terms of overall company turnover (Figure 14). These stated their annual business turnover to be in excess of 40 million Euros (66.7%). This indicates that primarily large businesses instead of small or medium sized enterprises were involved in the GCC. A total of 37% of the EU companies surveyed also said that their turnover in the GCC region alone exceeded 40 million Euros annually, and another 11.1% stated their turnover inside the GCC to be between 10 and 40 million Euros and another 11.1% stated their annual turnover in the GCC to be between 5 and 10 million Euros. In addition, more than half of the largest companies had a turnover in the GCC of more than 40 million Euros, further proving the importance of the GCC in international comparison (Figure 15).

Figure 14. Overall Turnover

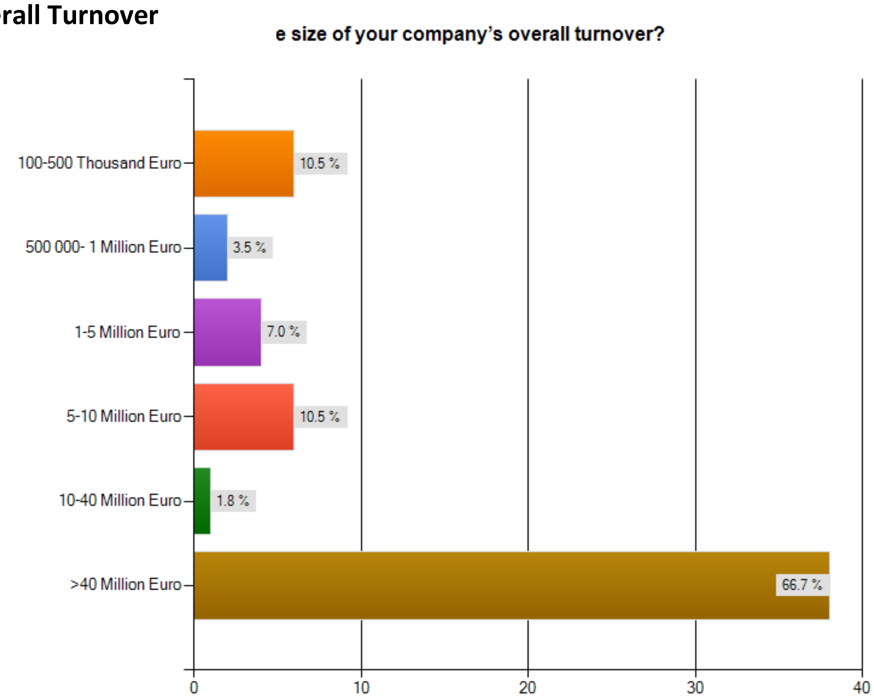
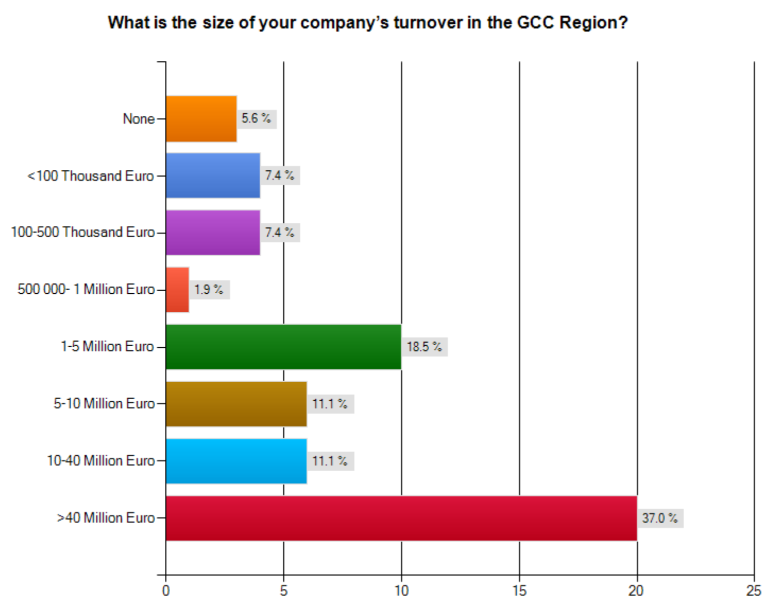


Figure 15. GCC Turnover



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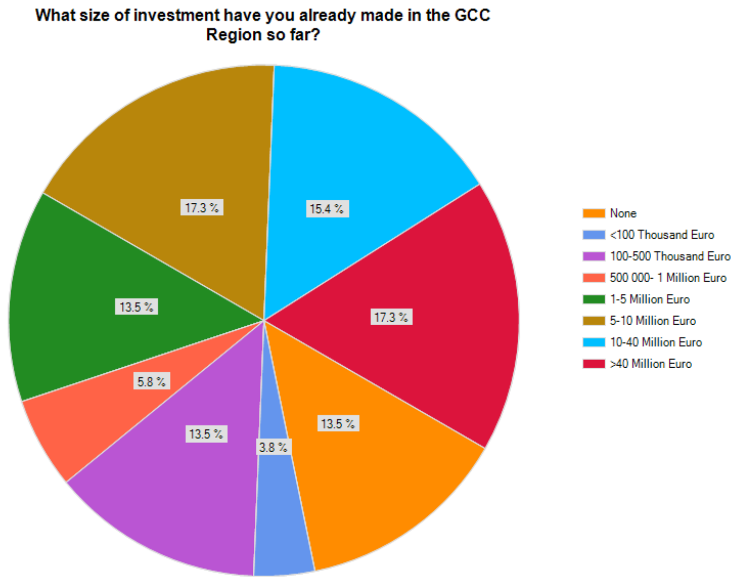
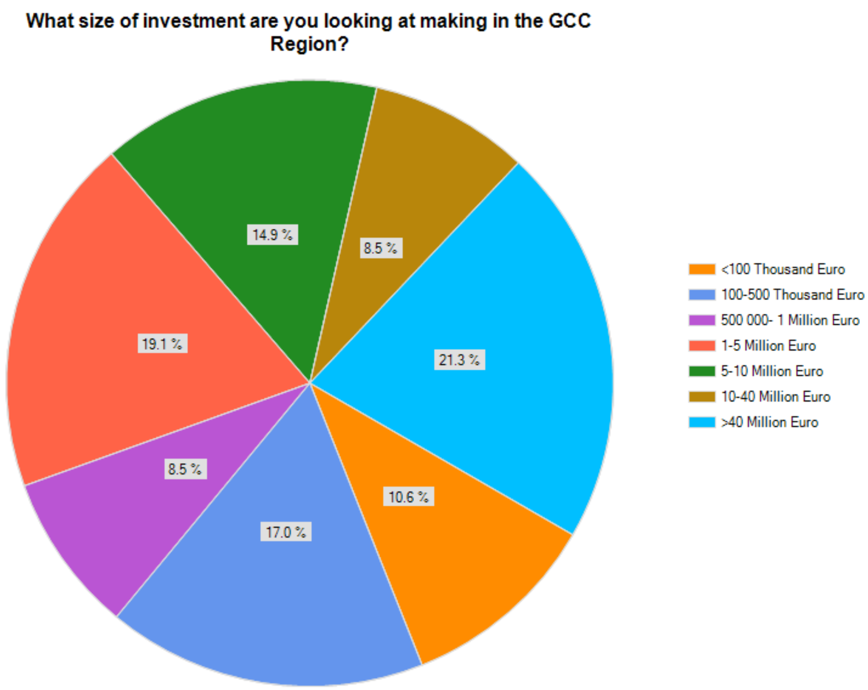
The size of investments which companies have already made or are planning to make in the GCC, as well as the size of turnovers made inside the GCC also suggests that mostly bigger companies have investment interests in the GCC. As shown in Figure 16 and Figure 17 below, most of the investments made, or anticipated to be made in the GCC by the surveyed companies exceeded 40 million Euros.

Figure 16. Actual Investment in GCC





Within the GCC, the spatial activity of European firms is relatively balanced (Figure 18), still nearly half of all companies were active in Bahrain (lowest score at 43.4%). Nearly all surveyed companies were active in the United Arab Emirates, as 81.1% of the companies' maintained operations there, followed by the Kingdom of Saudi Arabia with 69.8%.

The gauge for foreign direct investment shows a different picture (Figure 19), as most European businesses invested into a production facility in the Kingdom of Saudi Arabia, 63.6%, followed by the United Arab Emirates with 45.5%, Qatar, Oman (both 13.6%), Kuwait (9.1%) and Bahrain (4.5%). Therefore, European firms on the one hand use the UAE as a hub to access the region, or expand their trading from there, while production is mainly located in the Kingdom of Saudi Arabia.

In which of the GCC countries are you currently active?

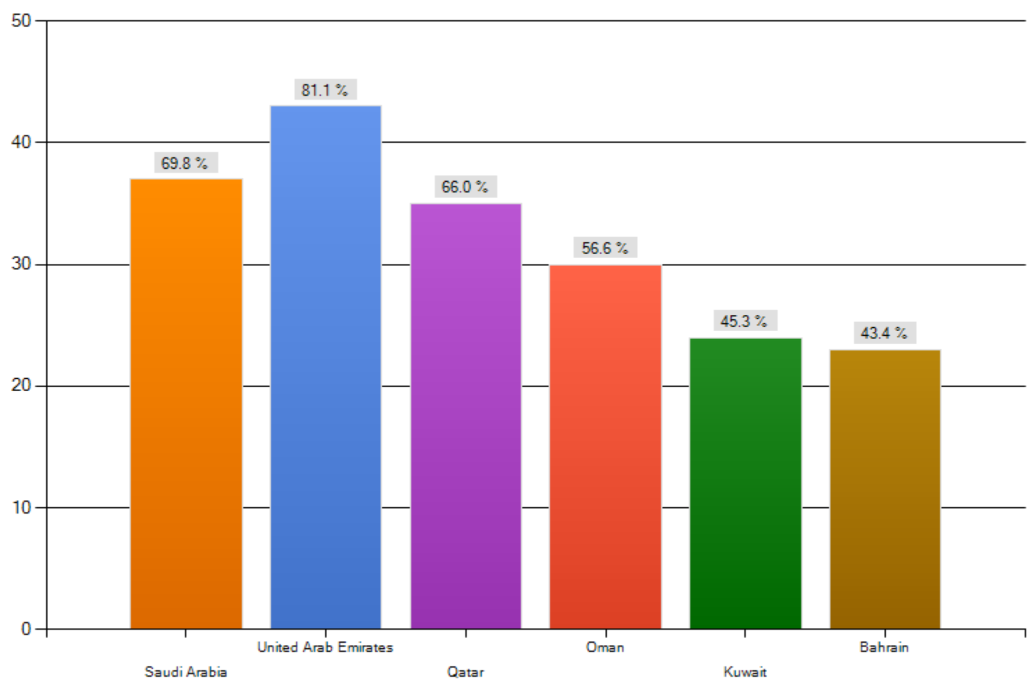


Figure 18. Locations of Activity

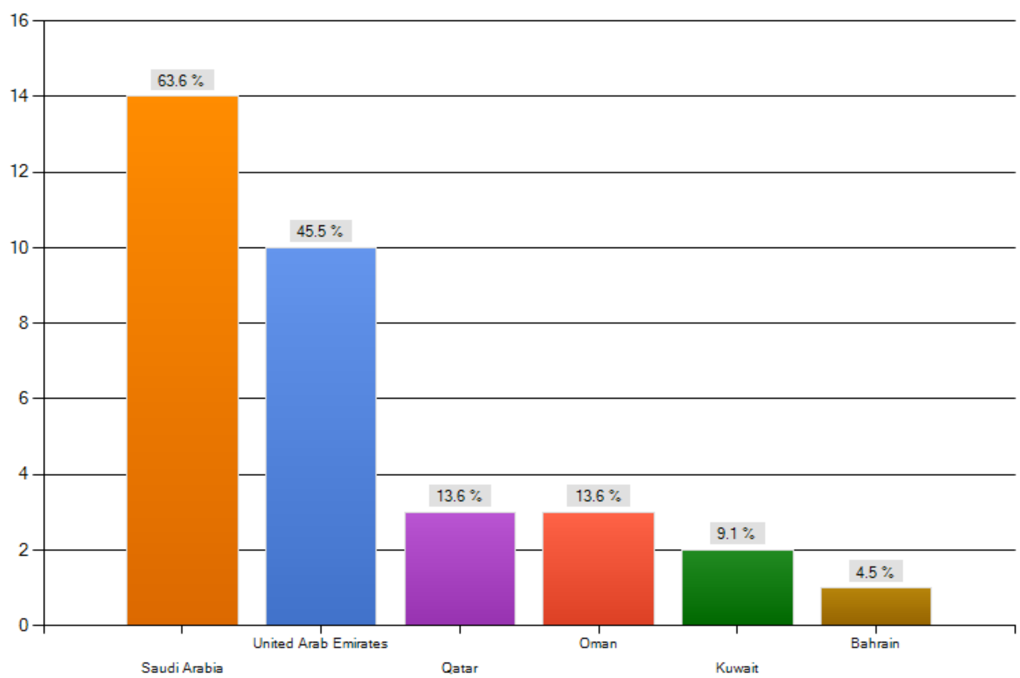


Figure 19. Location of Production Facility

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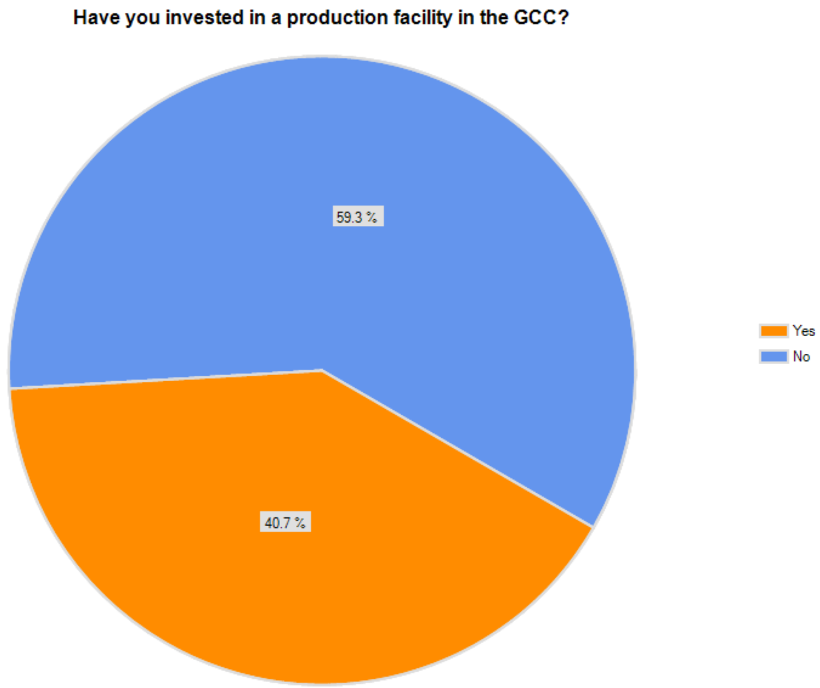
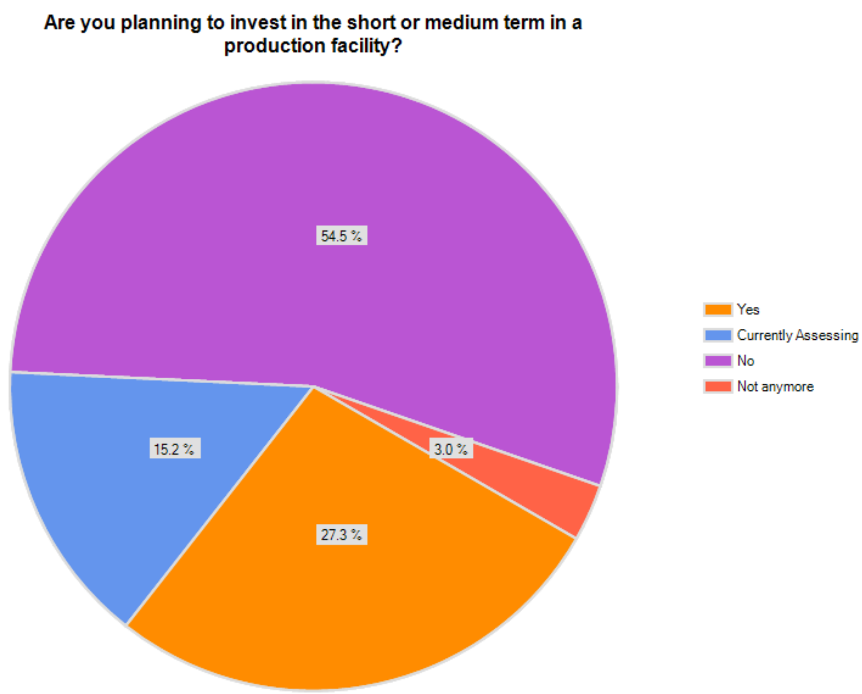


Figure 20.Actual Production in GCC



Already 40.7% of the surveyed companies have invested in a production facility in the GCC, further highlighting its importance for European companies. Equally, out of the businesses without a production facility in the GCC, 42.5% are planning or currently assessing their investment in a production facility (Figure 20 and 21). Almost 50% of companies have invested over 5 million Euros in a production facility. 17.6% have invested over 40 million Euros. Over 50% of the companies are planning to invest more than 5 million Euros in a production facility in the future, 23.3% are planning to invest over 40 million Euros (Figure 22 and 23).

Figure 22. Actual Investment in Production

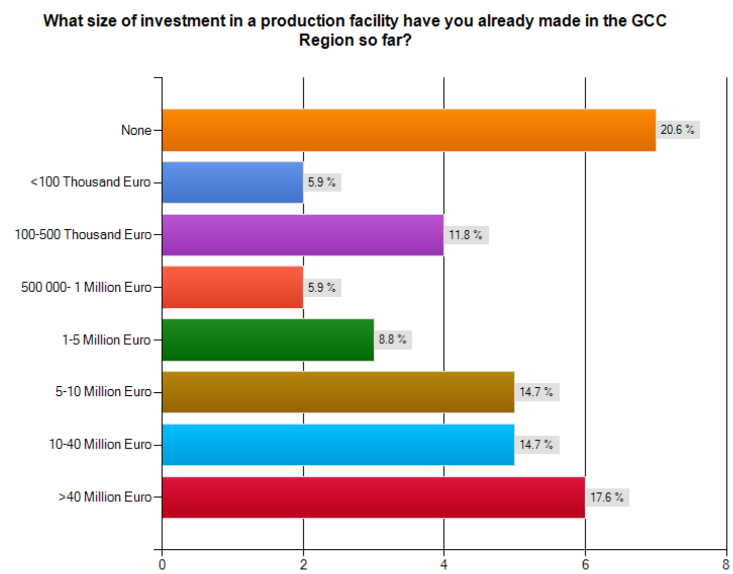
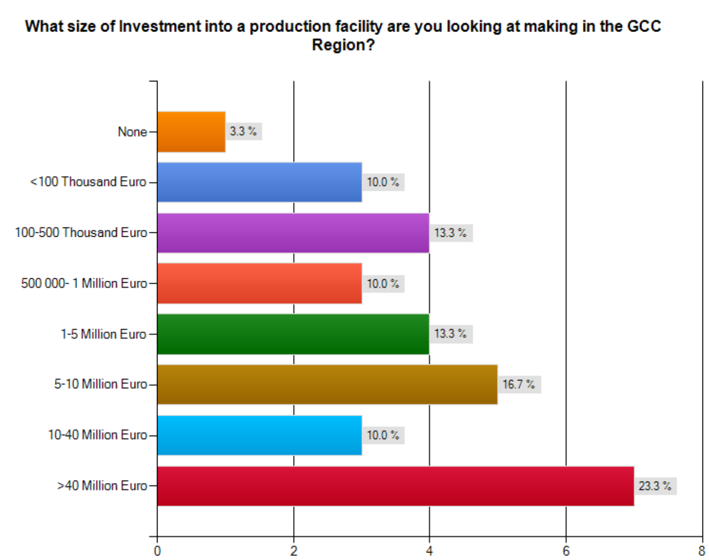
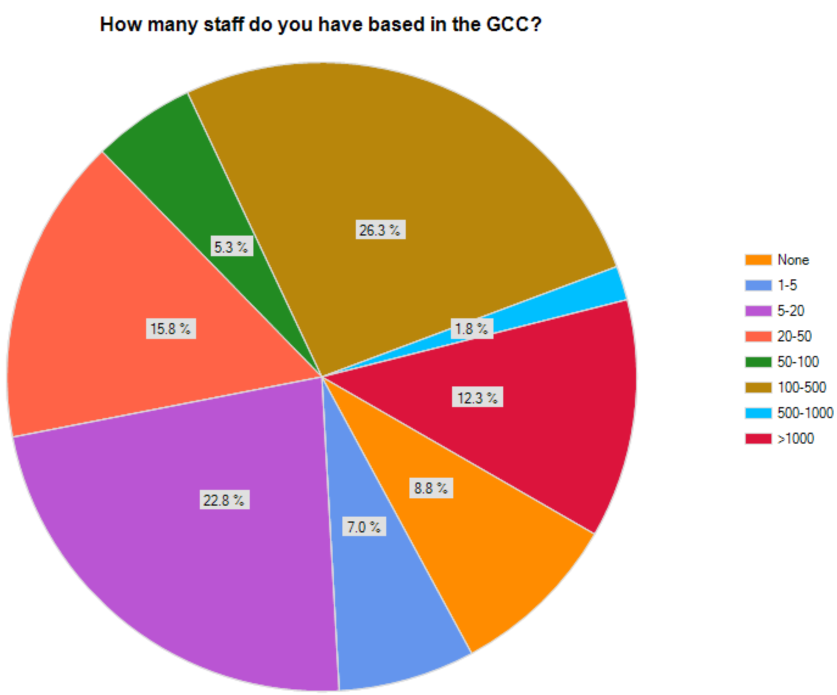


Figure 23. Planned Investment in Production



With regard to workforce, the survey results show that over 40% of the companies have more than 100 employees in the GCC and 14% even have over 1000 employees. This also shows that mostly big companies invest in the GCC compared to small and medium sized enterprises (Figure 24).

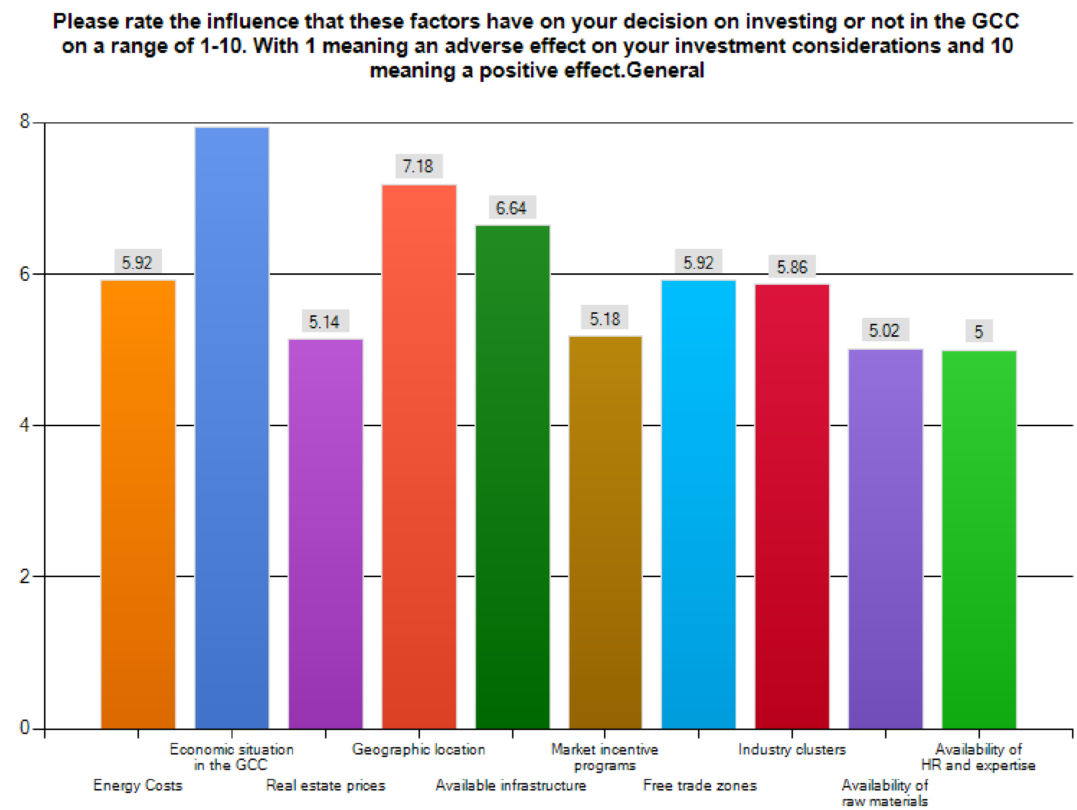
Figure 24. Staff Count



6.2 General Factors

In terms of general factors, the GCC's FDI environment is generally rated as being positive, with the exception of the availability of raw materials, real estate prices and availability of human resources which received a rating of around 5 points (Figure 25). Both real estate prices and availability of raw materials were still rated higher than 5 which suggests that these factors don't have a big impact on the decision to invest and are seen as rather neutral. Very positive responses were mainly given for available infrastructure, which is also related to the current and future government spending on large infrastructure projects; the geographic location: about four billion people live within an eight-hour flight range; and especially the economic situation in the GCC, which had the highest rating in the survey (8 points). These have been seen as the most beneficial general factors to aid GCC investment. The free trade zones (5.92) and industry clusters (5.86) were also rated positively by the European companies.

Figure 25. General Effects



6.3 Human Resources and Taxation Factors

The EU companies viewed local labor laws as slightly positive in terms of influencing their decision to invest in the GCC. The availability of Human Resources and expertise was viewed rather neutral with an average score of 5. The cost of labor was viewed positively, with an average score of 6.52. Neither local working conditions nor holidays significantly influenced the decision for investment. The most negative average rating in the whole survey was received for the limitations on hiring women in certain areas (4.25); this also relates to the overall situation, as European companies stated that they have difficulties finding qualified staff as seen in the open ended responses (Figure 26 below). In Saudi Arabia for example, companies have to rent extra office space just for women and hire drivers.

In terms of ownership regulations, the GCC was viewed generally as a favorable destination, with the right to own machinery in the GCC being valued most, with an average score of 6.02 (Figure 27).

Tax regulations inside the GCC had a very positive influence on FDI according to the survey, with respondents rating corporate tax with 7.35 and income tax with a score of 7.04. The GCC offers a very favorable tax environment for companies as well as for individuals (Figure 28). In Saudi Arabia withholding tax was reduced from 45% to 20% for foreign companies, in the United Arab Emirates there is no withholding tax at all. In addition, individuals are not taxed on their income neither in the United Arab Emirates nor in Saudi Arabia.

Figure 26. Labor Laws

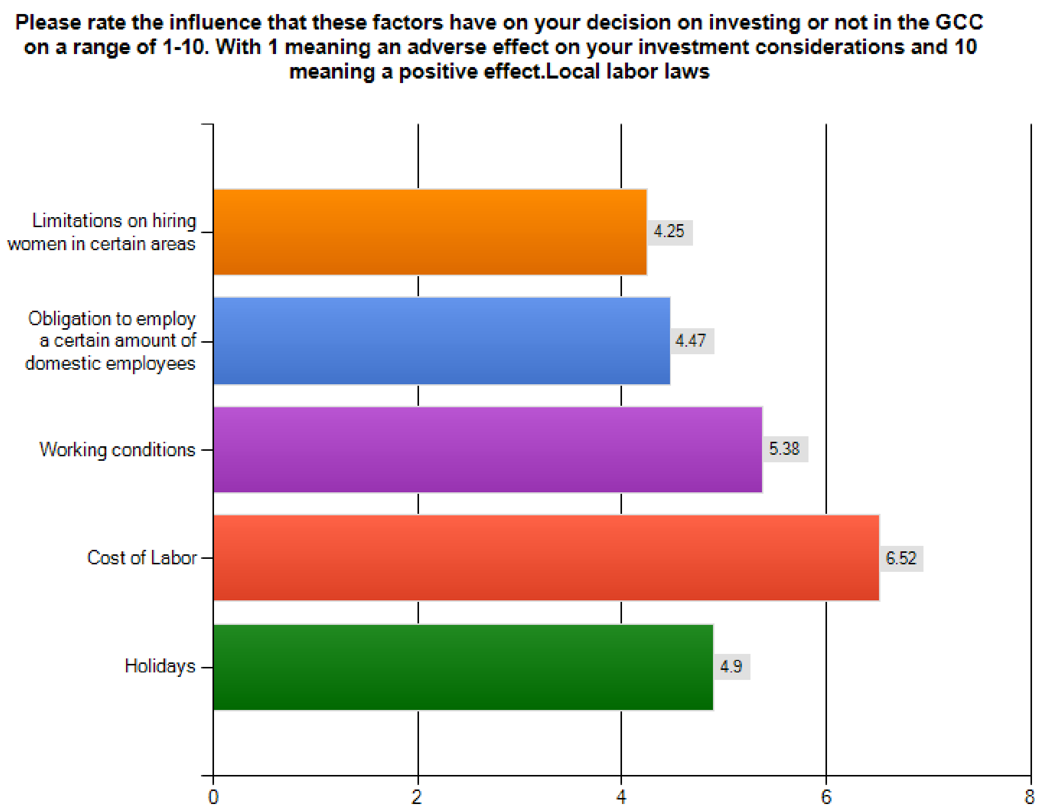


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Figure 27. Ownership Regulations

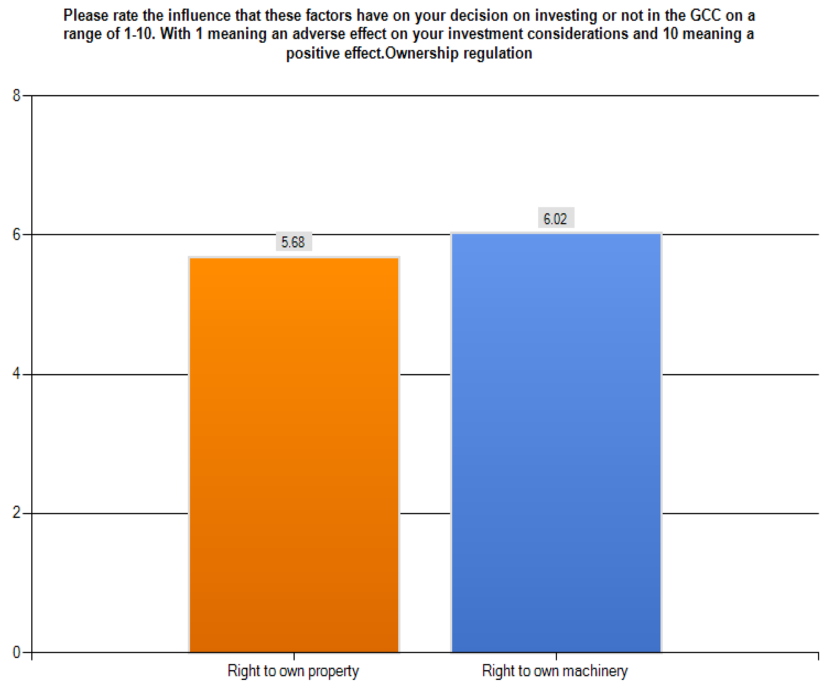
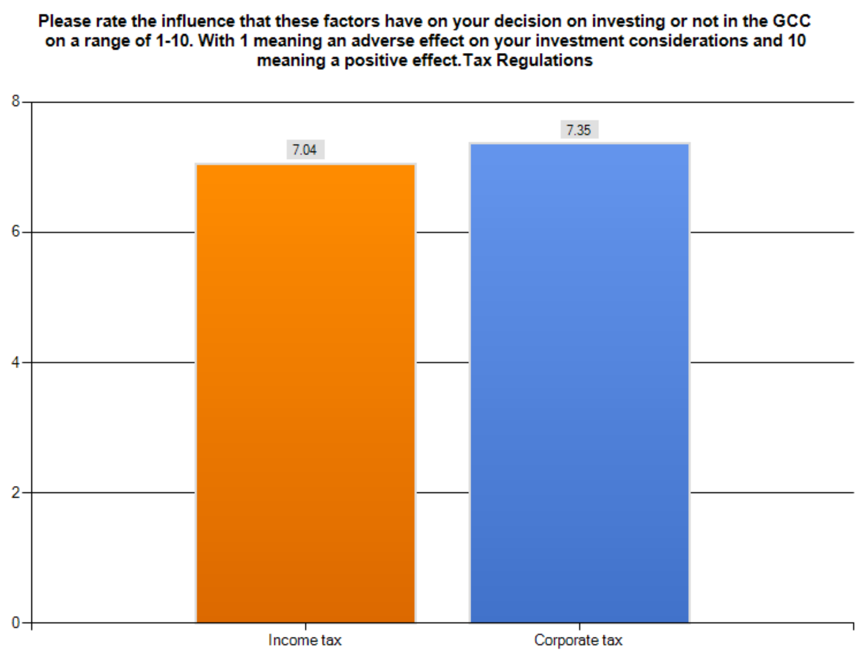


Figure 28. Tax Regulations



6.4 Starting a Business and Investor Security Factors

With regard to starting a business (Figure 29), the general bureaucratic and administrative aspects were seen as positive, the European companies were especially positive about the ease to register a new entity and to open a bank account in the GCC. Evidence of slight concerns was seen in terms of the availability of credit with an average score of 4.83.

Obtaining construction permits (4.5) and receiving joint water and sewage inspection (4.65) were seen as having a rather negative impact on the decision for EU businesses to invest (below, Figure 30).

Figure 29. Starting Business

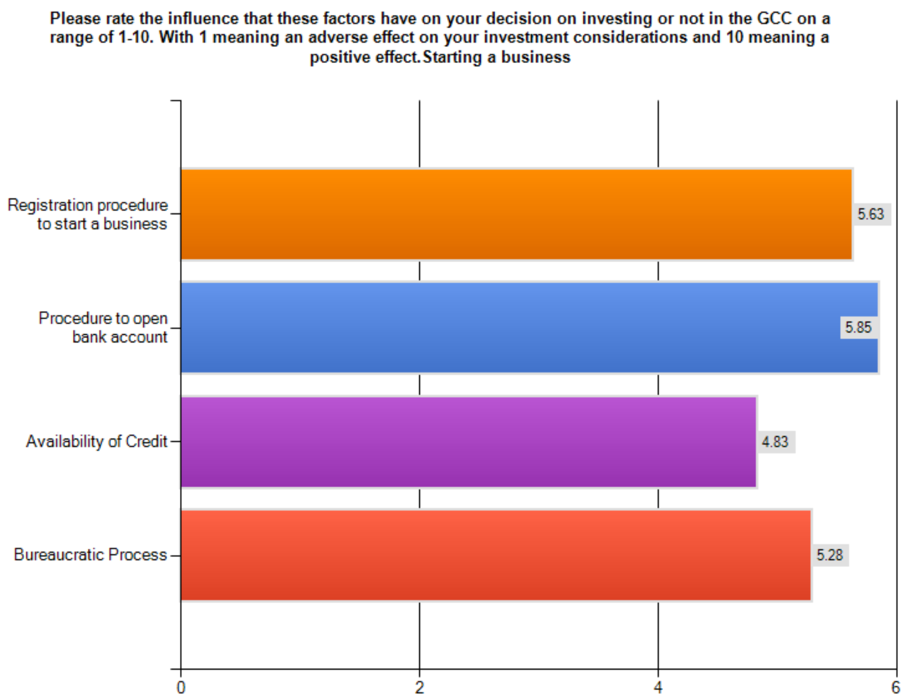
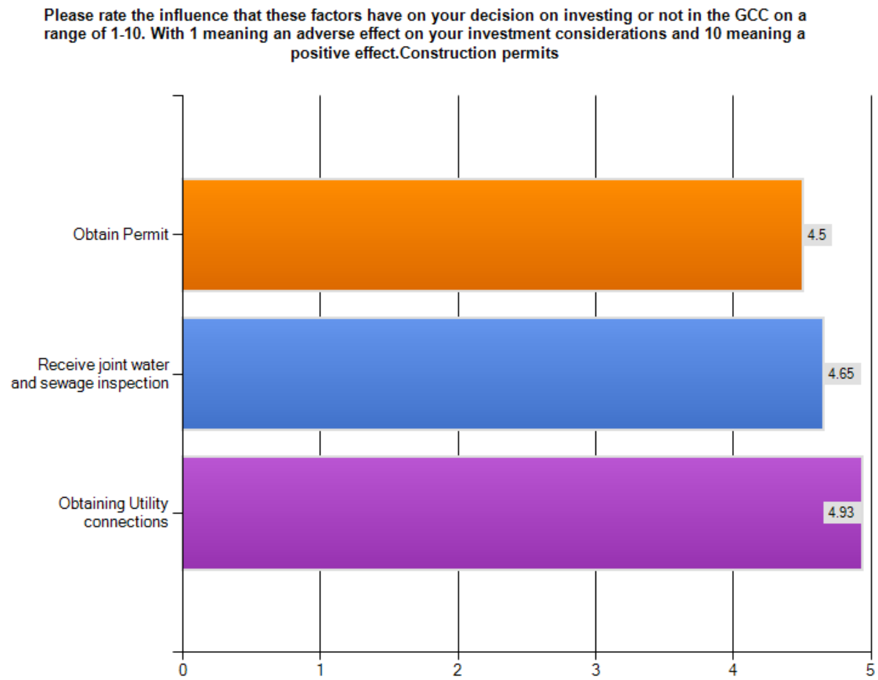


Figure 30. Construction Permits



The categories of protecting investors (5.54) and security concerns on the other hand seem to suggest a rather positive influence on the investment atmosphere. As can be seen in Figure 31, all questions in the category of investor protection had a positive average score, with strength of investor protection scoring the highest. This however has to be put into perspective, as some responses from the open ended questions suggest otherwise.

Figure 31. Protecting Investors

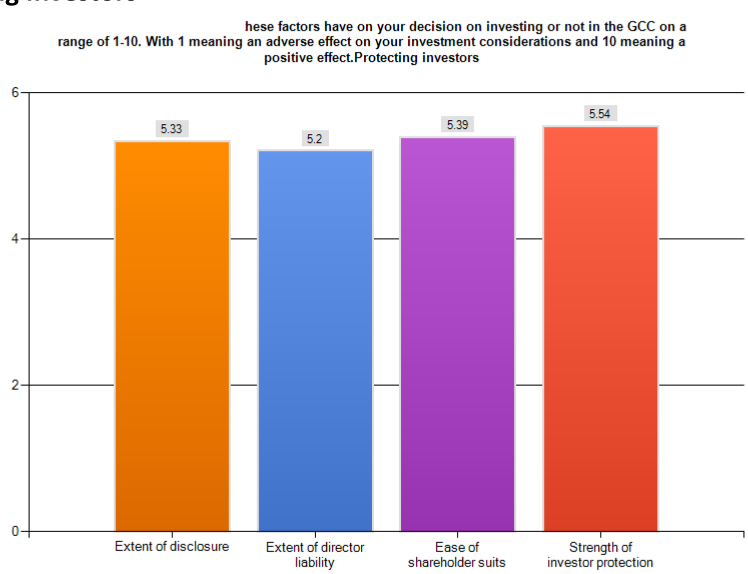


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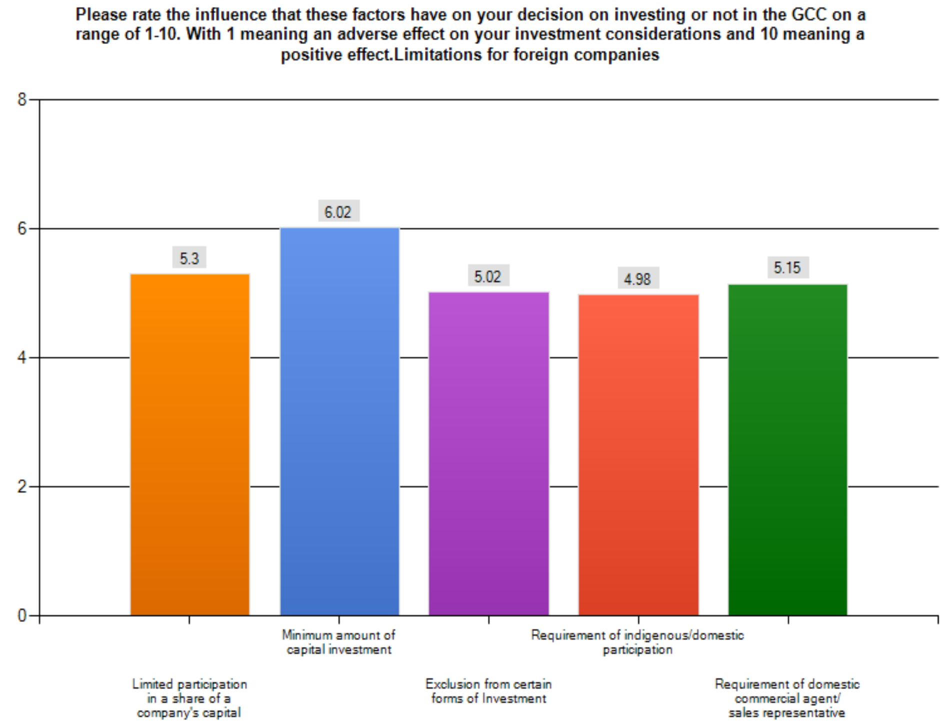
Figure 32. Limitations for Foreign Companies



Although the requirement of domestic participation received a low to neutral score of 4.98 (Figure 32), it is nevertheless one of the main arguments against investing in the GCC. This becomes obvious when looking at the open ended questions below (see point 6). The domestic participation requirement (for example in the UAE, where foreigners are only allowed to hold 49% of a company) is on the one hand limiting initial investments, one answer for example stated:

"IF there would be a free access to the market without the obligation to have 51:49 share regulation we would invest into production facilities."

(GCC EU Invest Survey)

On the other hand, the requirement inhibits further growth in the GCC, as another response exemplifies:

"With 100% foreign ownership we would be in a much better position to double our investment." (GCC EU Invest Survey)

Therefore, a review of the regulation would attract more foreign direct investment in the first place, while it would also encourage subsequent investments. In Saudi Arabia the legislation was amended, nowadays foreigners can own up to 100% of a company in most sectors. Although there were several improvements in the last couple of years, foreign direct investment is still barred from more than 40 activities in the service sector in Saudi Arabia for example, according to the Foreign Investment Act. this is generally seen as inhibiting investment with an average score of 4.80 (Figure 33.).

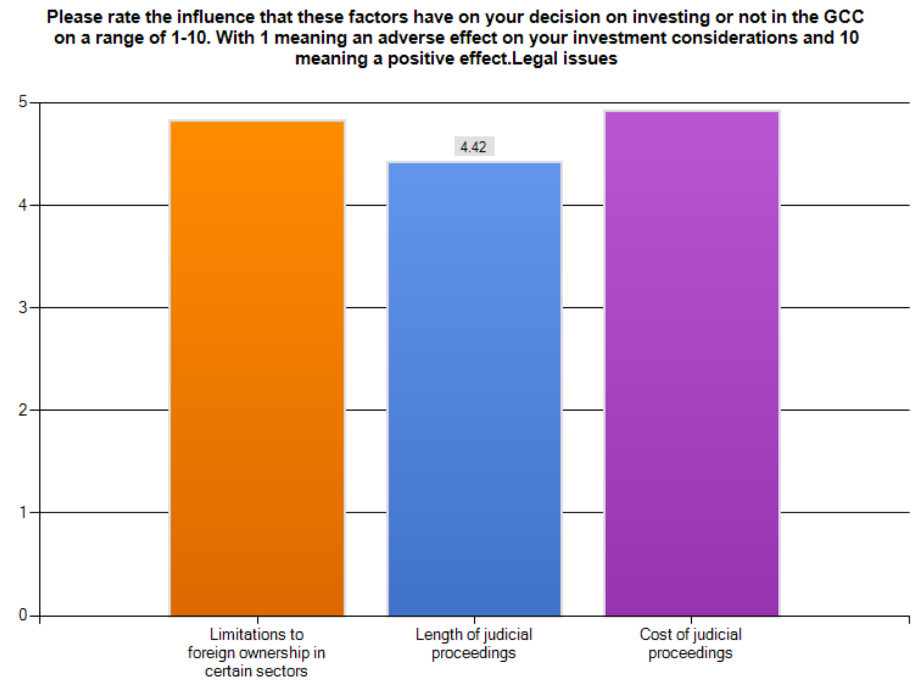


Figure 33. Legal Issues

Given the previous positive degree of influence which investor protection has had on the investment atmosphere, one might expect a generally positive view of the legal frameworks and procedures for foreign investors. Contrary to this expectation, the average scores within the categories of legal issues and enforcing contracts were primarily negative. As can be seen in Figure 33 above and Figure 34 below, particularly the length of judicial proceedings (4.42) and the costs for attorneys (4.77) and courts (4.82) were seen as negative. As to be seen in a later part of this survey, the length of judicial proceedings was even named by several of the participating businesses as the single most negative factors that influenced their investment decisions. Given the relatively neutral scores in terms of legal costs and even trial and judgment, it seems that it is primarily only the timeframe in which legal decisions are made that negatively influences investment and not the actual decisions themselves or their costs.

The rating of political stability (Figure 35) was quite high in the GCC itself, receiving an average score of 6.61 compared to the unstable political situations in bordering countries which seem to worry investors most with a low score of 4.36. The low crime rate (6.34) was also a positive factor when considering investing in the GCC.

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Figure 34. Enforcing Contracts

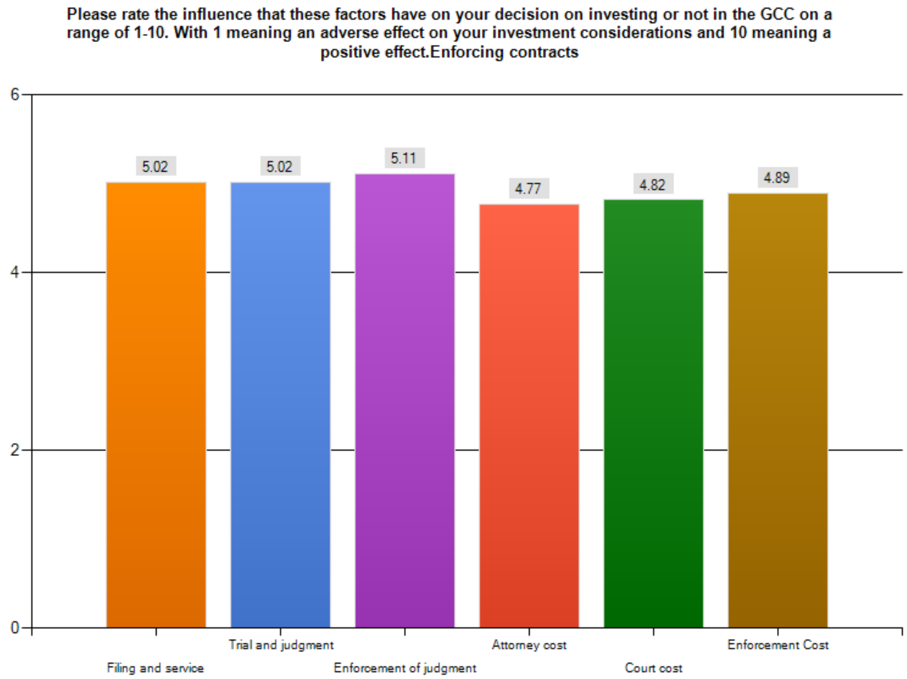
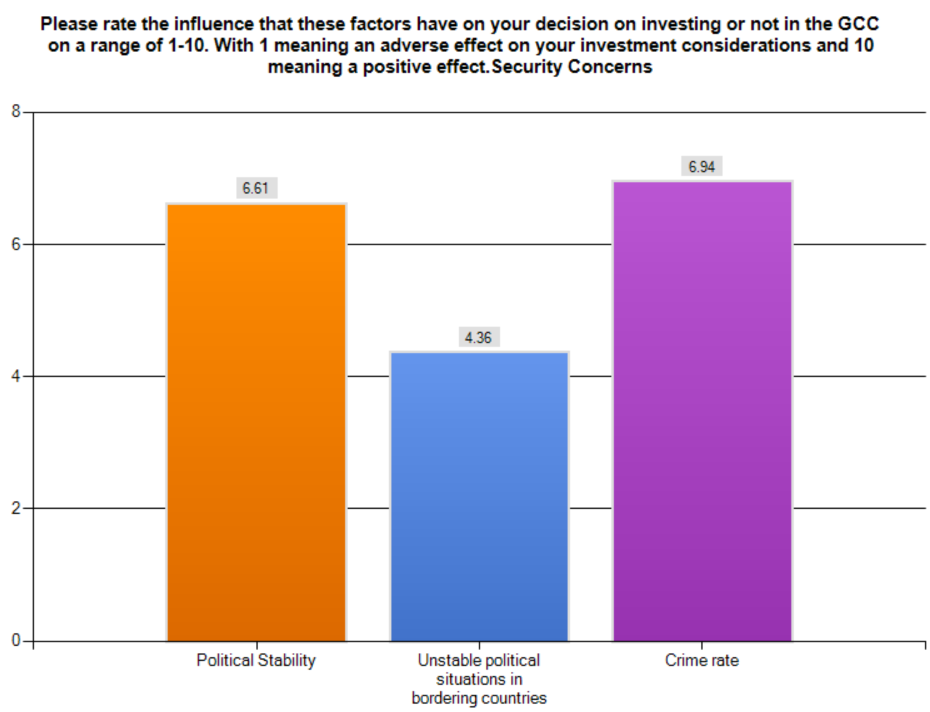


Figure 35. Security



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6.5 Trading Across Borders and Other Factors

Within the category of Trading across Borders, all EU companies generally rated the different factors as more positive than negative. The ease of trading goods inside the GCC and the previously mentioned good infrastructure seem to be another category that has a very positive impact on the investment atmosphere (Figure 36).

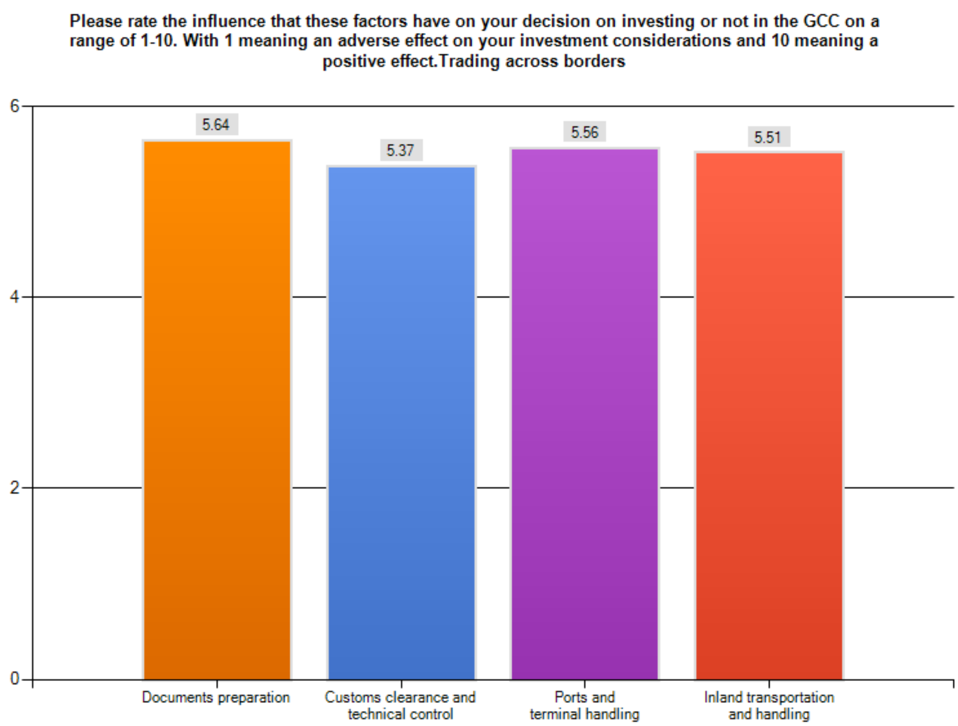

Figure 36. Trading Across Borders

The final category of factors that may influence the investment atmosphere for EU companies included a variety of characteristics ranging from standard of living, to climate and visa regulations (Figure 37). This category revealed that whilst many factors such as social life (5.43) and standard of living (6.11) were seen as having a positive influence on the decision to invest, the hot climate proved to have the most negative impact, with an average rating of only 4.54. While visa regulations were slightly positive on average, several surveyed companies noted it as having the most negative impact upon investing in the GCC in the open ended questions. Therefore, even though visa regulations were relaxed in recent years, this issue should be reviewed to facilitate foreign investment, especially in Saudi Arabia. In

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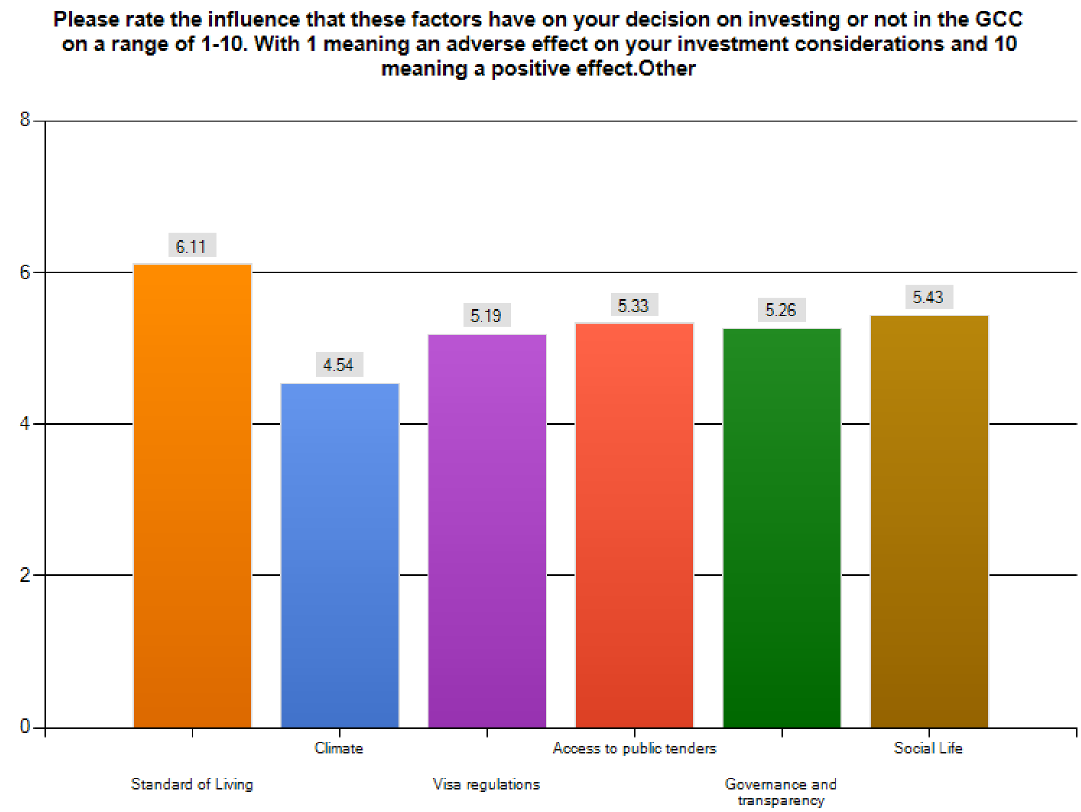
addition to the visa issues, Figure 37 (below) further shows the fact that it is mainly due to regulations (point 4) that European companies cannot find enough qualified staff, as social life and standard of living were viewed positively, making the GCC overall an attractive destination for highly qualified staff.

Figure 37. Other



6.6 Open Ended Question Responses

The final section of the survey contained open ended questions and allowed participants to outline their most negative and positive influences when deciding whether or not to invest in the GCC, and if they would have changed their investment if their concerns were to be addressed. By far the most negative influence was the political instability especially in the bordering countries. Almost half of the companies that answered this question see this political instability as having the most negative

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impact on the investment climate. One has to distinguish between the political stability in the GCC itself which is seen as stable and has a positive influence on the decision to invest in the region and the political situation in the neighboring countries where it is not clear what the future holds.

The second most negative factor mentioned by the companies was the restriction on ownership especially the requirement of a local partner. This shows that the companies want to have the right to fully operate in the GCC without domestic participation. More independence would increase investments from European companies (see part 5).

Other negative factors mentioned were the visa regulations and available qualified work force which 20% of the companies answering this question categorized as having a negative impact on the decision to invest in the GCC. This also has to be seen in perspective, as it mainly applies to the Kingdom of Saudi Arabia.

Generally, there were several responses outlining the difficulties of finding qualified staff. Here the visa regulations (for the Kingdom of Saudi Arabia) but also the limitations on hiring women were seen as negative factors.

According to the companies interviewed the most positive impact on the investment climate was the economic growth. Over one third of the companies that answered this question said that the good economy in the GCC, which provides great business opportunities, was the most important reason for investing in the region.

The second most positive factor mentioned was the high government spending in the GCC. That shows that the governments in the region support the private sector while strongly extending and improving infrastructure.

Other factors mentioned were the low energy prices, the geographic location and the tax laws which were mentioned by less than 10% of the companies that answered this question. Surprisingly the low taxes (point 4) and the low energy costs don't seem to have a major influence on the decision to invest in the GCC, even though there is a very attractive energy and tax environment within the GCC.

6.7 Conclusion

Most of the factors influencing investment in the GCC received a rather positive feedback in the survey and no factor received an average rating below 4 points. The geographic location, available infrastructure and the tax laws in the GCC all received a high positive average feedback. The economic situation in the GCC had the highest average positive ranking of all factors. The final section of the survey, in which participants were asked to outline the single most positive and negative factor influencing their investment decision, further supported these findings. Besides the economic situation in the GCC, the high governmental spending was one of the factors that had a positive influence on the decision to invest in the region.

Although participants valued the stable political situation in the GCC itself, the unstable situation in bordering countries seemed to bother companies most and could be seen as a reason for not investing in the GCC. The restrictions on ownership especially the requirement of a local partner were also viewed as having a negative effect on investment climate. The need of

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domestic participation keeps European companies from investing more in the GCC.

The cost and length of judicial proceedings as well as the costs of attorneys were also factors that had a negative influence on the investment decision-making process. The visa regulations and the availability of work force were also seen as having a negative impact on the decision to invest.

While the political situation in neighboring countries is a factor that can barely be influenced from outside, the ownership and visa regulations could be altered in a way that could positively influence the companies' decision to invest in the GCC. While the majority of respondents replied that their investments would not necessarily be bigger or smaller if a certain concern of theirs was addressed, one third of the companies said that the investment process could be made more accessible and faster by addressing some of the issues mentioned and thus their investments would be significantly higher. Therefore, the findings of the survey can help identify some major concerns of European companies when investing in the GCC, firstly the ownership regulations, secondly legal aspects and thirdly access to qualified staff.

Legal Profiles of the GCC Countries

Brief Summary of the Investment laws

Project:

'Promotion of Mutual investment opportunities and creation of a virtual European structure in the GCC'

German-Saudi Arabian Liaison Office for Economic Affairs (AHK Saudi Arabia)

German Emirati Joint Council for Industry and Commerce (AHK UAE)

Eurochambres

Federation of GCC Chambers (FGCCC)

European Union

1. Bahrain

1.1 Legal Framework

Most businesses in the Kingdom of Bahrain have taken the form of limited liability companies (with limited liability) "W.L.L.", or private joint-stock companies (Bahraini 5 shareholding company, closed) "B.S.C. (c)" for activities and services that are required by the law to be provided by a closed joint-stock company. Numerous family-run businesses have also changed their legal structure from individual establishments or general partnerships to limited liability companies or to closed joint-stock companies.

Besides the existence of a significant number of banks, financial institutions and large companies in the market, there is a large number of small-sized to medium-sized companies. It is also worth noting that foreigners may own up to a 100% of the business for many business activities and services. Citizens of GCC countries are granted national treatment, subject only to a few exceptions. Additionally, there is a number of State owned companies in which the shares are either fully-owned or partly owned by the government. The government has established a holding company - Mumtalakat Holding B.S.C. (c) which is run on commercial lines, and in which its ownership of the various assets is vested.

According to the information published in the legal website of the Ministry of Industry and Commerce "www.moic2.gov.bh", the number of active companies registered in the Commercial Registry at the time of this Paper is 13,075 companies, including registries of all the branches of any one company.

1.2 Taxation laws

There is no personal income tax in Bahrain. Stamp duty is levied on property transfers on the basis of the property value as follows: 1.5% up to BHD; 70,000; 2% from BHD 70,001 to BHD 120,000; and 3% for amounts exceeding BHD 120,001.

For Bahraini employees, the employee's contribution for social security is 7%, which covers old age, disability, death and unemployment.

For expatriate employees, the employee's contribution is 1%, which covers unemployment.

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There is no corporate tax in Bahrain. Bahrain corporation tax system taxes only income of oil companies at a flat tax rate of 46%.

Oil companies are subject to tax on any profits generated from exploring for, producing, or refining oil in Bahrain regardless of the company's place of incorporation. The tax rate is 46% of net profits for each tax accounting period. An estimated income tax declaration must be filed on or before the fifteenth day of the third month of the tax year. Tax is payable in twelve equal installments starting on the fifteenth day of the month after the declaration has been filed.

In the absence of taxation in Bahrain, the taxability of corporate profits of subsidiaries or branches of foreign banks operating in Bahrain would depend on whether there are bilateral treaties for the avoidance of double taxation with the country in which the branch's head office state is incorporated.

In all other Gulf Corporation Council (GCC) countries, there is some form of taxation on business profits (personal income taxes are still very rare). The taxability of the profits of a Bahrain bank derived from any of the other GCC countries would depend on whether the underlying banking activity was 'offshore' or 'onshore' in relation to this country. As a general rule offshore activity is exempt from tax, whereas onshore activity is taxable.

There is no corporate tax for most companies in Bahrain, but income tax is levied on the profits of oil companies. Corporate income tax is only levied on oil, gas and petroleum companies engaged in exploration, production and refining, regardless of where the company is incorporated.

The tax basis for oil and gas companies is net profits generated in Bahrain.
Taxable income for oil and gas companies is net profits, which consist of business income less business expenses.

Trading losses may be carried forward indefinitely. Carryback is not permitted (oil companies only).

For Bahraini employees, the employer's social insurance contribution is 12%, which covers old age, disability, death and unemployment. For expatriate employees, the employer's social insurance contribution is 3%, which covers employment injuries.

Stamp duty is levied on property transfers on the basis of the property value as follows: 1.5% up to BHD; 70,000; 2% from BHD 70,001 to BHD 120,000; and 3% for amounts exceeding BHD 120,001.

A training levy (1% of Bahraini employees' salaries and 3% on the salaries of expatriate employees) is imposed on companies with more than 50 employees not providing training to their employees. A 10% municipality tax is levied on the rental of commercial property and residential property occupied by expatriates. Companies are required to file an estimated income tax declaration on or before the 15th day of the third month of the tax year. Tax must be paid in 12 monthly installments.

A 1% monthly penalty is imposed for failure to file and pay tax.

There's no Sales Tax or Value Added Tax in Bahrain.

1.3 Copyright Laws

Law No. 22 of 2006 related to Copyright and Neighboring Rights was issued on June 25, 2006, to govern the protection of copyright and related rights in the Kingdom of Bahrain. The law, who's Implementing Regulations have not yet been issued, annulled Copyright Law No. 10 of 1993.

In order to gain protection, the publishers of copyrightable works have to deposit 3 copies of the work with the Copyright Protection Office at the Ministry of Information. Original works of literature, art and science, regardless of type, importance or purpose are protectable.

Such works include books, pamphlets and other writings, lectures, sermons, dramatic works, musical works, musical compositions, cinematographic works, works of drawing, painting, architecture, sculpture, engraving, photographic works, works of applied art, illustrations, maps, plans, sketches and three-dimensional works as well as computer programs and folklore expressions. The law also provides protection for neighboring rights including rights of performers, producers of sound recordings and broadcasting organizations.

The National Council for Culture, Arts and Literature reserves the right to allow publication of the work of art, if the copyright holder has not done so, or if his/her heirs do not publish it within one year of being informed to do so in writing. In this case, the

Ministry of Information can obtain an order from the High Court of Justice to impound the work and to hand it over to the National Council, while providing the copyright holder or the heirs with fair compensation.

Protection period for the economic rights of the authors consists of two phases, the author's lifetime and a period ranging from 20 to 70 years following his death.

Infringements are prosecuted before the Civil Court of Bahrain. The court can stop the circulation of the infringing works, seize and destroy them and the equipment used, estimate the infringers' proceeds and call upon experts' assessment.

As per the law, penalties for copyright infringements have been stiffened. Wide spectrum of penalties, including imprisonment ranging between three months to one year and a fine ranging between BHD 500- BHD 4,000, have been imposed on the violators of the copyright law.

Bahrain is a member of the Berne Convention for the Protection of Literary and Artistic Works.

1.4 Specifics of Labor Law

An employer is required to give priority of employment to Bahraini nationals and thereafter to other Arab nationals, wherever they are available and possess the requisite skills and competence for the role.

For some businesses, there is a mandatory minimum ratio of the number of Bahraini nationals to the number of non-Bahraini nationals.

Employers are under a statutory duty not to discriminate between Bahraini and non-Bahraini nationals in particular with regard to pay (except to the extent necessary to attract foreign employees); or subject any employee to any other form of detrimental treatment.

The employment contract should include the terms of employment agreed by the parties and may be entered into for a fixed term, or for an indefinite duration terminable on notice; or for the execution of a specific project. The employment contract outlining the terms and conditions of employment must be in writing.

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It must comply with the Bahrain Labor Law for the Private Sector of 1967 as amended and any relevant laws, regulations and orders. Any term or condition in the contract which does not conform to the Bahraini law will be deemed null and void except to the extent it is more favorable to the employee.

Employers must register their employees in the Kingdom of Bahrain with the Ministry of Labor and Social Affairs and receive a certificate of registration.

It must also register its employees with the General Organization for Social Insurance

(GOSI) and contributions must be paid monthly for compulsory insurances against old age, disability and death (for Bahraini employees only), and against work-related injuries including death (for all employees). Employers may also want to consider non-compulsory insurances such as private medical or life insurance.

Wages are defined as total remuneration payable in cash or in kind to an employee under an employment contract and will include additional increments, gratuity payments and allowances, if any (bonuses, commissions, transport allowance, accommodation allowance, cost of living allowance and other allowances and benefits will all be included if they are paid by the employer to the employee as part of the employee's wages).

The general rule is that an employer cannot exclude specific payments from the calculation of the wages in the contract as any such exclusion will not be enforceable under local law. However certain payments such as phone bills, company car costs and rent (if paid directly to the Landlord rather than to the employee) may be excluded from the definition of wages.

Orders are issued from time to time setting minimum wages in particular industry sectors.

There is however no national minimum wage.

An employee cannot be required to work for more than six days in any given week and Fridays are deemed to be the weekly day of rest on full pay. The employee is also entitled to leave for official public holidays. Where such public holidays occur on a Friday, the employer must compensate the employee with one (1) further day of rest. The employer may require an employee to work on public holidays or on Fridays, subject to the provisions of local law.

All employees are entitled to a minimum of 21 days paid annual leave rising to 28 days after 5 years of service. An employee may not waive this entitlement, postpone it, or receive payment in lieu except in accordance with the law and on termination of employment.

In the event of illness which is certified by an approved doctor or hospital, an employee is entitled to a total of forty-five absences in each year of employment.

A Muslim employee, employed for five consecutive years, will be entitled to leave of two weeks on full pay once during his/ her period of employment to perform his/ her 'Haj' pilgrimage duty.

2. Kuwait

2.1 Legal Framework

The Government of Kuwait realized that the country needs to diversify its economy away from oil. It recognized that future growth and diversification require an active private sector, and that foreign participation and involvement will encourage this. Thus, on 22 April 2001, the Parliament enacted Law Regulating Direct Foreign Capital Investment in Kuwait, in an attempt to attract foreign investment by lifting or removing foreign ownership limits. This Law gives an exception to the basic principle in the Commercial Code, by allowing foreigners to own up to 100% of business entities in certain sectors. The Council of Ministers approved the implementing regulations for its current Direct Foreign Capital Investment Law—Law No. 8/2001 through Resolution No. 1006/1/2003 on November 1, 2003. The legislation authorizes foreign –majority ownership and 100 percent foreign ownership certain industries including: infrastructure projects (water, power, waste water treatment or communications); investment and exchange companies; insurance companies; information technology and software development; hospitals and pharmaceuticals; air, land and sea freight; tourism; hotels; entertainment; housing projects and urban development; Logistic services and environmental activities. Projects involving oil discovery or oil and gas production are not authorized for foreign investment and must be approved by a separate law.

The Direct Foreign Capital Investment Law pro-motes foreign investment in Kuwait; authorizes tax holidays of up to ten years for new foreign investors; facilitates the entry of expatriate labor; authorizes land grants and duty-free import of equipment; provides guarantees against expropriation without

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compensation; ensures the right to repatriate profits; and protects the confidentiality of proprietary information in investment applications, with penalties for government officials who reveal such data to unauthorized persons. Investors will be protected against any future changes to the law. Full benefit of these incentives, however, will be linked to the percentage of the following by the new venture: a) transfer of modern technology and administration of practical, technical and marketing expertise; b) expansion and participation of the Kuwaiti private sector; c) creation of job opportunities for national labor and contribution to training; d) support of national products exports. The investor is also obliged to preserve the safety of the environment, uphold public order and morale, and comply with instructions regarding security and public health.

2.2 Taxation Laws

The Kuwait currently does not impose any per-sonal income tax on individuals, foreign or local, nor other fiscal taxes like GATS or VAT.

However, foreign companies pay a corporate tax on net income at a flat rate of 15% based on Law No. 2/2008, replacing the previous Decree No. 3 / 1955 which used to impose a gradual tax system from 5% to 55%.

There is a mandated Zakat payment under Zakat Law No. 46/2006, which is imposed on the net profits of all Kuwaiti public and closed shareholding companies engaging in trade and investment activities of all kinds, at the rate of 1%annually in observance of Islamic Sharia. The new law of Income Tax in the state of Kuwait has been enforced since its publishing in the official Gazette on February 3rd 2008. The new law includes some of the much-awaited amendments, especially some provisions which were obviously affecting foreign companies' activities in the state of Kuwait. The most important amendments in this law are disappearance of implementation of principal of Progressive Tax which used to range between (5%) and (55%) on profits above (KD 5250/--), repealing and replacing it with a Flat Rate Tax of (15%) to be imposed on all income categories.

The new law clearly provides for income sources of foreign companies which shall be taxable moreover, the new Tax Law provides for the permissible deduction of the income, expenses and costs spent to gain this income. This amendment is important because it removes ambiguity which used to be in the past as a result of the absence of transparency in this field. Such amendments have been ratified in December 26th 2007 providing that the new Tax Law shall be enforced at the commencement of the

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taxable Period which follows the publication of the Law in the official gazette. The law grants the Ministry of Finance a period of six (6) months to issue the Executive Bylaws, thereupon, any new amendments shall not be effectual until the issuance of such Executive Bylaws.

One of the pros of the new Tax law is that it provides amendments for exempting companies' revenues, which resulted from circulation operations in the Kuwait Stock Exchange, of income tax whether these operations accomplished directly or indirectly through funds and investment portfolios, in addition to exemption of Kuwaiti agents of foreign companies of tax in case it resulted from trading in foreign commodities for their own interest. Non-Kuwaiti individuals' income is non-taxable, whereas the New Tax Law is applicable to foreign companies with independent legal entity.

The tax is levied on all foreign companies doing business in the State of Kuwait, except those wholly-owned by GCC nationals, whereas GCC companies with foreign shareholding shall be taxable in accordance with the foreign share. In return, the foreign individuals' income shall neither be taxable nor the Kuwaiti companies where there is non-Kuwaiti shares, whether such share is contributed by a partner or by virtue of ownership rights, unless such rights are owned by a foreign partner, only then, the share of the foreign partner shall be taxable.

2.3 Copyright Laws

Kuwait is a member of the World Trade Organization and a signatory to the Agreement on Trade Related Aspects of Intellectual Property Rights. Kuwait is also a member of the World Intellectual Property Organization. In 1999 to comply with Kuwait's obligations under World Trade Organization agreements a comprehensive legislation to protect intellectual property was promulgated by Amiri Decree under article 71 of the constitution. These laws were approved by the National Assembly on 23rd December 1999 as law number 64/1999 governing Intellectual Property rights.

Law No. 64 of 1999 governs copyrights and pro-vides copyright protection and penalties for copyright infringement. With respect to non-Kuwaitis, the law applies to 1) works of foreign nationals that are published for the first time in Kuwait; 2) works of Arab authors who are nationals of member countries of the Arab Agreement for the Protection of Author's Rights and published in any of those countries; and 3) works of authors who are nationals of member states of the World Intellectual Property Organization that are

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published for the first time in one of those states (Article 43 of Law No. 64 of 1999). Under the Law No. 64 of 1999 protection is to be given to all literary works (written and oral), theatrical shows, musical works (with or without lyrics), choreographic works, motion pictures, audio, video and radio works, artistic works (painting, sculpture, carving, architecture and decoration), photographs, applied art (craft or industrial designs), illustrations, maps, designs and models, computer works (software and databases), and translated works.

The scope of protection under this law covers but not limited to written works, works delivered orally(such as lectures, speech, religious sermons and the like) theatrical works and musical plays, musical works with or without songs, works performed by means of movements or steps and mainly prepared for direction, movie works, audio, video and radio works, photo-graphic works, works of applied art, including Craft or industrial designs Illustrations, geo-graphic maps, designs, plans and models related to geography, topography, architecture and science, computer Works including Software, Databases and the like, derived and translated works.

2.4 Specifics of Labor Law

An employee's terms of service are contained in his employment contract, which may be for a fixed time or it may be indefinite. A fixed time may not exceed five years.

The labor law specifies minimum limits below which terms of service may not fall, and if a clause in his contract gives an employee a lesser benefit than his right under the law, he is entitled to the minimum specified by law for that particular term.

An employment contract may be verbal or in writing. Where a contract is verbal then, in the event of a dispute, either side can use circumstantial evidence to prove what is in it. If the contract is in writing, it must be in Arabic. A translation into another language may be attached but the Arabic version is authoritative, i.e. only the Arabic version will be considered in resolving a dispute in a court of law.

An employee may be hired on probation for 100 days at most. During this time he may be terminated without notice, though accrued indemnity but not holding pay must be paid. The same employer may not put an employee on probation more than once.

Remuneration includes basic pay, incentives, commissions, obligatory bonuses, gratuities from third parties and allowances from which the employee benefits (such as housing account of expenses and profit shares, Payment of a bonus is obligatory if it is stipulated in the contract of employment or in the by-laws of the firm or it has been paid in the same amount regularly every year.

What is included in total remuneration is important, as this is the Figure that must be used when calculating terminal indemnity or compensation on account of injury. Where an employee is paid on a time basis the last salary payable is used, but if he is paid on a piece-work basis than the average wage actually payable to him during the previous three months is used.

There is no minimum wage. Salaried employees must be paid at least once a month. Piece-workers and those on hourly or weekly wages must be paid every two weeks.

Persons working for a subcontractor, who has failed to pay their salaries, may demand payment from their employer's superior contract to the extent that the latter owner their employer money for work done. When an employer goes bankrupt the outstanding salaries and termination benefits of his employees must be paid before his other creditors.

An employee may not be obliged to buy products made by his employer, if he owes his employer money than not more than 10% of allowance), but excludes allowances on his salary may be deducted to pay off his debt and he may not be charged interest. Where an employee's Salary is attached on account of debts to third parties, the deduction is limited to 25 % of his salary.

The working hours of an adult are limited to eight hours a day and 48 hours a week. A rest break of at least one-hour must be allowed after five consecutive hours of work. Rest periods are not included in the calculation of working hours. These standard hours may be increased or decreased by the MSA&L in certain cases, such as hotel works.

An employee is entitled to one full day off with-out pay a week. The traditional day off is Friday, but this is not a legal requirement in Kuwait.

An employee with up to five years of continuous service is entitled to 14 days leave a year on full day, provided he has completed one year of services, and 21 days after more than 5 years of continuous service. Official holidays and days of sick leave may not be counted a part of annual leave. The employer has the right to fix the date of leave.

An employee must be given his holidays pay before he goes on leave and the last salary payable before the holidays must be used to calculate the amount due. If an employee's services are terminated that he is entitled to a cash payment in lieu of accumulated leave, number of years of leave due, and payment for the accumulated leave must be calculated on the basis of the last salary payable on the date of termination.

A women performing the same work as a man must be paid equal remuneration. The standard working hours for women are the same as for men. They may not work at night (7pm to 6 pm) except in clinics, pharmacies, hotels, nursery schools, homes for the handicapped, airline and tourist offices, theaters and Entertainment City.

They may work up to midnight in cooperative societies and public utilities, beauty salons, tailoring shops, banks and offices.

Night-time working hours may be extended by the MSA&L during Ramadan, and on Eids and public holidays. Employers are obliged to ar-range transport for women working at night.

A woman is entitled to maternity leave to a maximum of 30 days prior to delivery and 40 days after delivery on full day. Thereafter she may be absent from work without pay for up to 100 consecutive or non-consecutive days, provided she presents a medical certificate stating that she is ill as result of gestation and parturition. The annual leave entitlements of a woman who makes use of her maternity for leave privileges in any year are forfeit on day-irrespective of the per-day basis until her annual leave entitlement for that year is extinguished.

When his employment is terminated, an employee is entitled to a lump sum payment called termination indemnity.

For those paid monthly, termination indemnity is 15 days remuneration for each complete year of service for first 5 years and 30 days for each complete year beyond 5 years, but the total indemnity is limited to one and a half year's remigration. For piece-rate workers and those paid on an hourly, daily or weekly basis, the indemnity is 10 days remuneration for each complete year of service for the first 5 years, and 15 days pay for each complete year beyond 5 years, subject to a limit of one year's remuneration. In both cases part years are calculated pro-rata.

An employee who resigns with less than five years of service is not entitled to indemnity. One who resigns with five years or more of services is entitled to 50% indemnity. But employees are more made redundant (irrespective of length of service), who reach retirement age, who are disabled at work, or who die are entitled to full indemnity. And woman who marriage while she is an employee and who resigns within six months of marriage is entitled to full indemnity.

All employees' related regulations must be issued as circulars or bulletins written in Arabic. Miscreant employees may be penalized provided the employee issued regulations specifying the acts that are punishable.

Where an employment contract is for a fixed period, it terminates automatically at the end of the period, but if both parties then continue to implement it, it is deemed to be renewed indefinitely under the same terms and conditions.

If both parties terminate the contract before the end of the fixed period and there is no clause in the contract to cover this, then the party terminating the contract must compensate the other. Where termination is made by the employer, compensation is limited to wage the employee would have earned from the day of termination to the expiry of his contract. Where it is the employee who quits, compensation is limited to the employer's actual loss.

Where an employment contract is for an unlimited period, either party may terminate it by notifying the other in writing at least 15 days prior to termination (Where the employee is paid more frequently). Either party may pay the other 15 or 7 days salary, as appropriate, in lieu of notice.

3. Oman

3.1 Legal Framework

The Sultanate encourages foreign capital that will enhance the overall development of the country. It should supplement local investment in utilizing its untapped resources, facilitate transfer of technology, know - how and managerial skills, and getting benefit from the worldwide connections of multinational corporation in opening new markets for Oman products.

In Oman the following types of entities can be formed:

- A joint stock company is formed by three or more individual or entities, whose liability is limited to the nominal value of their shares in the company's capital. If minimum 40 % of a company's shares are issued for public subscription it is considered as a general joint stock company (SAOG). The minimum capital required in RO 2 million (US $ 5.2 million) ; Otherwise it is considered as closed joint stock company (SAOC) and the minimum capital required is RO 500,000 (US $ 1.3 million).

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- Limited Liability Company (LLC) is a private company formed by minimum of two and a maximum of 40 natural or legal persons, whose liability is the nominal value of their shares in the company's capital. . The minimum capital for an LLC wholly owned by Omani national is RO 20,000 (US $ 52,000) and RO 150,000 (US $ 390,000) with foreign participation.
- A Holding company is a joint stock company or LLC that holds at least 51% of the shares of another company and have financial and administrative control. The capital of the holding company shall not be less than RO 2 million (US $ 5.2 Million)
- The other forms of business entities are general partnerships, formed by two or more individuals or entities, limited partnerships, which is formed by one or more general partners and sole proprietorships.

Foreign ownership is allowed up to 100% with the approval of the Ministerial Cabinet, however, in accordance with the commitment provided to the World Trade Organization, approvals are granted for foreign ownership up to 70 % in most of the sectors on automatic basis. As per the Foreign Capital Investment Law ministry grant license to applicants if the paid up capital of the company is at least RO 150,000 (US $ 390,000). Under Land Law companies and foreign nationals may own land in special designated tourism complexes. Other GCC nationals, companies fully owned by Omanis or General Joint Stock Companies with majority Omani share holdings are allowed to own land anywhere under certain conditions.

An array of incentives are offered and the in the Ministry of Commerce & Industry a "One-Stop-Shop" for assisting the domestic and foreign investors in obtaining all required clearances quickly and from one window has been established.

3.2 Taxation laws

Companies are taxed at a single rate of 12 % of the taxable income exceeding RO 30,000 irrespective of the percentage of foreign ownership. Branches of foreign companies are taxed at a single rate according to the entire amount of branch's taxable income. The tax rate varies from 5% to 30 %. Foreign companies that do not have a permanent establishment in Oman are subject to a flat tax of 10% of gross income on the following type of income: royalties, management fees, rent for equipment, transfer of technical know-how and R & D fees.

However Tax exemptions from corporate tax and customs duties are granted to entities engaged in manufacturing, mining, agriculture, fishing, fish farming, fish processing, aquaculture, animal breeding, tourism, export of manufactured and processed products and public utilities. The exemptions are granted for five year from the date of production or services first rendered and a five year extension may also be granted subject to certain conditions.

Oman is a free economy and does not restrict the remittance abroad of equity, debt, capital, interest, dividends, profits and personal savings.

3.3 Copyright Laws

Oman seeks integration into the global economy through multilateral, regional and bilateral economic cooperation. In this context Oman joined the World Trade Organization in the year 2000. The accession to WTO brings the integration of Oman into the world economy and with its benefits and the challenges. Regionally, Oman is a member of the six gulf cooperation council which started with an FTA in 1982, moved to the common market in 2008. Oman is also an active member of the greater Arab free trade agreement. As of 2005 these Arab countries with a population of over 270 million have in place a free trade agreement. With GCC Oman is now negotiating with various countries for similar free trade agreements. Also the European Union and GCC FTA are now in the final stages of negotiations. On the bilateral front, has already signed an FTA with USA.

Economic freedom is measured by the extent to which one can pursue economic activity without government interference. According to the World Economic Freedom Index 2007 published by Fraser institute Oman is ranked 18th position among 141 countries.

The Sultanate of Oman has signed several international agreements to enforce investment and patent protection. Recognized treaties include:

- Madrid Protocol in force since October 2007
- Hague Agreement in force since March 2009
- Patent Cooperation Treaty in force since October 2001
- WIPO Copyright Treaty in force since September 2005
- Paris Convention in force since July 1999

Furthermore the Sultanate of Oman verified the New York Convention on the recognition and enforcement of foreign arbitral award in February 1999. The Convention requires courts of contracting states to give effect to private agreements to arbitrate and to recognize and enforce arbitration awards made in other contracting states.

Judgments by German courts are not recognized by Omani authorities and therefore cannot be enforced. On the other hand, decisions by Omani courts are not accepted or enforceable in Germany.

The investment protection agreement between the Federal Republic of Germany and the Sultanate of Oman dates back to 25.6.1979. A new agreement was signed on 30.5.2007, but is still subject to ratification by two states.

3.4 Specifics of Labor Law

Investor Visa is granted to a foreigner who intends to invest his money in Oman and pursuant to a certification in this respect from the authority concerned. - This visa can be used within six months from the date of its issuance. - It is a multiple-entry visa valid for staying in the country for two years from the date it is inserted in the passport. This period is renewable.

Oman, like most other GCC states has adopted minimum employment quotas for companies in favor of Omani nationals (Omanisation). The required approval to employ foreign workers is generally only granted if the company meets the established quotas. The required quotas vary from industry to industry.

The minimum wages payable to Omanis is RO 140 (about US $ 360) per month including house and transport allowances. Apart from that as per the Social Security Law private sector employer must make monthly contributions to the Public Authority for Social Insurance at the rate of 9.5 % of the monthly wage.

5. Qatar

5.1 Legal Framework

The Commercial Companies Law No. 5 of the Year 2002 regulates the structure and governance of companies. This Law provides that any company established in Qatar must be classified under one of

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the prescribed categories. The most common types of companies are limited liability companies and shareholding companies.

Under the said Law, an investor may register a limited liability company with a minimum of 2 and a maximum of 50 shareholders, and with a minimum authorized share capital of QR. 200,000. The entire share capital must be paid up in full prior to incorporation of the company. The liability of a shareholder for the debts of the company is limited to its shareholding. A limited liability company may not engage in insurance, banking or investment brokerage.

Public shareholding companies must have a minimum of 5 shareholders and capital sufficient to achieve its objectives, and where the said company wishes to offer its shares to the public, its capital must not be less than QR. 10,000,000. Public shareholding companies can only be incorporated by a decision issued by the Minister of Business and Trade. Public shareholding companies listed on the Doha Securities Market may offer up to 25% of their share capital for subscription by foreigners. The shares of public shareholding companies are traded on the stock exchange market in Qatar. Private shareholding companies must have a minimum of 5 shareholders and a capital of not less than QR. 2,000,000. The shares of a private shareholding company are not traded on the stock exchange market.

The Law regulating the participation of foreign capital in business provides that foreign investors may participate in all sectors, except commercial agencies and real estate trading.

The general rule is that 51% of the capital of a business venture is to be owned by Qatari citizens or by entities fully owned by Qatari citizens. However, the Law provides that foreign ownership may be increased from 49% to 100% through a decision passed by the Minister of Business and Trade under certain circumstances.

Under this Law, the Minister can issue licenses to foreign companies engaged in executing contracts in the State of Qatar which facilitate the performance of a public benefit.

5.2 Taxation laws

Taxation is regulated under Law No. 21 of 2009, the Income Tax Law. Under this law, tax is levied on the net income arising out of foreign owned entities carrying out activities in Qatar. The activities subject to taxation include any profession, vocation, service, trade, industry, speculation, contractual work or any other business practiced for the purpose of profit. Personal income from salaries, wages, allowances and related items is not taxed.

The tax rate applied commonly is 10% on the taxable income. However, there are other different tax rates applied in specific cases stipulated in the Income Tax Law. Taxes are calculated on an annual basis.

The executive regulations of the Income Tax Law were issued by the Minister of Economy's Decision No. 10 of 2011. The executive regulations provide greater clarity on the intention of the provisions of the said law and how they will be interpreted and applied by the Public Revenues and Taxes Department.

5.3 Copyright Laws

The law on Protection of Copyright and Neighboring Rights No. 7 of 2002 confers protection upon authors of original literary and artistic works, irrespective of the value, quality, purpose or mode of expression of such works. Protected works include books, lectures, musical works, photographic works and computer software.

Every published, displayed or circulated work is required to be accompanied by a certificate of origin and a declaration (by the importer or owner) specifying the geographic area/place within which the display or circulation is authorized.

The economic rights of the author/owner are protected during the life time of the author, and for 50 years after his/her death. Moral rights are perpetual.

Anticipatory measures and sanctions for infringement of copyright include granting of injunctions; seizure of infringing copies; ordering of appropriate indemnification and seizure of profits gained from the infringement.

The Law on Trademarks, Commercial Indications, Trade Names, Geographical Indications and Industrial Designs No. 9 of 2002 grants to owners the exclusive right to use their intellectual property. Registration confers upon owners the right to prevent third parties from using their intellectual property, or signs resembling them in such a manner that may likely mislead the public.

Under this Law, foreigners have the same rights as Qatari nationals, provided they are nationals or residents of states which grant reciprocal treatment to nationals of the State of Qatar.

A person found guilty of counterfeiting, imitating, fraudulently affixing/selling products/offering services of a registered trademark, geographical indication or industrial design may face imprisonment for up to 1 year and/or fines up to QR 30,000.

5.4 Specifics of Labor Law

The relationship between an employer (other than the government and its corporations) and its employee (skilled or unskilled) is regulated by the Labor Law. The Labor Law No. 14 of 2004 mandates that an employment contract must be drawn in the Arabic language. Another language may be used besides Arabic, but the Arabic text will prevail.

A working week may consist of up to six business days. Ordinary working hours may not be more than eight hours a day, except during the Islamic month of Ramadan in which the normal working hours are reduced to no more than six a day.

The term of an employment contract may be of an indefinite duration or of a limited period, provided that the term does not exceed 5 years.

Any stipulations contrary to the provisions of the Labor Law are void unless more advantageous to the employee.

The Law provides a framework for forming worker's committees in organizations in which the number of Qatari workers is not less than hundred.

6. Saudi Arabia

6.1 Legal Framework

The Kingdom encourages foreign capital that will enhance the overall development of the country. It should supplement local investment in utilizing its untapped resources, facilitate transfer of technology, know - how and managerial skills, and getting benefit from the worldwide connections of multinational corporation in opening new markets for Saudi Arabian products.

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The legal framework that determines the establishment of foreign investors in Saudi Arabia is on the one hand the Foreign Investment Law and on the other hand the Companies Regulations Law (Company Law). The Saudi Arabian General Investment Authority (SAGIA) is the main gateway for foreign investors in the Kingdom.

Article 2 of the Company Law (Regulations for Companies) contains an exhaustive list concerning the extent of their legal forms of organization. However, there are only two types of corporations allowed for foreigners - LLC / GmbH and the joint stock company / AG. All societies of the Companies Act have their own legal personality and must be established in Saudi Arabia.

Since free (trade) zones do not follow the model of other Arab Gulf states (in Saudi Arabia there are only classic free trade zones like in Germany) also all associated forms of establishment (FZE, FZCO, FZLLC etc.) are unknown in Saudi Arabia. In the special economic zones of the so-called Economic Cities branch and company law has no special features.

LLC / GmbH

In practice, foreign investors choose this form of establishment due to the simpler structure, better controllability and reduced share capital as a legal form.

An LLC is a legal entity in Saudi Arabian law. Therefore, out of this property it can act as a sponsor. There is no need for a local partner. The LLC consists of at least two and a maximum of fifty shareholders. Today, the Investment Authority SAGIA will take into account the minimum capital requirements. Maximum SAR requirement: 500,000 but often less.

Joint stock company / AG

This form of organization for corporations has been rarely used for foreign investment, except in the banking and insurance sector, where this form of organization is required by law.

The issued share capital must be at least 2 million SAR, the minimum nominal value per share may not exceed 50 SAR, the minimum number of shareholders (founders) may not fall below 5.

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6.2 Taxation Laws

The Saudi Arabian tax law is governed by the Income Tax Act of 2004 (the "Income Tax Law" - ITL). It is complemented by the regulatory statues ("Executive Regulations" - ER-ITL). The tax authority is the Department of Zakat and Income Tax (DZIT).

Essentially, there are two different types of taxes in Saudi Arabia, namely (i) Zakat and (ii) income tax. Numerous types of taxes such as sales tax, and property tax base, business tax, capital dividends and capital gains taxes are still unknown. Zakat (2.5%), a religion-based income and wealth tax applies to purely Saudi Arabian companies and Saudi Arabian interests in Saudi Arabia-founded joint venture companies. Nationals of the Gulf Cooperation Council (GCC) are equal in this respect to Saudi Arabian citizens. On the other hand foreign companies or foreign interests in Saudi Arabia-founded joint venture companies have to pay income tax (20%). Companies working in the exploitation of natural gas are charged 30% and in the exploitation of oil 85%.

It is possible to repatriate capital, profits and dividends to other countries, subject to a withholding tax of 5% - 15%, depending on factors such as type of business. Capital gains tax over 20% is levied on the divestment of shares in a resident company; there is an exemption for the disposal of shares which are traded on the Saudi stock exchange if acquired after 2004.

Personal income is not taxable in Saudi Arabia for residents; however, nonresidents working in the Kingdom are taxed between 5 - 15%. Saudi Arabia has 14 tax treaties in place.

6.3 Copyright Laws

Since 1990, there is a copyright law (Copyright Law) in Saudi Arabia. By Royal Decree of 30.08.2003 a reformed copyright Law was passed. The Minister of Culture and Information issued for this purpose the implementing rules. Protection covers all literary, artistic, scientific (even when multiple authors), written, acoustic, visual or audiovisual works and crafts exhibition, including computer programs. The protection ends basically 50 years after the author's death, with co-authors, 50 years after the death of the last surviving author.

The patent laws of the kingdom was updated with the new law that came into force on 05.09.2004 "Law of Patents, Layout Designs of Integrated Circuits, Plant Varieties and Industrial Models" (hereinafter, Patent Law '). It is also accompanied by additional rules. As a WTO member since November 2005 Saudi Arabia meets the requirements of in terms of product protection of the WTO, the international TRIPS standard. Saudi Arabia is a joined the following international agreements:

- the WIPO Treaty (accession on 22.02.1982, effective as of 05.22.1982)
- The Berne Convention (accession on 11.12.2003, effective as of 11.03.2004)
- The Paris Convention (Stockholm Act of Accession on 11.12.2003, effective as of 11.03.2004).

The last amendment of trade mark law in 1984, was replaced on 03/12/2002 by the new trademark law (Law of Trademarks, "TML"). The law covers the definition of brands and in addition their registration application, renewal and cancellation of registration and the transfer of ownership and liability. In addition, the Trademark Act standardizes licensing agreements and penalties.

6.4 Specifics of Labor Law

With regard to their employees, foreign contractors are subject to terms of employment of the Saudi Labor Law ("Labor Law"), which regulates all fundamental aspects of the relationship between employer and employee. These include in particular working hours and conditions, leave, termination and (relative) employment protection and various contracts and due diligence requirements of the employer. The labor laws in part directly relate to residence law provisions. Foreign workers only receive a (temporary) residence permit if, as in Germany, they have a work permit.

The Labor Law sets exemptions to its application, especially for foreign workers who are sent earmarked for no more than two months to Saudi Arabia.

Employment law disputes can be carried forward by the employee to the Labor Inspection("Labor

Office"), if it is not possible to reach an amicable agreement, the Labor Office refers the case to the Labor Court ("Labor Dispute Committee").Trade unions and workers associations are prohibited by law, strikes are illegal.

7. United Arab Emirates

7.1 Legal Framework

Foreign investors can choose between several types of cooperation and partnerships for conducting business in UAE. Companies can also conduct business via a UAE branch office. Furthermore, Limited Liability Companies (LLCs) are more commonly used by the foreign investors.

The Federal company Law stipulates a total local equity of not less than The Federal company Law stipulates a total local equity of not less than 51% in any commercial company and defines seven categories of business organization ,which can be established in the UAE. It sets out the requirements in terms of shareholder directors and incorporation procedures.

Type of Company Definition

1 General Partnership Formed by two or more partners who will be jointly liable to the extent of all their assets for the company liabilities.

2 Simple Limited Partnership

Formed by one or more general partners liable for the company liabilities to the extent of all their assets, and one or more limited partners liable for the company liabilities to the extent of their respective shares in the capital only.

3 Joint Venture A company concluded between two or more partners to share the profits or losses of one or more commercial businesses being performed by one of the partners in his own name. Local equity participation must be at least 51%.

4 Public Joint Stock Any company whose capital is divided into equal value negotiable shares shall be considered a public join stock company and a partner therein shall only be liable to the extent of his share in the capital.

5 Private Joint Stock A number of not less than three founder members may incorporate amongst them a private joint stock company whose shares are not offered for public subscription. The founder members will fully subscribe to the capital, which must not be less than two million Dirhams.

6 Limited Liability Company (LLC) An LLC can be formed by a minimum of two and a maximum of 50 persons whose liability is limited to their shares in the Company's capital. Most Companies with expatriate partners have opted for this LLC, due to the fact that this is the only option which will give maximum legal ownership i.e. 49% to the expatriates for a trading license.

51% participation by UAE nationals is the general requirement for the LLC. Therefore the normal share holding pattern for an LLC will be: Local sponsor- 51% and Foreign Shareholder (s) - 49%. No minimum capital requirement for establishing a company. While foreign equity in the Company may not exceed 49%, profit and loss distribution can be mutually agreed. Responsibility for the management of a Limited Liability Company can be vested in the foreign or national partners or a third party. The time required to form a company will be approximate 1-2 weeks from the date of receipt of all the documents. The procedure and cost breakup will be given upon request.

7 Share Partnerships A company formed by general partners who are jointly liable to the extent of all their assets for the company liabilities and participating partners who

are liable only to the extent of their shares in the capital.

Apart from these seven categories, FDIs are encouraged through Branches and representative offices of foreign companies and 100% foreign owned **professional firms**. 100% foreign ownership is permitted in the Free Trade Zones "FTZ".

Limited Liability Company (LLC)

LLCs are more commonly used by the foreign investors.

Documents Required for LLC:

- Certificate of capital contribution from a Bank;
- Auditor's certificate for shares of all kinds;
- All other items requested in the application form

7.2 Taxation laws

Tax credit and tax relief are a significant aspect of every foreign investment decision. There is no federal tax legislation in the UAE, instead has its own tax law. Although each Emirate tax laws are intended to levy taxes, most of the regulations are not enforced in practice. There are currently legislations in force in the Emirates of Abu Dhabi, Dubai and Sharjah establishing a general corporate taxation regime - the Abu Dhabi income tax decree of 1965 and its amendments, Sharjah Income Tax Decree of 1968 and amendments and Dubai income tax decree of 1969 and amendments. In practice however, only oil, gas and petrochemical companies and branch offices of foreign banks are required to pay taxes.

The following taxes are not applicable in the UAE:

•Personal income tax

•Capital gain tax

•Value-added tax

•Withholding tax

•Corporate tax

Personal Tax: There is no personal income tax in the UAE. Municipality service charges are levied on individuals living and working in the UAE. Service charge percentages vary among the emirates. A service charge of 5 - 10 % is charged on food purchased in restaurants. Hotels charge a 10 to 15 % service charge

per night on room rates. These charges are usually included in the customer's bill, which the municipality will collect from restaurants and hotels.

Corporate Tax: There is no federal tax legislation on the taxation of corporations in the UAE; instead each emirate has its own tax.

Property Tax: In most of the emirates, tax is payable by residential and commercial tenants by reference to the annual rent of residential property at a rate of 5% and for commercial property at 10% of the annual rent.

In Abu Dhabi a property tax is charged to obtain and renew business licenses.

In general, taxes are assessed at around 5 to 10 % of the applicant's annual office rental and 5 % of the annual rental of the residence of the manager whose name appears on the license.

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In Dubai, all residential properties are subject to an annual property tax payable to the Dubai Municipality. The amount of tax payable depends upon the employment status of the tenant. All professional, managerial and other senior employees in commercial, professional and industrial sectors are charged at the rate of 5% of the annual rent of their property, whereas in the banking sector the percentage is 15 % of the annual rent of their property. Whilst it is the tenant's obligation to pay the property tax, the Dubai Municipality will often collect the tax from the tenant's employer through the Department of Economic Development at the time of issuing or at the annual renewal of the employer's trade license.

Part Three: Investment Profiles

Investment Profile GCC Countries

Brief Summary of FDI

Project:

'Promotion of Mutual investment opportunities and creation of a virtual European structure in the GCC'

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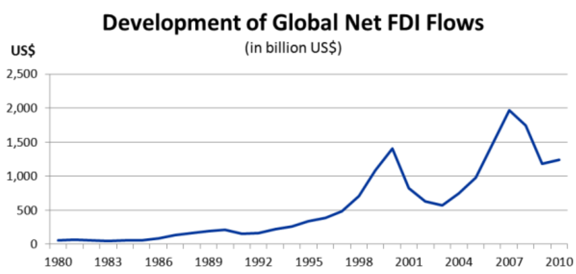
1 Global and GCC Framework

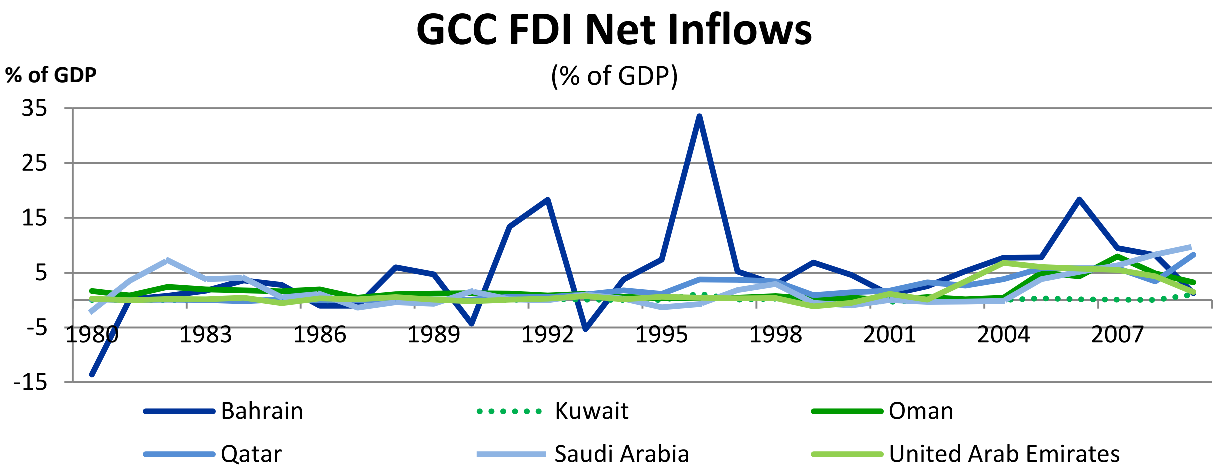
The importance of FDI in the world has been growing considerably over the last decades. Cross-border investments, driven by a further globalized and integrated world, are growing despite the setback of the dotcom bubble burst of 2000 and the financial crisis in 2007. While the FDI in matured markets such as Europe and Northern America is mainly characterized by M&A to gain market access, other economies (especially the MENA region) mainly attract Greenfield investments, the ratio of M&A to Greenfield Investments is 6% over the last ten years (UNCTAD 2011).



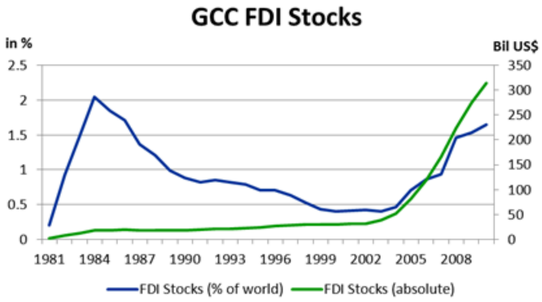
Source: UNCTAD (2012).

Transitional economies with the goal of developing an innovation driven structure are often competing for being the location of Greenfield Investments by TNC's. The main purposes for attracting FDI are technology transfers and absorption of intelligence into the local workforce, as well as job creation especially in the high skilled sector. Top determinants for FDI attraction are market size, political stability, growth and regulatory environment (Kearney, 2005).

In general, FDI's can be categorized in terms of the investor objectives and usefulness for the target country, e.g. resource seeking (investing in natural resources), efficiency seeking (outsourcing activities based on the availability of certain skills or lower costs), or market seeking (targeting a large or specific market). Until now, the largest share of FDI's in the GCC has been oriented to the hydrocarbons sector, which belongs to the first and highly capital intensive category. Usually this sector is less suitable for providing spillover effects to the local economy (WEF/OECD, 2011).

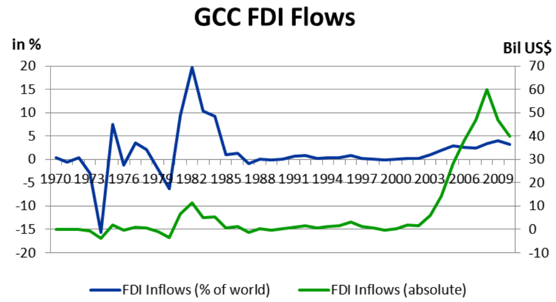


Source: World Bank (2012)



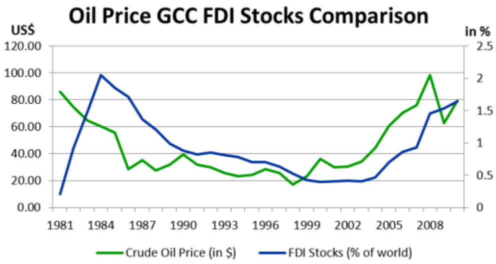
Source: Own Calculations based on UNCTAD (2012).

Nevertheless, over the past three decades, the region experienced a considerable change in the FDI development in terms of scale. After the end of the oil crisis' turbulences, the FDI began rising sharply for several years, only to stagnate afterwards for almost two decades.



Source: Own calculations based on UNCTAD (2012).

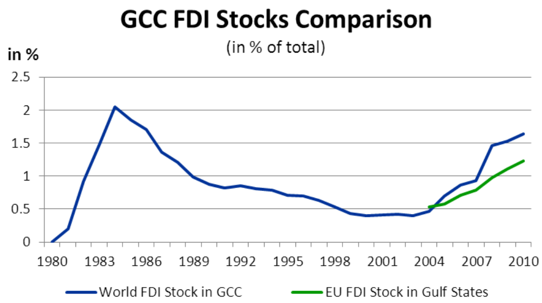
A new rise in FDI started in 2003 and held on until now, throughout the financial crisis and the beginning of the debt crisis. The development coincides to a certain extent with the crude oil prices in both periods. This is a possible indicator for the still existing economic dependence on oil and gas resources and foreign investment interests, rather than diversification.



Source: Own Calculations based on UNCTAD (2012), BP (2011).

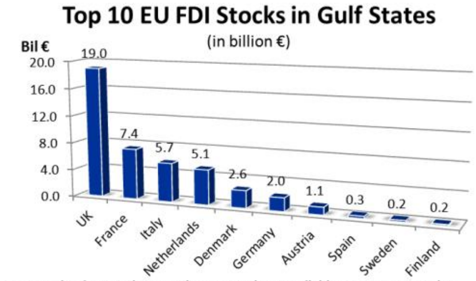
2 European Involvement

The European share in this development is difficult to assess due to a lack of information. Just recently has data become available, and only for the Gulf States (GCC, Iraq and Yemen), as an aggregate. Compared to the world share of FDI to the GCC, the European share (which is only available for the last few years) seems to be roughly the same, although the initially small gap is widening.



Source: Own Calculations based on Eurostat (2012), UNCTAD (2012).

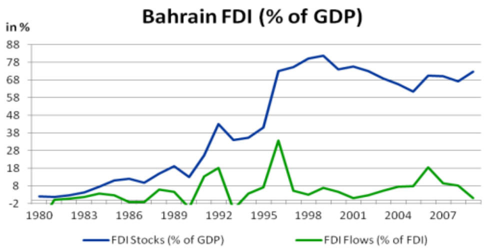
The biggest individual investor country by far, for those for which data is available, is the United Kingdom, followed by France and Italy. Together, they account for over 60% of all EU investments, 51 billion € in 2010, which is 1.2% of all extra-European investments (Eurostat, 2012).



Source: Irland, Luxemburg, Malta, Portugal not available, Germany 2009 data. Eurostat (2012).

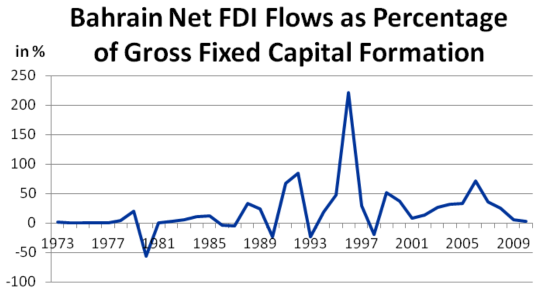
3 Bahrain Profile

Overall, Bahrain is performing best in the broader region in attracting FDI and providing a nurturing business environment. Nevertheless, the Arab Spring revealed that Bahrain still has ground to prove upon and the recent stagnation in FDI shows that also investors wait until the dust is settled.



Source: Own Calculations based on UNCTAD (2012), World Bank (2012).

The numbers show that Bahrain has begun a successful but also very volatile history of FDI inflows in the early eighties. This is partly based in the normalizing factor, the GDP which is very small approx. $30 billion for a population of 1.1 million people in 2011. However, a smaller market also means less incentive to invest, and therefore Bahrain did very well indeed.



Source: Own Calculations based on UNCTAD (2012).

Unfortunately, the peak period of FDI inflow which occurred in 1995 has been followed by a still considerable input in relation to Gross Fixed Capital Formation, but stagnation with respect to the FDI GDP ratio. Additionally, the turmoil due to the Arab spring has lead to a complete stop of FDI inflows. These events also explain the gap between realized and potential FDI attraction measured by UNCTAD. While Bahrain performed 30th in 2008 with the potential of 22nd, in 2009 it lacked behind the 103rd and then 121st place although the potential remains the same.

Nevertheless, international rankings, relevant for decision making of TNC's, will clarify the picture for further potentials and threats to FDI development in Bahrain. All these rankings are necessarily subject to some flaws

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in measurements, as every country has its unique determining factors, which cannot be measured in standardized statistics. Countries will therefore notoriously under- or overperform in some categories, which are constituting the rankings. Nevertheless, the rankings themselves are important sources of information for TNC's or other companies, which are planning to invest abroad.

Table 1: Important Results in 2012 Rankings

Rank	EoDB[1]	IEF[2]	GCI[3]
Bahrain	38	12	37

Bahrain does very good in the Index of Economic Freedom, but lacks behind with the 38th and 37th place in the Ease of Doing Business and the Global Competitiveness Index, revealing a policy of openness which attracts a lot of FDI but at the same time some imbalances in the broader economic foundation.

In the Ease of Doing Business Ranking Bahrain performs 38th, declining from last year's 33th place due to marginally worse performances in almost all categories. Categories with good ratings are *Dealing with Construction Permits* (7th), *Paying Taxes* (18th) and *Resolving Insolvency* (25th). *Investor Protection* is slightly better than in its neighboring countries (79th), however *Enforcing Contracts* (114th) and *Getting Credit* (126th) are even worse.

The Economic Freedom Indicators contradicts this assessment a bit mainly due to some important factors like completely unregulated repatriation of profit or capital. Bahrain imposes almost no taxes (except 46% on oil companies) and allows free reign of its over 400 banks and financial related institutions.

Fiscal Freedom	Financial Freedom	Labor Freedom	Investment Freedom
1	4	7	24
Business Freedom	**Property Rights**	**Freedom from Corruption**	**Trade Freedom**
48	49	49	55

FDI's are well regarded and well secured through protected *Property Rights*. Only the sometimes inefficient government agencies and the recent crackdown on the democratic movement lead to negative ratings.

Table 2 Ranking in Freedom Categories

Source: Heritage Foundation (2012)

[1] Ease of Doing Business Ranking 2012, published by the IBRD and the World Bank.
[2] Index of Economic Freedom 2012, published by Heritage Foundation.
[3] Global Competitiveness Index 2011-2012, published by World Economic Forum.

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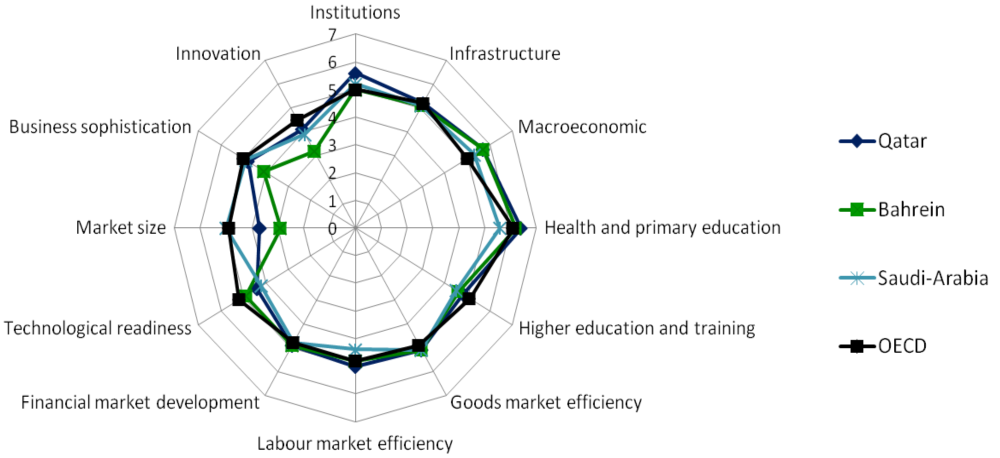
The Global Competitive Index ranks Bahrain in the last two editions on the 37th rank, praising its well-developed *Institutions* (18th) and *"fairly Little Corruption"* (18th), its high developed *Financial Sector* (4th) and *Anti-Monopoly Laws* (8th). Negative aspects are *Trade Barriers* preventing the small country from benefitting as business hub. Another critical factor is the surging deficit which is up 7.8% of GDP in 2010. A look on the competitive web diagram reveals further insights on possible future development chances. Especially the latest stage of Business sophistication and innovation under underdeveloped both in comparison to the OECD average as well as to important GCC peers. Channels for improvement would be private and publicly funded R&D investment and a higher degree of collaboration between corporations and Research Institutions.

In conclusion, Bahrain already performs very well overall. Especially the ratings in Economic Freedom are promising and if Bahrain can settle the disputes of the Arab Spring, it will be staying ahead in the competitive performance in the region. Nevertheless, the recent budgetary concerns and weak business sophistication and innovation are major challenges for further FDI improvement.

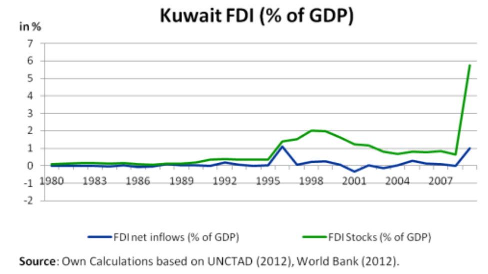
4 Kuwait Profile

Is the most isolated GCC state in terms of FDI. Until the mid-nineties FDI's were almost nonexistent and after that stagnated. The recent surge in 2009 is mainly due to a dramatic decline in the country's GDP (from $150 billion to $110 billion in one year, World Bank 2012). Noting the severe dependence on oil revenues (95% of export revenues come from oil), Kuwait initiated a reform targeting economic diversification and FDI attraction (Heritage Foundation 2012).

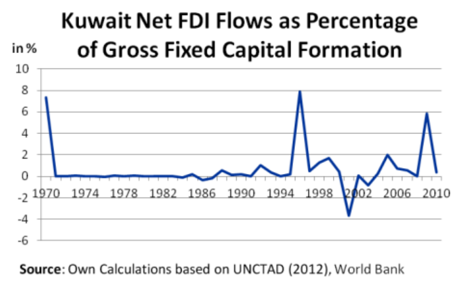
Competitiveness Performance within the GCC



Source: Own Calculations based on WEF/OECD (2010).



The FDI Flows to Gross Fixed Capital Formation reveal that the recent increase in FDI only relies on the decline in GDP and has not been replicated in 2010.



The gap between realized to potential FDI assessed by UNCTAD shows one of the most extreme cases in the region. Having performed only on the 137th, 113th and 135th in 2008 to 2010, Kuwait was judged to be of potential for the 35th and 37th place in 2008 and 2009.

In order to understand the high degree of isolation and possible categories for improvement, it is helpful to have a look at rankings, which are regularly used by TNC's and other institutions for FDI analysis. All these rankings are necessarily subject to some flaws in measurements, as every country has its unique determining factors, which cannot be measured in standardized statistics. Countries will therefore notoriously under- or overperform in some categories, which are constituting the rankings. Nevertheless, the rankings in themselves are important information sources for TNC's or other companies, which are planning to invest abroad.

Table 3: Important Results in 2012 Rankings

Rank	EoDB[4]	IEF[5]	GCI[6]
Kuwait	67	71	34

Overall, the rankings show that Kuwait has a lot of potential for opening up further in order to attract more FDI and facilitate the private sector assessed by the ranks in the Ease of Doing Business and the Index of Economic Freedom. Nevertheless, the competitiveness of Kuwait was rated quite stable with the 34th place.

Having a closer look into the Ease of Doing Business Ranking reveals some advantages of Kuwait, namely *Paying Taxes* (15th) and *Protecting Investors* (29th), the highest ranking for Investor Protection in the region.

[4] Ease of Doing Business Ranking 2012, published by the IBRD and the World Bank.
[5] Index of Economic Freedom 2012, published by Heritage Foundation.
[6] Global Competitiveness Index 2011-2012, published by World Economic Forum.

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Unfortunately, the weaker categories are dragging its performance down severely with almost half of the assessed categories behind 100 other countries in the world, namely *Trading Across Borders* (112th), *Enforcing Contracts* (117th), *Dealing with Construction Permits* (121st) and *Starting a Business* (142nd). In order to open a Business in Kuwait you need to go through 12 procedures and expect 35 days in order to do so.

The Heritage Foundation assesses Kuwait along the same lines. *Fiscal Freedom* in rank number one, shared with the UAE and Bahrain with the only tax being a corporate flat tax on foreign businesses of 15 percent. The *Rule of Law* is considerably weaker developed than in other GC states with the highest corruption rating and an "inefficient court system [which] is susceptible to political pressures and corruption" (Heritage Foundation 2012). Kuwait is undertaking modernization but at a slower pace than necessary in order to nurture a business environment, especially with burdensome bureaucracy and regulations hindering trading, efficient labor markets and investment.

Table 4 Ranking in Freedom Categories

Fiscal Freedom	Property Rights	Freedom from Corruption	Trade Freedom
1	53	55	67
Financial Freedom	**Investment Freedom**	**Labor Freedom**	**Business Freedom**
72	77	79	103

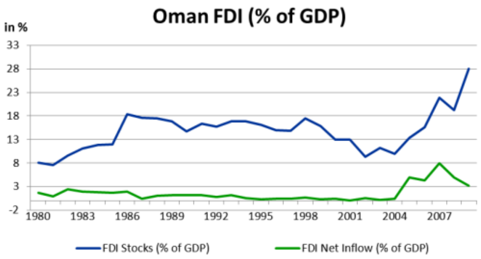
Source: Heritage Foundation (2012)

In the competitiveness assessment, Kuwait's rank is a bit better, mainly due to the healthy influence of the oil and gas sector, which provides Kuwait with enough resources to keep the general business environment stable and to keep taxes very low. The *Macroeconomic Stability* (2nd) is its strongest pillar. Nevertheless, Kuwait faces some severe challenges for a more sustainable future, showing a weaker profile than its GCC peers in most categories. Especially severe are the shortcomings in the educational sector with Primary Education (90th), Math and Science Education (94th) and Management Education (99th) being behind world average and are, among other things, based on very low enrollment rates. These structural weaknesses inevitably lead to imbalances in the *Labor Market* (62nd) and *Inefficient Use of Talent* (87th) with further reasons being bad *Reliance on Professional Management* (95th, i.e. management positions are awarded mainly based on family affiliation and not on skill) and low *Female Participation* (118th). Another field for improvement is

Technological Readiness, Innovation and *Infrastructure*, which in general help to attract FDI and provide the base for spillover effects into the local economy. In conclusion, Kuwait is still benefitting from macroeconomic stability based on the oil and gas market. Recently Kuwait inertly introduced some reforms targeting better business environment and more foreign investment. Until now these changes were not enough to attract major inflows of FDI. Additionally, in order to profit from FDI's Kuwait has to improve its educational branch to facilitate Know-How absorption into the local industry and workforce and remain a stable and growth oriented economy in the future

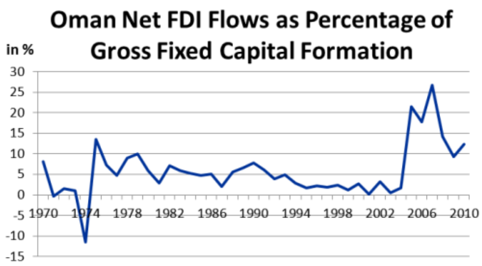
5 Oman Profile

Overall, Oman is slightly outperformed by its peers in the region, but does still considerably well. Recent modernization efforts are starting to make a difference and after a decade of slow decline in FDI ratios, Oman took off in 2004 and maintains higher levels of investment curbed a bit by the financial crisis but with signs of recovery.



Source: Own Calculations based on UNCTAD (2012), World Bank (2012).

Oman maintained relatively small levels of FDI through the nineties and after a slowdown in the early 2000's, modernization in Institutions and Property Law inspired a peak in FDI to Gross Fixed Capital Formation.



Source: Own Calculations based on UNCTAD (2012).

The gap between realized to potential FDI assessed by UNCTAD is not as huge as in other GCC states, but still visible. From judged to be potentially 47th and 39th in 2008 and 2009 respectively, the actual performance remained at the 68th place in the same period but improved in 2010 to 54th. Both potential and performance show a considerable improvement. In order to assess specific sectors and fields leading to this improvement, a look on recent rankings can be helpful. All these rankings are necessarily subject to some flaws in measurements, as every country has its unique determining factors, which cannot be measured in standardized statistics. Countries will therefore notoriously under- or overperform in some categories, which are constituting the rankings. Nevertheless, the rankings in themselves are important information sources for TNC's or other companies, which are planning to invest abroad.

Table 5: Important Results in 2012 Rankings

Rank	EoDB[7]	IEF[8]	GCI[9]
Oman	49	47	32

In all recent rankings Oman performed above world average and specifically showing a stronger competitiveness component then business freedom aspects. Additionally, it improved over the last years in the rankings except in the latest edition of the economic freedom ranking due to a penalty in largely extended public spending.

In the Ease of Doing Business Ranking, which weights several indicators from rapidness of business start-up to investor relations, Oman jumped four places up in the recent edition. This happed due to long overdue improvements in Getting Credit. Nevertheless, the worst categories are still *Protecting Investors* (97th), *Getting Credit* (98th) and *Enforcing Contracts* (107th). Although Oman can attract with *Paying Taxes* (9th) and *Registering Property* (21st), and modernization attempts are succeeding, the weakness in financial laws have to be bridged in order to foster FDI attraction.

The Economic Freedom Indicators reveal to some extent the same pattern. A very good place in *Fiscal Freedom* (no income tax, top corporate tax rate 12%), and *Labor Freedom* reveal Oman's competitive advantages. The *Freedom of Corruption* is compared to the region only moderate but again *Investment Freedom* and *Business Freedom* lack behind considerably. Although the Omani government realized the benefit of diversification and put stimuli in place for broader development, "Omanization" (a policy that requires private-sector firms to hire native Omani workers) and burdensome FDI approval processes sometimes hinder investment.

Table 6 Ranking in Freedom Categories

Fiscal Freedom	Labor Freedom	Financial Freedom	Freedom from Corruption
6	17	39	42
Trade Freedom	**Property Rights**	**Investment Freedom**	**Business Freedom**
50	53	77	82

[7] Ease of Doing Business Ranking 2012, published by the IBRD and the World Bank.
[8] Index of Economic Freedom 2012, published by Heritage Foundation.
[9] Global Competitiveness Index 2011-2012, published by World Economic Forum.

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Source: Heritage Foundation (2012)

On the other hand, Oman's economy flourished through the input of Petrodollars, Macroeconomic stability and well built Institutions. Even though oil and gas reserves are not as vast as those of other neighbors, healthy *Budgetary Surpluses* (9th), low *Government Debt* (4th), and high *Savings Rates* (8th) make up for a positive outlook. Additionally, high *Efficiency of the Government* (13th) and a *Secure Environment* (7th) are stable conditions on which further modernization may bode well. Unfortunately, Oman's competitive profile also reveals weaknesses of long term nature. The *Health and Primary Education* sector as well as *Higher Education* are not well developed. Very low enrollment rates in primary schools, quality deficits in math and science teaching and following low rates of enrollment in secondary and tertiary education lead to inadequately educated workforce. Especially with respect to FDI in High-Tech sectors, these failures are of essence and prevent further FDI inflows as well as the needed absorption of foreign Know-How into the local workforce and economy. In conclusion, Oman is already doing fairly well in international comparisons. Through modernization and stability the recent surge in FDI will help the country improve even further. Efficient government, macroeconomic stability and fiscal freedom alone however do not ensure a certain future. Even Oman suffered some protests during the Arab Spring, shedding light on the weaknesses in the local labor market, which springs from bad performance in the education sector. If these drawbacks are addressed properly, together with improved Investor Protection laws and Business Freedom, Oman is set for the future.

6 Qatar Profile

Over the last two decades Qatar's FDI has developed a strict upwards trend. The FDI Stocks as a percentage of GDP are rising and the fraction of FDIs of gross capital formation is pointing upwards since the 1990, reaching a high of 20% in 2009 (FDIs are reported in net inward flows; Negative flows therefore mean disinvestment).

While other countries in the region have experienced a severe drop in FDI as a consequence of the financial crisis, Qatar continues to attract investment. In the past, a vast amount of investment was drawn in by the gas industries, which lead to Qatar becoming the world largest liquefied natural gas exporter in 2007 (Heritage Foundation 2012).

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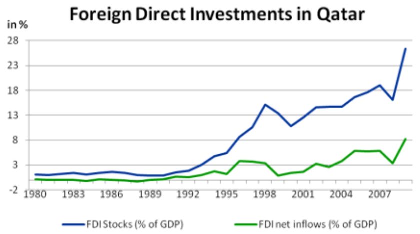
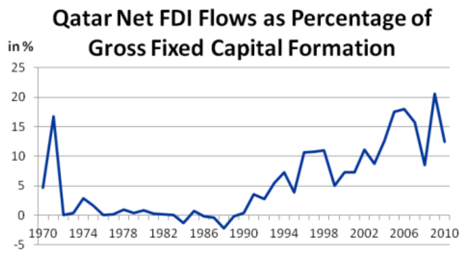


Source: Own Calculations based on UNCTAD (2012), World Bank (2012).

Nevertheless, the gap between potential in FDI attraction and the actual performance is still observable and even more important as the country tries to diversify away from its heavy oil and gas dependence. In the UNCTAD World Investment Reports Qatar's FDI Performance was respectively ranked 79th, 21st and 43rd from 2008 to 2010 , but occupied the 9th and the 2nd place in FDI Potential in 2008 and 2009.



Source: Own Calculations based on UNCTAD (2012).

In order to assess the reasons behind this gap and opportunities for potential future economic diversification of Qatar, an overview of relevant decision making rankings and indices can identify threats and potentials. All these rankings are necessarily subject to some flaws in measurements, as every country has its unique determining factors, which cannot be measured in standardized statistics. Countries will therefore notoriously under- or overperform in some categories, which are constituting the rankings. Nevertheless, the rankings in themselves are important information sources for TNC's or other companies, which are planning to invest abroad.

Table 7: Important Results in 2012 Rankings

Rank	EoDB[10]	IEF[11]	GCI[12]
Qatar	36	25	14

Qatar's economy already performs very well in terms of Competitiveness and Freedom, measured by the 14th place in the Global Competitiveness Index by the World Economic Forum, but trails a bit behind that performance with the 36th place in the Ease of Doing Business Ranking by the World Bank. However, even more important than the absolute result is the fact that Qatar managed to improve all rankings subsequently in the last years.

Overall the Ease of Doing Business Ranking 2012 ranks Qatar good in terms of overall ranking (it improved from the 38th to the 36th

[10] Ease of Doing Business Ranking 2012, published by the IBRD and the World Bank.
[11] Index of Economic Freedom 2012, published by Heritage Foundation.
[12] Global Competitiveness Index 2011-2012, published by World Economic Forum.

from 2011 to 2012 due to improved credit accessibility). Similar to other GCC countries however, Qatar shows an enormous variation in the individual categories. The tax structure is ranked to be the 2nd place (out of 183 countries) in the world with other good categories (places 18 to 37) like Getting Electricity, Paying Taxes, Registering Property, Trading and Dealing with Construction Permits complementing it. These comparative advantages are somewhat set off by worse performances in Enforcing Contracts (95th),

Protecting Investors (97th), Getting Credit (98th) and Starting a Business (116th). For example, the measured time to enforce contracts amounts to 570 days with 43 necessary procedures to go through or very high capital costs to open up a business (around 64% of GDP per capita as paid-in min. capital; World Bank, 2012). These categories represent some of the most important and sensitive topics to foreign investors and have to be addressed if Qatar wants to improve any further.

The Economic Freedom Index of the Heritage Foundation reveals the same pattern. The Fiscal Freedom based on an excellent tax structure (the only tax is a 10% corporate flat tax) is a major attraction for the country. Additionally, the Freedom from corruption and well-structured Property Rights are an advantage for Qatar. However, the weaknesses in financial, investment (foreign companies can only acquire more than 49% of a business after governmental approval) and business freedom represent major obstacles for increasing FDI in the economy. "Restrictions on foreign investment and considerable state involvement in the economy are serious drags on generating more vibrant economic dynamism" (Heritage Foundation 2012).

Table 8 Ranking in Freedom Categories

Fiscal Freedom	**Freedom from Corruption**	**Property Rights**	**Trade Freedom**
4	19	25	58
Labor Freedom	**Financial Freedom**	**Business Freedom**	**Investment Freedom**
65	72	75	106

Source: Heritage Foundation (2012)

Nevertheless, Qatar's economy is performing very well. The Global Competitiveness Index ranks it as 14th, following a considerable improvement of the country over the last 5 years from the 4th decile to the 2nd decile of the ranking. A high-quality institutional framework (14th), a stable macroeconomic environment (5th), and an efficient goods

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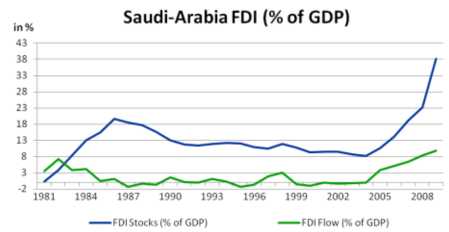
market (17th) paired with economic growth and further expansion ambitions (e.g. Football World Championship 2022) are fueling the economy. Drawbacks are the high reliance on natural resources and "despite efforts to strengthen the financial sector, its trustworthiness and confidence and the soundness of banks are assessed as low by the business community (80th), and the legal rights of borrowers and lenders are insufficiently protected (105th)" (WEF/OECD 2011).

The competitiveness diagram capturing 12 ranked categories from the 2010/2011 Report, expresses the similarities between the GCC states very well. They only strongly deviate in four aspects: Infrastructure, Health and Primary Education, Technological Readiness and Market Size. Especially in Infrastructure and Technological Readiness does Qatar trail behind its competitors in the UAE, a potential and important field for improvements regarding FDI attraction and use (WEF/OECD 2010).

Overall Qatar's economic development and foreign direct investment express a strong upward trend, unchallenged by the recent turmoil on international financial markets. Strengths are its tax policy, strong macroeconomic background with growth and stability, well developed institutions with low corruption levels as well as abundant labor.

Nevertheless, the high reliance on the oil and gas sector, which still forms about 50% of Qatar's GDP (Heritage Foundation, 2012), points out the structural weakness of the economy. This observation is solidified in the assessment of the World Economic Forum in categorizing Qatar as an Efficiency Driven Economy and not Innovation driven contrary to their peers in the UAE. In order to remedy this, FDI can help to avoid a long and costly internal learning curve and can get Qatar



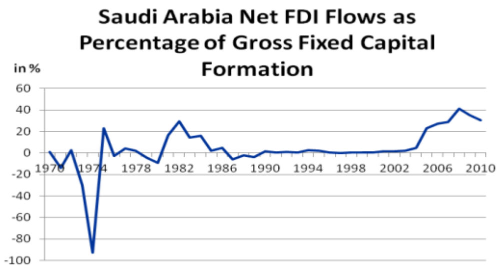
Source: Own Calculations based on UNCTAD (2012), World Bank (2012).

access to state-of-the-art industry in other sectors. However, in order to attract more FDI in non-oil and gas sectors, Qatar will have to improve considerable the Financial and Business Freedom as well as Investor Protection. Additionally it will have to consolidate the financial sector, building up trustworthiness in banks and ease access to capital.

7 Saudi-Arabia Profile

In absolute numbers, Saudi-Arabia is outperforming the broader region not only due to its size. A very good business environment and stability are producing a flourishing development. In openness it lags behind but opened up in recent years following the trend of diversification in the region.

After a volatile time of FDI and outflows in the seventies, Saudi-Arabia built up a considerable size of FDI stocks in the eighties. After that, 20 years of stagnation in inflows and a slow decline in FDI to GDP ratio followed. Recognizing the need for diversifying away from its heavy oil dependence, modernization and reforms eased business hurdles und improved foreign investment laws, which lead to a new surge in FDI starting in 2004 and in GDP ratio even accelerating throughout the financial crisis (although partly due to a decline in GDP).



Source: Own Calculations based on UNCTAD (2012).

In terms of Gross Fixed Capital Formation the 40% peak of FDI to capital formation ratio shows the renewed interest of foreign TNC's in Saudi-Arabia's economy. Saudi-Arabia even managed to reverse the FDI Performance to Potential ratio so prevalent in its peer countries in the region. Having been assessed by UNCTAD to be of potential rank of 27th and 29th in 2008 and 2009, it outperformed the expectations with the 31st and subsequent 19th places in 2009 and 2010.

This development needs to be clarified by a more in-depth analysis with international rankings on economic and FDI related factors. All these rankings are necessarily subject to some flaws in measurements, as every country has its unique determining factors, which cannot be measured in standardized statistics. Countries will therefore notoriously under- or overperform in some categories, which are constituting the rankings. Nevertheless, the rankings in themselves are important information sources for TNC's or other companies, which are planning to invest abroad.

Table 9: Important Results in 2012 Rankings

Rank	EoDB[13]	IEF[14]	GCI[15]
Saudi-Arabia	12	74	17

Indeed, Saudi-Arabia shows an interesting and unusual performance in the rankings compared to the broader region, mainly founded on its oil richness as the largest oil exporter in the world, holding more than 22 percent of the global oil reserves, second only to Venezuela (OPEC 2010). While business conduct and competitiveness assessed by the Ease of Doing Business Index and Global Competitiveness Index are extremely well, Saudi-Arabia receives bad evaluations by the Economic Freedom Index showing a huge discrepancy between those indicators.

In the Ease of Doing Business Ranking, Saudi-Arabia performs in the top 10 in four out of ten measured categories. *Registering Property* (1st), *Dealing with Construction Permits* (4th), *Starting a Business* (10th) and *Paying Taxes* (10th) are the strong competitive advantages of Saudi-Arabia. But even the otherwise often underdeveloped categories in the region like *Investor Protection* (17th) and *Getting Credit* (48th) can be seen as strengths. Only two bad rankings are preventing Saudi-Arabia from an even better performance: *Resolving Insolvency* (73rd) and *Enforcing Contracts* (138th). In order to enforce a contract in Saudi-Arabia, 48 procedures are necessary, requiring approximately 635 days solving.

The Economic Freedom Indicators reflect more the aspect of freedom to outside investors to the economy instead of the general ease of business. In these categories, Saudi-Arabia performs worse, revealing the still present inwards focus of Saudi-Arabia, which has been fostered over the last decades. *Fiscal Freedom* and *Business Freedom* correspond to the good ratings before but the relatively bad rankings in *Financial Freedom* and *Investment Freedom* highlight the reasons for low FDI in the past. Index penalizes the not always transparent judicial system, which regularly is subject to influence by the political elite as well as the weakly developed financial sector. Nevertheless, improvements especially in these categories have sparked the new surge in FDI.

Table 10 Ranking in Freedom Categories

Fiscal	Business	Freedom	Labor

[13] Ease of Doing Business Ranking 2012, published by the IBRD and the World Bank.
[14] Index of Economic Freedom 2012, published by Heritage Foundation.
[15] Global Competitiveness Index 2011-2012, published by World Economic Forum.

Freedom	Freedom	from Corruption	Freedom
5	22	51	56
Trade Freedom	**Property Rights**	**Financial Freedom**	**Investment Freedom**
60	69	72	117

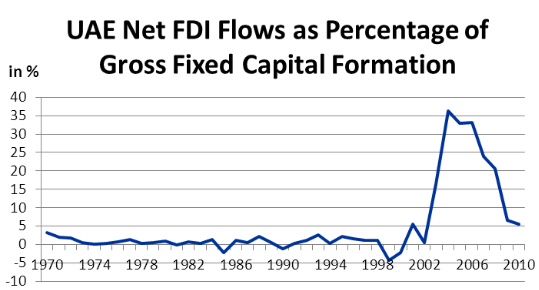
Source: Heritage Foundation (2012)

In terms of competitiveness, Saudi-Arabia performs second in the broader region (behind Qatar) and shows major improvements over the last years. An already mentioned solidified *Institutional Framework* and very *Efficient Factor Markets*, *Macroeconomic Stability* (except high inflation) and efficient markets are pushing its performance. Nevertheless, the competitive profile shows similar weaknesses as the Omani Economy. Health and Primary Education pillar (61st) is curbed - though improved a lot over the last years - followed by similar drawbacks in the Higher Education and Training pillar (36th). If both these areas are strengthened, in addition to fostering a more efficient labor market (50th), Saudi-Arabia will be able to maintain its competitive edge.

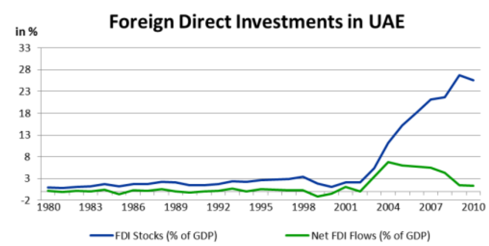
Overall, Saudi-Arabia is profiting from its stability in the oil market as biggest exporter worldwide and the revenues used to invest in its own people. Even though business facilitation is already top notch, and the country shows a strong competitive profile, the need for diversification will inevitably lead to the need for more openness. The ranking in this category is particular important for high-tech FDI attraction outside the petrol sector. In order to reap benefits from FDIs in this sector, Saudi-Arabia will also need to foster its education system to increase absorption potential and decrease the hindrance of inadequately education workforce for economic growth.

8 UAE Profile

In order to assess the potentials and threats to FDI in the GCC region, an individual assessment of the member states is needed. UAE's position in the FDI of the region seems to have improved a lot over the last decade. (FDI's are reported in net inward flows; Negative flows therefore mean disinvestment) However, the last three years have shown a decline, which is related to the problems the UAE encountered following the fallout of the Financial Crisis in 2007, with a heavy debt ridden and strongly leveraged economy in Dubai, as well as the slowed down investment in Abu Dhabi. The UAE still has to close a considerable performance to potential gap regarding FDI. In the FDI Performance Index published in the World Investment Report, the UAE declined from rank 58 in 2008 to 92 in 2009 and even worse (103) in 2010, while it scores a 3rd and a 5th place in 2008 and 2009 in the FDI Potential Index respectively (UNCTAD 2011). However, estimates for 2011 and 2012 already suggest a slow recovery. The ratio of net FDI flows to gross fixed capital formation reveals the same pattern as the FDI to GDP. Starting 2003, over one third of the capital formation, which reports the new investments in capital stock of a country are covered by FDI. Since the financial crisis however this relation almost reversed again and is down to very low levels.



Source: Own Calculations based on UNCTAD (2012).



Source: Own Calculations based on UNCTAD (2012), World Bank (2012).

A different approach to assess the investment performance and potential of the UAE is an overview of relevant decision making rankings and indices. All these rankings are necessarily subject to some flaws in measurements, as every country has its unique determining factors, which cannot be measured in

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standardized statistics. Countries will therefore notoriously under- or overperform in some categories, which are constituting the rankings. Nevertheless, the rankings in themselves are important information sources for TNC's or other companies, which are planning to invest abroad.

Table 11: Important Results in 2012 Rankings

Rank	EoDB[16]	IEF[17]	GCI[18]
UAE	33	35	27

The UAE's performance in these rankings is relatively consistent, between the 35th places in the Economic Freedom ranking by the Heritage foundation, to the 27th in the Global Competitiveness Index by the World Economic Forum.

The Ease of Doing Business Ranking 2012 for example ranks the UAE quite good in terms of overall ranking, where the UAE improved from the 35th to the 33rd from 2011 to 2012, mainly due to easier and faster business starting procedures. However, in the specific categories, the UAE shows an enormous variation. Categories, in which the UAE is ranked under the top 10, are *Getting Electricity, Paying Taxes, Registering Property, Trading and Dealing with Construction Permits.* These categories are corresponding very well with the self-advertisement portfolio of the UAE, as free trade business hub for the broader region, fast growing opportunities and cheap energy due to oil abundance. However, the ranking with respect to *Getting Credit, Protecting Investors, Enforcing Contracts and Resolving Insolvency* are significantly worse. From 183 measured countries, the UAE performs 78, 122, 134 and 151 in these categories respectively, which places the UAE between African developing countries, such as Uganda, Nigeria and Mali. For example, the measured time to enforce contracts amounts to 537 days with 49 necessary procedures to go through (World Bank, 2012). In order to improve FDI ratios, the UAE should improve these categories first, rather than e.g. subsidizing energy further.

[16] Ease of Doing Business Ranking 2012, published by the IBRD and the World Bank.
[17] Index of Economic Freedom 2012, published by Heritage Foundation.
[18] Global Competitiveness Index 2011-2012, published by World Economic Forum.

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According to Index of Economic Freedom 2012 by the Heritage Foundation, the UAE improved over the last years, but still has many shortcomings. Specifically, "The UAE's overall economic freedom is curbed by shortcomings in the legal system and a burdensome investment framework. Foreign investment still faces various restrictions, and the judicial system, despite some progress, remains vulnerable to political influence." (Heritage Foundation, 2012). The UAE performs particularly good in terms of *Fiscal Freedom* and *Freedom from Corruption* and particularly bad in *Business Freedom, Financial Freedom* and *Investment Freedom*.

Table 12 Ranking in Freedom

Fiscal Freedom	Freedom from Corruption	Labor Freedom	Property Rights
1	31	35	52
Trade Freedom	**Business Freedom**	**Financial Freedom**	**Investment Freedom**
57	83	99	123

Source: Heritage Foundation (2012)

Also according to the Global Competitiveness Index, the UAE performs considerably well. Together with Bahrain, both are ranked of being a diversified innovation driven economy (contrary to Qatar). With respect to the *Basic Requirements*, the UAE does very well (although the relevant sub index for investor protection in only ranked 100th) on rank 10. The *Efficiency Enhancing* category is ranked 25 and mainly curbed by bad results in *Quantity of Education* and *Efficient Use of Talent* (woman participation), as well as *Trustworthiness and Confidence* (legal protection) and *Market Size*. The third category of *Innovation and Sophistication Factors* is ranked 27 and is lacking in advanced R&D.

Overall, the rankings seem to speak the same language. Although the UAE performs better in terms of FDI attraction relative to the GDP over the past decade, there are still severe drawbacks in some categories. They will have to be addressed in the future if the UAE wants to continue the path taken and wants to close the gap between potential and performance. Especially categories such as *Investor Protection*, *Financial Freedom* and *Credit Access* as well as *General Legal Ease* and *Legal Independence* seem to be major deterrents to investments in the UAE.

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