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Economic Analysis of the Sources and Trends of Foreign Direct Investment in Egypt And the World During the Period from 1992 till 2005

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Abstract: Foreign direct investments are considered the primary source of foreign funding and a substitute for foreign debts and the consequences they resulted in, notably the debt crisis in the early 1980s which showed the dangerousness of high dependence on foreign loans, something which led to confusion in international financial system. Most countries of the world, including Egypt, depended on foreign direct investments to finance development as they have positive effects on the economies of these countries, such as the transfer of technology, the creation of more job opportunities, the opening new markets for exports, the increase in the State's resources arising from the taxes imposed on the profits made by investment companies and working to increase domestic income and bridge the gap of funding needs. Foreign direct investments are also considered one of the best and most appropriate sources of funding for the circumstances of developing countries, including Egypt, provided that there should be a climate that attracts investment at the legislative, economic, political and administrative levels, in order to reinforce international competitiveness under the new world economic system. Despite the positive strides Egypt has taken in implementing the economic reform program, its share in these investments is still limited and does not fit with the capabilities and magnitude of Egyptian economy.

Key words: Foreign investments, relative importance, sectorial distribution of foreign investments, challenges and influences, macro economic indicators.

INTRODUCTION

Since the 1980s private funds have begun to flow in the form of direct and inforeign direct investments replacing traditional funding sources and public subsidies such as grants and loans from official sources and loans from commercial banks. The debt crisis which appeared in the early 1980s has brought the seriousness and limitedness of great dependence on foreign loans to the surface, as it hindered development in developing countries and had profound effects on the available funding sources of these countries. This crisis has brought about a great shake in international financial system as it endangered international commercial banks to the extent that they became bankrupt. As a result, creditor advanced countries abstained from providing new loans for developing countries and even if they agreed to lend them, they did so within modest limits and within the framework of indebted countries' commitment to carry out economic reform programs under the supervision of the International Monetary Fund and the World Bank. In addition, the budget deficit in most industrial countries restricted the dual funding sources of developing countries (Joachim, Karl, 1998). The only thing that developing countries could do was to resort to gradual financing in order to attract direct and inforeign direct investments as a substitute for foreign debts. These investments are now the main source of foreign funding from developed countries and developing ones.

Foreign direct investment is the foreign investor's ownership of part or all the investments in a certain project, besides his/her participation with the national investor in managing the project in case of joint venture, or his/her entire control over management and organization in case of wholly-owned projects. In addition, the foreign investor transfers an amount of financial and technological resources and technical expertise in different fields to the countries hosting the investments. On the other hand, indirect investment means foreigners' dealings and transactions in the stock market, whether in the issue market (primary market) or the circulation market (secondary market) and this topic is beyond the scope of the present research. The presence of these investments in the hosting countries depends on the prevailing political, economic and legislative atmosphere. The world multination corporations are

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the main feature of these investments which are based on considerations of profit, market size and the policy of the country hosting the investment (Milberg, 1999and Khattab *et al.*, 2006).

Among the advantages of foreign direct investments for hosting countries are the transfer of technology, improvement of the efficiency of using resources, the creation of more job opportunities and the opening of new markets for exports. In addition, these investments increase the State's revenues from profit taxes after the termination of the tax-exemption period and replace imports through producing goods which suit domestic markets. Among the disadvantages of these investments are the reinforcement of the monopoly of domestic markets and indirect submission to the pressures of foreign countries through these companies, something which leads to the relative decrease in the economic and political independence of hosting countries. Added to this are the direct negative effects on the payment balance of the hosting country in the short run because of the increase in imports of the intermediate goods and services of the activities of these companies and their transfer of profits and wages to foreign people working for these companies abroad. Finally, these companies do not observe the prevailing values, customs and traditions of hosting countries (Abu Qahf, 1998). Therefore, all countries hosting foreign direct investments, whether developed or developing, cannot get all the advantages of foreign investments without incurring some burdens. The recent years have witnessed a continuous increase in foreign direct investments all over the world as a main phenomenon of financial and economic globalization and the changes in the new world economic system, something which affected the policies of developing countries, including Egypt, in order to prepare the appropriate climate to attract these investments and make use of them to achieve the desired economic development. Despite the importance of cash flows for the economic development of developing countries, they played an important part in bringing about financial crises, especially the financial crisis of Mexico in 1994 and that of South-East Asia in 1997. This confirms that the countries which are greatly indulged in international stock markets are more vulnerable to financial crises (De Mello, 1997 Hashad, 1998).

Significance of the Present Research:

The importance of foreign direct investments in Egypt appears through their role in increasing local savings and meeting the funding needs of developmental projects arising from reduced saving rate which cannot meet the needs of investment required to carry out the developmental plan. Foreign direct investment provides the resources that are not available as well as the technological expertise, transfers advanced technology to Egypt and creates more job opportunities. It is also considered one of the best and most appropriate sources of funding for the circumstances of developing countries, including Egypt, provided that there should be a climate that attracts investment at the legislative, economic, political and administrative levels, something which will lead to the diversity of the productive base and export structure and reinforce international competitiveness under the new world economic system.

Research Problem:

Despite the positive strides the Arab countries, including Egypt, have taken since the early 1990s in implementing the economic reform programs, signing the GATS, developing local legislations to attract foreign investment and developing the banking sector, their share in these investments is still limited and does not fit with the capabilities and magnitude of the economies of the Arab region, including Egypt. The contribution of foreign direct investment in the gross national product of Egypt in 2003/2004 was about 9.8% and Egypt's share in foreign direct investments directed to developing countries in 2005 was about 1.8%, compared with about 0.14% in 2003, which is a very small share that does not fit with the economic policies adopted since the 1990s or with the magnitude and capabilities of Egyptian economy as regards attracting foreign investment (Kenworthy, James, 1997 and National Bank of Egypt, 2004). In addition, foreign direct investments concentrate on particular sectors such as industry and free zones and neglect other sectors despite the ability of Egyptian economy to be diversified, increase the contribution of the private sector in economic activity and make a change in the nature of the funding needs required for the developmental process. Arab countries got only about 2.5% of the total foreign cash flowing into developing countries and about 1% of foreign direct investments, although Arab countries contribute about 2% of the gross world product and about 8% of the gross product of developing countries (UNCTAD, 2000 and Saleh, and Bulbul, 2001).

Research Objective:

The present research aims at investigating the phenomenon of foreign direct investments through identifying the directions of inward foreign direct investment flows and foreign direct investment ouflows all over the world,

the relative importance of foreign direct investment flows and the regional distribution of investment flows, in addition to the positive and negative factors affecting investment flows. The present research also studies this phenomenon in Egypt since the initiation of the implementation of the economic reform program till 2005 in order to show the development which occurred in the size of these flows and the reasons why they fluctuated from time to time and also to show the relative importance of foreign direct investments for the gross national product in Egypt to identify the position of Egypt in competitiveness among Arab countries and the distribution of these foreign investments among the economic sectors in Egypt. Finally, the present research aims at investigating the most important local, regional and international challenges and difficulties facing foreign investment flow into Egypt and how to cope with and overcome them through making some recommendations and suggestions for attracting more direct investments in the future.

Research Method:

To analyze and study the phenomenon under study, the researcher used the descriptive and quantitative method. Data was manipulated using percentages and tabular comparisons. The researcher made use of UNCTAD, the reports of the Central Bank of Egypt, the National Bank of Egypt and the Central Agency for Public Mobilization and Statistics, the data given by the General Authority for Investment in Egypt and the statistics released by the Egyptian Ministry of Foreign Trade and Industry and the Ministry of Planning in Egypt. In addition, the researcher also made use of reference books and scientific periodicals relevant the topic of the present research.

Research Plan:

The present research is composed of four sections in addition to the introduction and the results:

Section 1: The directions of inward foreign direct investment flows and foreign direct investment outflows all over the world.
Section 2: Regional distribution of foreign direct investment flows all over the world.
Section 3: Foreign direct investment in Egypt.
Section 4: The challenges facing foreign direct investment flow in Egypt.
Section 5: Research results and recommendations.

Section 1: the Directions of Inward Foreign Direct Investment Flows and Foreign Direct Investment Outflows Worldwide:

First- The Directions of Inward Foreign Direct Investments Worldwide:

The data shown in table (1) indicates that the inward foreign direct investment witnessed a remarkable increase during the period 1992-2000. These flows increased from 311 billion dollars during 1992-1997 to about 1388 billion dollars in 2000. After the 11th September events in 2001, foreign direct investment flows decreased remarkably to 817.6, 678.8 and 560 billion dollars (i.e., by 41%, 17% and 17.5%) in 2001, 2002 and 2003, respectively. This could mainly be attributed to the continuous decrease in foreign direct investment inward flows into developed countries which decreased from 1108 billion dollars in 2000 to 571.5, 490 and 366.6 billion dollars (i.e., by 48.2%, 14.2% and 25.1%) in 2001, 2002 and 2003, respectively. By early 2004 investment flows increased to 613.4 billion dollars (i.e., by 9.5%), then to 736.3 billion dollars (i.e., by 20%) in 2005.

Table 1: Development of foreign direct investment in the world during the period from 1992 till 2005 (in $1000000)

	1992-1997	1998	1999	2000	2001	2002	2003	2004	2005
Total inward investments in the world	310.9	690.9	1086.8	1338	817.6	678.8	560	613.4	736.3
Developed countries	180.8	472.5	828.4	1108	571.5	490	366.6	408.8	513.6
Developing countries	118.6	194.1	231.9	252.5	219.7	157.6	172	181.2	196
Central and East Europe	11.5	24.3	26.5	27.5	26.4	31.2	21.4	23.4	26.7
Total investment outflows in the world	328.3	687.2	1092.3	1186.8	721.5	596.5	612.2	587.2	604.8
Developed countries	275.7	631.5	1014.3	1083.9	658.1	547.6	569.6	539.3	549.7
Developing countries	51.4	53.4	75.5	98.9	60	44	35.6	41.7	47.2
Central and East Europe	1.2	2.3	2.5	4	3.5	4.9	7	6.2	7.9

Source: - UNCTAD, "World Investment Report," New York and Geneva, 2004.
- General Authority for Investment, Annual Report, Annual Investment Statement, Different Issues.

The decrease in foreign direct investment was not the same in all areas and economic sectors, as developed countries were the most affected countries and inward investments in Central and East Europe decreased to 26.7 billion dollars in 2005 compared with 31.2 billion dollars in 2002. In contrast, developing countries witnessed an increase in foreign investment flows which reached 196 billion dollars in 2005 compared with 157.6 billion dollars in 2002, with an increase of 24.3%.

As for the economic sectors to which foreign direct investment was directed, the sector that was most affected was the transformational industry sector whose share decreased by 45%, while foreign direct investment increased by 70% for the primary material sector. The service sector still takes hold of the highest proportion of foreign investments.

The most important countries to which foreign investments were directed were Luxembourg and Belgium (125 billion dollars), China (52.7 billion dollars), France (51.5 billion dollars), Germany (38 billion dollars) and finally the United States of America (30 billion dollars)(Gheng, L. and Kwan, Y.K., 2000and Abdel-Moula, E., 2003).

Among the most important reasons for the decreased inward foreign direct investments are the following (Central Bank of Egypt, 2005):

- The decrease of growth rates at the international level from 4.2% in 2000 to 3% in 2005, in addition to the economic problems from which developed countries suffer, especially the decreased deficit in American payment balance, declining saving rates, the economic stagnation in Japan for a long time, declining development rate in EU countries.
- The retrogression of the execution of privatization programs in developing economies, especially in some countries of East Europe and Latin America and this had its negative effects on foreign direct investment flow.
- The increase in the movement of debt payment among companies in developed countries, notably the United States of America and the European Union.
- The retrogression of the profits of multinational companies which witnessed high profit rates which amounted to 7% on the average up to 2000, then regressed to 2% in 2005. This had its negative effects on the funding sources required to increase foreign direct investment flow.

Second- The Directions of Foreign Direct Investment Outflows Worldwide:

The data in table (1) indicates that foreign direct investment outflows have witnessed a remarkable decrease since 2001 and after the September 11th events. In 2000 they reached about 1186.8 billion dollars, then they decreased to about 721.5 billion dollars by a decrease rate of 39.2% in 2001. They further decreased to about 604.8 billion dollars in 2005 compared with 587.2 billion dollars in 2004. The turnover of foreign direct investment outflows is concentrated in developed countries as their share in these investments in 2005 was 549.7 billion dollars with a percentage of 90.8% while the share of developing countries in these investments was 47.2 billion dollars with a percentage of 7.8%. Finally come the countries of Central and Eastern Asia with a share of 7.9 billion dollars with a percentage of 1.3% of the total foreign direct investment outflows. In addition, the share of some developing countries, if measured as a percentage of total fixed capital, is considered greater than the share of some developed countries, such as Singapore, Hong Kong and Taiwan, in which the percentage reached 36.3%, 28.2% and 10.5%, respectively during the period from 2003 till 2005, while the percentage in the United States, Germany and Japan was 6.6%, 4.1% and 3.2%, respectively as an annual average during that same period. The table also shows that a large part of investment flows goes from some developing countries to other developing countries, as these flows grow among developing countries faster than the flows between developed and developing countries. However, the share of developed countries still constitutes more than 90% of foreign direct investments outflowing abroad, whether to developing or developed countries(UNCTAD, 2005 and Hashad, 2000).

Third- The Relative Importance of Foreign Direct Investment Flows at the International Level:

The data in table (2) indicates that the percentage of the contribution of developed countries in the total inward investment flows at the international level during the period from 1992 till 1997 was 58.1%, then it increased to 76.2% in 1999. Their contribution in 2000 was 79.8%, then it decreased to 69.8% in 2001 as a result of September 11th events and their consequences. After that it continued to decrease until it reached 66.6% in 2004. Then it slightly decreased until it stopped at 69.7% in 2005. The percentage of the contribution of developing countries in the total inward investment flows reached its highest in 2003 (about 30.7%). Then it decreased to 26.6% in 2005 compared with 38.1% during the period from 1992 till 1997. The maximum contribution of Central and East Europe was in 2002 as it reached about 4.5%, then it decreased to 3.6% in 2005 compared with 3.7% during the period from 1992 till 1997.

Table 2: Relative importance of foreign direct investment flows in the world during the period from 1992 till 2005 (%).

	1992-1997	1998	1999	2000	2001	2002	2003	2004	2005
Total inward investments in the world	100	100	100	100	100	100	100	100	100
Developed countries	58.1	68.3	67.2	79.8	69.8	72.1	65.4	66.6	69.7
Developing countries	38.1	28	21.3	18.1	26.8	23.2	30.7	29.5	26.6
Central and East Europe	3.7	0.3	2.4	0.1	3.2	4.5	3.8	3.8	3.6
Other	0.1	3.6	0.1	2.0	0.2	0.2	0.1	0.1	0.1
Total out flowing investments in the world	100	100	100	100	100	100	100	100	100
Developed countries	84	91.9	92.8	91.3	91.2	91.8	93	91.8	90.8
Developing countries	15.6	7.8	7	8.3	8.3	7.3	5.8	7.1	7.8
Central and East Europe	0.4	0.3	0.2	0.4	0.5	0.9	1.2	1.1	1.4

Source: - According to the researcher's knowledge from table (1).

As for the percentage of the contribution of developed countries in the total investment outflows at the international level, it constituted over 90% during the period under study (1998-2005) compared with about 84% during the period from 1992 till 1997. This confirms the fact that developed countries had the greatest share in inward investments and investment outflows. On the other hand, developing countries had only a limited percentage of investment outflowss, which reached its maximum (8.3%) before 2001, then decreased to 7.8% in 2005 as a result of the events that took place after September 11th. Naturally, the countries of Central and East Europe had only a limited percentage which reached its maximum (1.3%) in 2005 compared with less than 0.5% before 2001. This increase is attributed to the arrangements for including East European countries in the European Union and the direction of more investments of the EU countries to these countries.

Besides, the period from 2003 onward witnessed great developments related to changing the legislations, laws and systems regarding foreign direct investment. 86 bilateral investment agreements were made so that the total number of bilateral agreements reached 2265 agreements, in addition to concluding 60 agreement to prevent dual taxation so that the total number of agreements made to prevent dual taxation reached 2316 agreements (National Bank of Egypt, 2004).

UNCTAD reports from 1990 till 2005 indicate that foreign direct capital grows rapidly and at a higher rate than international trade which had the basis of international economic relations until the early 1990s. The reciprocal and inverse effect between investment and trade came to affect the economic growth and prosperity of developing and developed countries alike and in an unprecedented manner, especially in developing countries. UNCTAD reports indicate that the year 2005 witnessed a 25.6% increase in investment flows, especially in developed countries compared with the average during the period from 1992 till 1997. One of the causes and outcomes of this phenomenon is the growing merging of multinational ventures and companies. Reports indicate that the biggest ten multinational companies are in developed countries and their overseas investments amount to 1.4 trillion dollars.

Section 2: Regional Distribution of Foreign Direct Investment Flows All over the World

First- Regional Distribution of Inward Foreign Direct Investments:

The data shown in table (3) indicates that the total inward foreign direct investment worldwide was 736.3 billion dollars in 2005 compared with 613.4 billion dollars in 2004 with a 20% increase. Inward investment flows into developed countries decreased to 366.6 billion dollars in 2003 with a 25% decrease compared with 2002 as a result of the retrogression of economic growth and merging process and taking hold of multinational companies. During 2004/2005, inward investment flows into developed countries remarkably increased by 25.6% from 408.8 billion dollars to 513.6 billion dollars. Investment flows into the European Union in 2005 decreased by 18.1% and reached 306.2 billion dollars compared with about 374 billion dollars in 2002. Similarly, the United States was most affected by the decrease of investment flows from 62.9 billion dollars in 2002 to 33.4 billion dollars in 2005 with a 46.8% decrease due to the severe deficit in American balance of payments and the increase of payment of debts among companies. Japan also witnessed a 15.2% decrease in foreign direct investment flows from 9.2 billion dollars in 2002 to 7.8 billion dollars in 2005 due to the continuous stagnation from which Japanese economy has suffered for long.

As for developing countries, they witnessed a 24.3% increase in investment flows from 157.6 billion dollars in 2002 to 196 billion dollars in 2005. Inward foreign direct investment flows into Africa increased by 45% from 11.8 billion dollars in 2002 to 17.1 billion dollars in 2005. This may be attributed to the orientation towards investment in natural

Table 3: Regional distribution of inward foreign direct investment during the period from 1992 till 2005 (in $1000000)

	1992-1997	1998	1999	2000	2001	2002	2003	2004	2005
Developed countries	180.8	472.5	828.4	1108	571.5	489.9	366.6	408.8	513.6
Western Europe	100.8	263	500	697.4	368.8	380.2	310.2	318.3	320.5
European Union	95.8	249.9	479.4	671.4	357.4	374	295.2	303.7	306.2
Rest of Western Europe	5	13.1	20.7	26	11.4	6.2	15.1	14.6	14.3
Japan	1.2	3.2	12.7	8.3	6.2	9.2	6.3	7.6	7.8
The United States	60.3	174.4	283.4	314	159.5	62.9	29.8	31.2	33.4
Developing economies	118.6	194.1	231.9	252.5	219.7	157.6	172	181.2	196
Africa	5.9	9.1	11.6	8.7	19.6	11.8	15	16.7	17.1
Latin America & the Caribbean	38.2	82.5	107.4	97.5	88.1	51.4	49.7	51.2	52.3
Asia and the Pacific	74.5	102.4	112.9	146.2	112	94.5	107.3	113.3	126.6
Asia	74.1	102.2	112.9	146.2	112	94.5	107.3	109.4	112.3
West Asia	2.9	7.1	1	1.5	6.1	3.6	4.1	4.9	5.1
Central Asia	1.6	3	2.5	1.9	3.5	4.5	6.1	6.4	7.6
South and East Asia	69.6	92.1	109.1	142.7	102.2	86.3	96.9	97.8	99.4
The Pacific	0.4	0.2	0.3	0.1	0.1	0.1	0.2	0.3	0.2
Central and East Europe	11.5	24.3	26.5	27.5	26.4	31.2	21.4	23.4	26.7
The world	310.9	690.9	1086.8	1388	817.6	678.8	560	613.4	736.3

Source: - UNCTAD, World Investment Report," 2004.
- General Authority for Investment, Annual Report, Different Issues.

resources, the implementation of the privatization program, the increase in the number of mergers and taking hold of multinational companies. In addition, several African countries took more measures to attract foreign direct investments and finish the negotiations regarding the free trade agreements. America also extended the period of the Growth and Opportunity Law in Africa till 2015 and this law facilitates international production in Africa.

On the other hand, Latin America and the Caribbean witnessed a 3.3% decrease in direct investment flows from 51.4 billion dollars in 2002 to 49.7 billion dollars in 2003 due to the slowness of privatization programs and the poor economic growth in the European Union as the main source of investments in the area. During 2004/2005, the area witnessed a slight improvement in direct investment flows as they increased by 2.1% from 51.2 billion dollars in 2004 to 52.3 billion dollars in 2005.

As regards investment flows in Asia and the Pacific, they increased by 34% from 94.5 billion dollars in 2002 to 126.6 billion dollars in 2005. This may be attributed to the high economic growth in most of the economies of Asian countries, the improvement of investment environment, the activation of economic integration and the conclusion of bilateral investment agreements as well as dual taxation prevention agreements.

North-east Asian countries attracted about 72 billion dollars in the form of inward investments in 2005. China had the greatest share in these flows, thus taking the place of the United States which used to be the greatest recipient of foreign direct investment. Also inward investment flows into south-east Asia increased by 15% to 99.4 billion dollars, those going to Central Asia increased by 18.7% to 7.6 billion dollars and those going to West Asia increased by 4% to 5.1 billion dollars. The investment flows into the Pacific islands remained low at 0.2 billion dollars.

Foreign direct investment flows into Central and East Asia decreased by 14.4% from 31.2 billion dollars in 2002 to 26.7 billion dollars in 2005 due to the retrogression of investment flows into the Czech and Slovak which are among the greatest countries receiving direct investment in the area. Inward direct investment flows into the area are expected to increase, especially after eight countries from Central and East Europe joined the European Union and many of them created an attractive investment atmosphere, in addition to the reduction of taxes imposed on companies in order to attract local and foreign investors.

Second- Regional Distribution of Foreign Direct Investment Outflows:

The data in table (4) indicates that foreign direct investment outflows worldwide reached 604.8 billion dollars in 2005 compared with 587.2 billion dollars in 2004 with a 2.9% increase. In developed countries foreign direct investment outflows increased by 0.3% from 547.6 billion dollars in 2002 to 549.7 billion dollars in 2005 due to the increase in investment outflows from America by 32.7% from 115.3 billion dollars in 2002 to 153 billion dollars in 2005, followed by Luxembourg, France and England (24%, 22.5% and 19.7%, respectively).

Table 4: Regional distribution of foreign direct investment outflows during the period from 1992 till 2005 (in $1000000)

	1992-1997	1998	1999	2000	2001	2002	2003	2004	2005
Developed countries	275.7	631.5	1014.3	1083.9	658.1	654.7	569.6	539.3	549.7
Western Europe	161.7	436.5	763.9	859.4	447	364.5	350.3	356.6	360
European Union	146.9	415.4	724.3	806.2	429.2	351.2	337	342.1	345
Rest of Western Europe	14.8	21.2	39.6	53.3	17.9	13.3	13.3	14.5	15
Japan	20.2	24.2	22.7	31.6	38.3	32.3	28.8	29.2	30.4
The United States	77.6	131	209.4	142.6	124.9	115.3	151.9	141	153
Developing economies	51.4	53.4	75.5	98.9	59.9	44	35.6	41.7	47.2
Africa	2.2	2	2.6	1.3	-2.5	0.1	1.3	1.2	1.9
Latin America & the Caribbean	9.5	19.9	31.3	13.7	12	6	10.7	11.8	13.5
Asia and the Pacific	39.6	31.6	41.6	83.9	50.4	37.9	23.6	28.7	31.8
Asia	39.6	31.6	41.7	83.8	50.3	37.9	23.6	28.7	28.8
West Asia	0.5	-1	2.1	3.8	5.1	2.5	-0.7	2.3	2.1
Central Asia	-	0.2	0.4	-	0.1	0.8	0.8	0.7	0.8
South and East Asia	39	32.5	39.2	80	45.1	34.7	23.5	25.7	25.8
The Pacific	0.1	-0.1	-	0.1	0.1	-	-	-	0.1
Central and East Europe	1.2	2.3	2.5	4	3.5	4.9	7	6.2	7.9
The world	328.2	687.2	1092.3	1186.8	721.5	596.5	612.2	587.2	604.8

Source: - UNCTAD, World Investment Report," 2004.
General Authority for Investment, Annual Report, Annual Statistical Statement, Different Issues.

As for developing countries, foreign invest outflows decreased by 5.2% from 44 billion dollars in 2002 to 41.7 billion dollars in 2005 due the slowness of privatization programs, political and economic instability, the decrease in growth rates, the increase in inflation and unemployment rates and the high debts of some developing countries. In 2005 foreign invest outflows increased by 13.1% and amounted to 47.2 billion dollars due to the amendment of legislations in some countries. However, investment outflows from Africa increased by 5.8% and foreign direct investment outflows from Latin America and the Caribbean increased by 14.4% and amounted to 13.5 billion dollars in 2005 compared with 11.8 billion dollars in 2004. In Asia and the Pacific, investment outflows decreased by 16% in 2005 because investment outflows from South and East Asia decreased by 25.6% from 34.7 billion dollars in 2002 to 25.8 billion dollars in 2005, while the position remained the same in Central Asia and the Pacific. West Asia witnessed retrogression in investment outflows as they decreased by 16% from 2.5 billion dollars in 2002 to 2.1 billion dollars in 2005.

As for Central and East Europe, investment outflows increased by 61.2% from 4.9 billion dollars in 2002 to 7.9 billion dollars in 2005. Russia is considered one of the greatest investing countries because Russian companies seek for more overseas expansion. The above data shows that developed countries have the greatest share in both inward foreign direct investments and foreign direct investment outflows worldwide compared with developing countries. Accordingly, developed countries are considered the first host and recipient of foreign direct investments. This may be attributed to factors encouraging investment in developed countries compared with developing countries. Among these factors, for example, are the availability of political, economic and legislative stability, besides the availability of the infrastructure, skilled and trained laborers and modern technology.

Third- The Factors Affecting Foreign Investment Flow:

In addition to the foregoing, there are some positive and negative factors affecting foreign investment flow in all the countries of the world. These factors can be summed up through some relevant studies. These studies indicate that there is a negative relation between political and economic instability and foreign investment flow and that there is a positive relation between the increase in gross national product and foreign investment flow. These studies also indicate that the growth of local production and economic openness which is measured by the share of foreign trade in gross national product, the stability of exchange rates, the decrease in inflation rate and foreign debts, the high local investment rate, all these contribute positively to foreign capital flow (Borensztein, *et al*., 1998 and Basha, *et al*., 1997). Some may see that the increase in public investments, which contribute to the development of the infrastructure, may compete with private investments, thus restricting and curbing foreign investment flows. We do not agree with this view because public investments play a great role in attracting foreign investments, as the countries which have an advanced infrastructure in all service and production fields are abler

to attract investments than other countries which do not. This accounts for directing the majority of international investments to the economies of developed countries(Suleiman, 2000).

Previous studies also point out the influence of the population on foreign investment flow, as the increase of the population by 1% in hosting countries leads to an increase in foreign investment by more than 1%. Moreover, the increase in gross national product by 1% in hosting countries leads to an increase in foreign investment by 1.5%. This accounts for the ability of big and rich markets to attract investments at grater rates compared with small and poor countries. Besides, foreign direct investment is influenced by the policy of regional and international axes, as developed countries' investments are directed to other developed countries with which they have close cultural, social, economic and scientific relations, as is the case with American investments which are directed to North America and Europe and also the Japanese investments which are concentrated in East Asia and America, while the German investments are directed according to regional grounds in Europe and some other regions (Schneider and Frey, 2002 and Hufbauer and Lakwalla, 1994).

Section 3: Foreign Direct Investment in Egypt:

First- Total Economic Indicators of the Investment Climate in Egypt:

The period from the 1990s till 2005 in Egypt was characterized by great efforts exerted to achieve overall economic stability and carry out the structural reforms related to the economic reform program. Table (5) shows some economic indicators which are considered as evidence for the success of the efforts of that period, as the economic growth rate increased from 4.2% in 1992/1993 to 5.1% in 2004/2005, thus surpassing the population growth rate which amounted to 4.2% during the same year. Inflation rate also decreased from 11.1% in 1992/1993 to 3.1% in 2004/2005. In addition, the State's budget deficiency in 2004/2005 decreased to about 5.9% of the gross national product, compared with about 8.3% in 1992/1993. Also, local exchange and interest rates became stable and official reserves of about 19.3 billion dollars were formed in 2004/2005, compared with about 14 billion dollars in 1992/1993. The table also indicates that unemployment rate decreased from 10.5% in 1992/1993 to 9.3% in 2004/2005. Also, the ratio of foreign debts to the gross national product decreased from 64.5% in 1992/1993 to 38.7% in 2004/2005 due to the dropping out of about 50% of Egypt's foreign debts after Paris Club agreed to drop out the last section of these doubts estimated at about 4.2 billion dollars. The ratio of foreign debts to exports decreased from 17.4% in 1992/1993 to 10.1% in 2004/2005. In addition, great strides were taken towards privatization and the provision of more guarantees and facilities for foreign investors, especially in new areas, so as to bring about balanced development in the long run.

Table 5: Some economic indicators of the investment climate in Egypt during the period from 1992/1993 till 2004/2005

Year	Inflation Rate%	Economic Growth Rate%	Deficiency or Surplus in the Budget in L.E. 1000000	Local Exchange Rate vis-à-vis the Dollar	% Foreign Debt to the national product	Official Reserve in One Billion Dollars	Foreign Debt in One Billion Dollars	%Foreign Debt Service of Exports	Official Reserve Coverage of Imports In Months	Employment Rate%
1992/1993	11.1	4.2	5520.0	3.0	64.5	14.0	30.3	17.4	16.9	10.5
1993/1994	9.0	4.0	3697.0	2.90	59.9	17.0	30.9	15.1	18.8	9.8
1994/1995	9.4	4.6	2537.0	2.95	54.8	17.9	33.0	13.8	16.4	9.6
1995/1996	7.3	5.0	2996.0	2.95	45.9	18.5	31.1	13.4	15.7	9.2
1996/1997	6.2	5.3	2300.0	2.95	38.0	20.3	28.8	10.7	15.7	8.8
1997/1998	3.8	5.7	2820.0	3.38	34.0	20.1	28.1	9.3	14.3	8.5
1998/1999	3.8	6.1	12730.0	3.38	31.7	18.1	28.2	9.5	12.8	8.2
1999/2000	3.8	5.9	12300.0	3.44	28.4	15.1	27.8	9.6	10.2	7.9
2000/2001	2.8	3.4	16000.0	3.87	27.0	14.2	26.6	8.7	10.4	7.6
2001/2002	2.4	3.2	9623.0	4.52	33.7	14.1	28.7	12.8	11.6	9.0
2002/2003	3.2	3.2	9946.0	6.03	41.5	14.8	28.7	12.1	12.0	9.9
2003/2004	4.9	4.3	28670.0	6.19	37.8	14.8	29.8	10.8	9.9	9.9
2004/2005	3.1	5.1	49802.0	5.78	38.7	19.3	28.9	10.1	9.8	9.3

Source: - National Bank, Economic Bulletin, Different Issues.
Ministry of Planning – Economic and Social Development Plan.
Central Bank of Egypt – Annual Report – Different Issues.

One of the results of this stage was the achievement of a surplus of about 4.5 billion dollars in the balance of payments in 2005 with a percentage of 5% of the gross national product. The contribution of the private sector in the gross national income also increased to 66.1% in 2005, compared with 65.9% in 2004. The Egyptian stock market grew during the fiscal year 2004/2005 as a result of economic freedom and the new reforms adopted by the State in July, 2004. Despite the developments that occurred in prices and the returns in the Egyptian stock market, two of the most important main indicators were the movement and value of circulation. These two indicators witnessed great growth and the circulation value amounted to 83.5 billion dollars in 2004/2005, compared with the circulation value in 2003/2003 which was 32.4 billion dollars. This means that the circulation value increased by about 157.7%. Foreign purchases also amounted to 19.8 billion dollars in 2004/2005, compared with 12.3 billion dollars in 2003/2004. The circulation size also reached 2293.5 million stocks in 2004/2005, compared with about 1969.9 million stocks in 2003/2004. This indicates the great activity of the stock market in 2004/2005, compared with 2003/2004 (Al-Ahram Economics,2005).

The International J.P. Morgan Investment Bank, in its report issued in May 2006, praised the positive developments which Egyptian economy is witnessing and which led to a great increase in the net foreign direct investment flowing into Egypt, as it increased from 0.407 billion dollars in 2003/2004 to 3.9 billion dollars in 2005/2006. The report expected that foreign investment would increase to 5 billion dollars by the end of 2006. This may be attributed to the diversity of Egyptian economy and its capacity to absorb investments in many economic sectors. The report cited positive developments of the indicators of total economy and structural reform. Among these developments are the following:

- The stability of the exchange rate of the Egyptian pound in the face of foreign currencies. One of the reasons for this stability is the great foreign investment flows which Egyptian economy is witnessing and which are expected to continue in the next stage.
- The economic growth rate rose to 6% in mid-2006 after it was 5.1% in 2005. This ascending direction is expected to continue during the next fiscal year ranging between 6.5% and 6.9% (2006/2007).
- The positive developments which the banking sector is witnessing, especially with banking restructuring program whose implementation is underway and which aims at supporting banks operating in Egypt and increasing their ability to grant credit and cope with market risks.
- The surplus achieved in the balance of current transactions as a result of the increase in Egyptian exports of petroleum and natural gas in addition to the increase in tourism revenues and current transfers.

Second- The Development of the Size of Foreign Investment Flows in Egypt:

The first period since the early 1990s witnessed a noticeable decline in foreign direct investment flows into Egypt, as they reached about 700 million dollars and 300 million dollars, respectively. This may be attributed to the events which the Middle East area witnessed because of the second Gulf crisis in addition to the rise in inflation and unemployment rates and the stagnation which occurred with the start of implementing the economic reform program in Egypt (Mahran, 2000 and National Bank of Egypt, 2004). Since 1992 foreign investment flow has begun to increase, as data in table (6) indicates that the total foreign investment flowing into Egypt reached about 500 million dollars in 1992 and then it rose to 1.53 billion dollars in 1995. This increase may be attributed to the success of the first stage of the economic reform program in decreasing inflation rate from 11.1% in 1992/1993 to 7.3% in 1995/1996 and the reduction of deficiency in the balance of payment, besides the increase in the reserves of the Central Bank of Egypt, from 14 billion dollars in 1992/1993 to 18.5 billion dollars in 1995/1996. Since 1996 the size of foreign direct investment flow into Egypt has fluctuated as it reached about 630 million dollars then it rose to 890 million dollars and continued rising until it reached 1.1 billion dollars in 1998/1999 and finally it rose in 2000 by 12.7%. At the beginning of 2001 and as a result of September 11th events, foreign direct investment flow into Egypt decreased remarkably by 59% as it reached 510 million dollars compared with the year 2000. Then it increased by 27.4% and reached 650 million dollars in 2002. After that, it retrogressed in 2003 and reached 240 million dollars then it increased to 400 million dollars in 2004. Thus,

Egypt's rank among the ten African countries attracting foreign investments retrogressed fro the second rank after Nigeria during the period 1991-1996 and from the second rank after Angola during the period 1998/1999 to the eighth rank in 2002.This ranking depends on the performance indicator determined by calculating the ratio of a country's share in the total foreign direct investment flows in all countries of the world during a certain period of time to its share in the total gross world product of the countries of the world during the same period of time. According to this indicator, Belgium and Luxembourg came first and Egypt came 110th during 1999/2000, given that it came 14th during the period 1988-1990 according to this indicator (UNCTAD, 2003).

This low rank of Egypt was reflected on Egypt's share in foreign direct investment. Egypt's share in inward foreign direct investment flows into the Arab countries, the group of North African countries and developing countries decreased, as Egypt's contribution in investment flows into the three groups in 1998 was about 41.6%, 38% and 0.6%, respectively, then it decreased to about 6.83%, 4.2% and 0.14%, respectively, as shown in table (6). In 2005 the net foreign direct investment flows into Egypt reached 3.9 billion dollars. After that there occurred a great development in Egypt's capacity to attract investments compared with what was achieved during the 1990s. The decrease rate was about 214.5% compared with the year 2000. Egypt can double this value if it removes all the barriers facing foreign investment in it. As a result of this significant increase, Egypt's contribution in the three groups (Arab countries – North Africa – developing countries) in 2005 increased to about 63.5%, 79.5% and 1.8%, respectively. The intense fluctuation of foreign direct investment flows into Egypt during the period 2000-2004 may be attributed to the amendments of investment laws and the deterioration of conditions in the Middle East, in addition to September 11th events, the American war against Iraq and terrorist attacks on foreign establishments in the area.

Table 6: Egypt's share in foreign direct investments compared with developing countries, Arab countries and North African countries during the period 1992-2005 (in a billion dollars).

Year	Egypt	Arab Countries	North Africa	Developing Countries	% of Egypt to Arab Countries	% of Egypt to North Africa	% of Egypt to Developing Countries
1992	0.50	2.54	2.8	50.4	19.6	17.8	1.0
1993	0.50	4.15	3.8	73.1	12.0	13.1	0.7
1994	1.30	3.81	3.7	87.0	34.0	35.1	1.5
1995	1.53	3.15	2.1	99.7	48.5	72.8	1.5
1996	0.63	2.51	4.6	147.8	25.0	13.7	0.42
1997	0.89	4.97	4.3	128.0	18.0	20.6	0.69
1998	1.1	2.64	2.9	194.1	41.6	38	0.6
1999	1.1	2.71	3.0	231.9	40.5	37	0.5
2000	1.24	4.92	2.9	252.5	25.2	43	0.5
2001	0.51	4.93	5.5	219.7	10.3	9.3	0.23
2002	0.65	2.63	3.6	157.6	24.7	18	0.4
2003	0.24	3.51	5.7	172.0	6.83	4.2	0.14
2004	0.40	2.86	4.6	193.2	13.9	8.6	0.20
2005	3.9	6.14	4.9	212.4	63.5	79.5	1.8

Source: Calculated by the researcher from:
- UNCTAD, World Investment Report, Different Issues.
- National Bank of Egypt, Economic Bulletin, Different Issues.
- Monthly Statistical Bulletin, Central Bank of Egypt, March 2006.

Table 7: Development of Egypt's reserve of inward foreign direct investment flows and foreign direct investment outflows during the period 1990-2005 (the value is in a billion dollars).

Year	1990	1995	2000	2002	2003	2004	2005
Reserve of inward foreign direct investment flows	11.0	14.7	19.6	20.7	21.0	24.9	27.8
Reserve of foreign direct investment outflows	0.16	0.35	0.66	0.7	0.72	0.76	0.81

Source: - UNCTAD, World Investment Report, New York and Geneva, 2004.
Monthly Statistical Bulletin, Central Bank of Egypt, March 2006.

Third- Development of Egypt's Accumulated Reserve of Foreign Direct Investments:

Table (7) indicates that the reserve of inward foreign investments in Egypt is greater than the reserve of foreign direct investment outflow. The reserve of inward investments rose from 11 billion dollars in 1990 to 14.7 billion dollars in 1995, then to 19.6 billion dollars in 2000. It rose to 20.7 billion dollars in 2002. Then it reached 24.9 billion dollars in 2004 and continued rising until it reached 27.8 billion dollars and the increase was by 89% and 11.6% compared with 1995 and 1994, respectively. This reserve constitutes about 9.8% of Egypt's gross national product.

As for Egypt's reserve of foreign investment outflows, it also tended to increase as it rose by 119% from 16 million dollars in 1990 to 35 million dollars in 1995. Then it increased by 85.5% and reached 66 million dollars in 2002. In 2003 it reached about 72 million dollars and then continued to increase until it reached 76 million dollars in 2004. After that it increased by 6.5% and reached 81 million dollars in 2005.

Fourth- Relative Importance of Foreign Direct Investment in Egypt Compared with Total Investments and Gross National Product:

Table (8) indicates that foreign direct investments in Egypt increased from 25 billion dollars in 1997/1998 to about 41.6 billion dollars in 2003/2004 with an increase rate of about 66.4%. The average of foreign direct investment flows in Egypt during the period from 1997/1998 till 2003/2004 was about 31.8 billion dollars (about 24% of the total investments in Egypt). The table also indicates the fluctuation of the relative importance of foreign direct investments between increasing and decreasing during the above-mentioned period as a result of the fluctuation of increase in foreign direct investment and total investments in Egypt during the above-mentioned period. The table also indicates that the average of the contribution of Arab countries in foreign direct investment in Egypt was about 15.2 billion dollars (47.8% of total foreign direct investments in Egypt), while the average of the contribution of non-Arab foreign countries in foreign direct investment in Egypt was about 16.6 billion dollars (about 52.2% of total foreign direct investments in Egypt) during the period from 1997/1998 till 2003/2004.The table also indicates that the relative importance of foreign direct investment for gross national product in terms of the cost of factors of production was about 9.8% in 2003/2004, i.e., about 3.2% greater than it was in 1997/1998. Relative importance reached 9.4% during the period from 1997/1998 till 2003/2004.

Table 8: The relative importance of foreign direct investment compared with both total investments and gross national product during the period from 1997/1998 till 2003/2004 (numbers are in billion pounds)

Year	97/98	98/99	99/2000	2000/2001	2001/2002	2002/2003	2003/2004	average
Total foreign direct investment in Egypt (1)	25	26.2	27.6	30.3	32.2	40	41.6	31.8
Total investments in Egypt (2)	92.8	106.3	119	133.1	142	164.2	169.4	132.4
Foreign direct investment to total investments%	27	24.6	23.2	22.8	22.5	24.4	24.6	24
Direct Arab investment	12	12.9	13.4	14	16	18.7	19.6	15.2
Direct Arab investment to foreign direct investment%	48	49.2	48.6	46.3	49.7	46.8	47.1	47.8
Investments from foreign countries	13	13.3	14.2	16.3	16.2	21.3	22	16.6
Investments from foreign countries to foreign direct investment	52	50.8	51.4	53.8	50.3	53.2	52.9	52.2
Gross national product calculated according to production factors	262	283	316.4	338.6	363.1	388.1	426	339.6
foreign direct investment to gross national product%	9.5	9.3	8.7	8.9	8.8	10.3	9.8	9.4

(1) Accumulative balances(2) The total share of Egyptians, Arabs & foreigners

Source: Data collected from and calculated according to:

The General Organization for Investment and Free Zones – the Sector of Information Systems and Decision Taking Support – the Annual Statistical Report – the Annual Report (different issues).

The Foreign Trade Ministry – Monthly Economic Report, October 2004.

Egyptian National Bank – the Economic Report (different issues).

In addition to the foregoing, foreign direct investment flows contributed to the process of fixed capital formation. Their contribution to the formation of fixed capital was high when the size of the flows was great, but their size decreased in recent years, the percentage of their contribution decreased. This percentage was 8.3& during the period 1991-1997, then it decreased to 5.4% during the period 1997-2000, then to 4.6% in 2002, then to 2.7% in 2003/2004 (UNCTAD, 2005).

It is worth mentioning that foreign direct capital flows into Egypt aim at either possessing a share in the capitals of existing projects or setting up new projects. Naturally, foreign capital flows aiming at possession (i.e., buying securities) do not result in an increase in the productivity of Egyptian economy as they lead to the transfer of its possession. The other type leads to an increase in productivity and, therefore, to creating new job opportunities. Looking at the possession share in Egypt, it was 738 million dollars in 1999, then it decreased to 528 million dollars in 2000. After that it increased to 660 million dollars in 2001, then it decreased to 335 million dollars in 2002. After that it severely decreased by 45% in 2003/2004 and reached 184 million dollars, compared with the year 2002 (World Bank, 2003). Although the possession value was high compared with previous years, the figures of foreign direct investment greatly decreased, thus indicating poor investment climate.

According to the statistics of the United Nations on international investments issued in 2005, the position of Egypt among the countries of the world that attract foreign investment has deteriorated to position 341. The report issued by the World Economic Forum in 2005 on [investment] competitive in the Arab world proves such deterioration. The report is based on three indicators closely related to attracting foreign investment. These are: technology, public institutions and economic environment. The data in table (9) shows that only few from among 12 Arab countries achieved good competitive positions. The United Arab Emirates comes in the first position, followed by Bahrain in the second. As for Egypt, it comes in the ninth position, followed by Lebanon and finally Yemen. The report attributes the deteriorated position of Egypt to many things, the most important of which is the shortages it suffers on the level of economy and the humble level as far as technology is concerned. This shows that Egypt still needs profound reforms in many fields.

Fifth: Distribution of Foreign Direct Investment in Egypt according to Economic Sectors:

Table (10) indicates the relative importance of foreign direct investment in the different economic sectors in Egypt. It shows that the commodity sectors, namely, agriculture, industry and constructions, got about 12.88 billion pounds, that is 40.5% of the total investment flow in the average period of 1997/1998-2003/2004, which reached 31.8 billion pounds. The industry sector was the first among the commodity sectors and the economic sectors that attract foreign investment in Egypt. The percentage of foreign investments in this sector was 31.5% of the total foreign direct investment in the above-mentioned period. The share of the agricultural sector deteriorated as it achieved only 0.8 billion pounds that equals 2.5% of the average total of foreign direct investment in Egypt in the above-mentioned period. The reason behind such a low share is attributed to the long cycle of capital in the agriculture sector, while foreign investors want quick profit – which can be achieved in other sectors. The free zones sector follows that of industry as it won 7.17 billion pounds that is 22.5% of the total foreign direct investments in Egypt in the average period of 1997/1998 – 2003/2004. Then comes the services and funding sector and the tourism sector. These two sectors won 6.92 & 4.84 billion pounds that is 21.8% & 15.2%, respectively, of the total foreign direct investment in Egypt in the average period of 1997/1998-2003/2004.

Table 9: The general order of the competitive positions of some Arab countries in 2005.

		Positions according to sub-components		
Country	General Evaluation	Technology indicator	Public institutions indicator	Economic environment indicator
Qatar	1	2	1	1
Emirates	2	1	3	2
Bahrain	3	3	4	4
Oman	4	9	2	3
Jordan	5	4	5	7
Tunisia	6	5	6	6
Saudi Arabia	7	6	8	5
Morocco	8	10	7	9
Egypt	9	7	10	10
Algeria	10	12	9	8
Lebanon	11	8	11	12
Yemen	12	11	12	11

Source: Al-Ahram Economics, issue 1925, November 2005

Table 10: The relative importance of the foreign direct investment in the different sectors in Egypt during the period of 1997/1998 – 2003/2004.

	97/98		98/99		99/2000		2000/2001		2001/2002		2002/2003		2003/2004		average	
Economics Sectors	value	%	value	%	value	%	value	%	value	%	value	%	value	%	value	%
agriculture	0.7	2.8	0.6	2.3	0.7	2.6	0.8	3	0.9	3	0.9	2.2	1.02	2.4	0.8	2.5
Industry	7.9	31.6	7.3	28	8.4	30.4	10	33	10.6	33	12.3	31	13.6	32.8	10.1	31.5
Constructions	1.3	5.2	2	7.6	2.1	7.7	2	7	2.3	7	2.4	6.0	2.4	5.8	2.7	6.5
Tourism	3.4	13.6	4.3	16.4	4.7	17.2	5	17	5	16	5.7	14.3	5.8	14	4.84	15.2
Service & Finance	4.7	18.8	5.4	20.6	6.1	21.8	6.6	21	7.5	23	8.5	21	9.7	23.2	6.92	21.8
Free zones	7	28	6.6	25.1	5.6	20.3	5.9	19	5.7	18	10.3	25.5	6.07	21.8	7.17	22.5
Total (*)	25	100	26.2	100	27.6	100	30.2	100	32.0	100	40	100	41.6	100	31.81	100

(*) Accumulative balances

Source: collected and calculated from:

1- The General Organization for Investment and Free Zones – Information Systems and Decision Support Systems Sector – Annual Statistical Report –Annual Report (different issues).

2- Ministry of Foreign Trade – Monthly Economic Report, October 2004.

Section Four: Challenges and Difficulties Facing the Flow of Foreign Direct Investments to Egypt:

Despite the fact that Egypt has signed many international agreements to guarantee investments with different countries, both developing and developed, its share in the foreign direct investments has not increased. On the contrary, it decreased in compression to the share of other developing countries. In addition, if the amount of investments is compared with that of exemptions and incentives Egyptian investment laws allow, it will be clear that Egypt stands on equal footing with other developing countries in this concern, if not surpassing them. However, such exemptions and incentives have not succeeded in achieving its aim, which is increasing the amount of foreign investment in Egypt. This may be attributed to some international and regional challenges as follows (Mahran, 2000 and National Bank of Egypt, 2004):

(A) International and Regional Challenges: These include:

1. The great number of regional and international economic blocs, such as, the European Union, the Asian Coalition, the European Free Trade Organization, the NAFTA and the Economic Cooperation Forum for Asian and Pacific Countries. Worth mentioning is that such blocs aim at freeing trade and investments among its members, thus directing more investments to the less developed country-members, in comparison to the developing non-members, such as, Egypt.
2. The increase of the relative importance of the activities of multi-national companies, as well as that of international markets in the framework of the phenomenon of economic and financial globalization – which makes it necessary for the countries wishing to attract foreign direct investment, including Egypt) to create a appropriate conditions and climate to be integrated into world economy and to benefit from the activities of these companies, otherwise they will be outside the scope of interest of these foreign investment companies.
3. The high cost of the European technology provided for developing countries, including Egypt, especially after activating the role of the European Union and the fact that more countries have newly joined it.
4. The economic changes Eastern Europe and the former Soviet Union are going through and their consequent positive results, as they are now qualified to attract more foreign investments because of their wide markets, the low cost of labor and the high level of education and skill, something which will negatively affect investment flow to developing countries, including Egypt.
5. The results of the Uruguay multilateral trade negotiations in the framework of the World Trade Organization concerning the Multilateral Investment Agreement (MIA). The agreement aims at reducing the restrictions imposed on investment among countries, establishing a mechanism for solving investment problems and for protection against banning and any other arbitrary procedures. This is in addition to not imposing conditions regarding foreign investors' use of a limited percentage of the local component in the final product and not creating a balance between imports and exports, abiding by selling certain percentage of the production in the local market are concerned. The condition concerning local components is one of the challenges facing foreign

investment in Egypt.

6. The pressures the International Monetary Fund practices on developing countries, including Egypt, to activate and apply economic reform programs in the framework of the agreements signed with international economic institutions-which affects the flow of foreign investments in these countries, especially the invested Arabic capital in developed countries that is expected to return to the Arab region.
7. Propagating the idea of a Middle Eastern market in the framework of the new map of the Middle East. This is one of the great challenges facing Egypt and the Arab region as it has, in the long run, negative effects on Arab economies in general and the economy of Egypt in particular. If a Middle Eastern market is established, the share of Egypt in foreign direct investment will greatly decrease because the flow of investments will be directed to Israel and Turkey, as the economies of both of them are, on the one hand, qualified and suitable to attract investment and, on the other hand, open to western countries.
8. Egypt's signing of the protocol of the Qualified Industrialized Zones (QIZ) in December 2004. These zones are considered one of the forms of commercial preferences that the US practices to reintegrate Israel in the Middle East, especially in the Arab countries. According to the QIZ, the US allows the products of the member countries into the American market without any restrictions or customs and without specifying a maximum share. Also according to the protocol, Egypt's participation in the projects of the qualified zones is not obligatory, while that of Israel is – something which results in having most of the investments in these zones confined to Israeli, American and European participation. This shows that the protocol does not suit the international commitments of Egypt in the framework of the World Trade Organization because it gives Israel a legal preferential position, stipulating meeting the minimum limit (11.7%) of Israeli local component as production requirements according to the rules of the origin (Kenawy, E., 2006).
9. The terrorist attacks against the US in September 11th, as well as other attacks in other countries, including Egypt have negatively affected the flow of foreign direct investment to developing countries, including Egypt.
10. The increase of confusion in the Middle East, especially after the Israeli war against Hizbullah in South Lebanon and its political and economic repercussions in the region.
11. The Anglo-American war against Iraq and the division of the Arab countries between supports of this war and opponents to it – which negatively affects the flow of foreign investment to the region, including Egypt. Studies show that the total Arab balances invested abroad are about 800$ billion while the internal Arab investments do not exceed 365$ billion. In addition, the amount of investments of the Gulf countries in international markets is about 350$ billion. This is because investing abroad is the best substitute that meets their need for variation (Onyeiwu, 2000and Al-Tamimy, 1999). It is expected that most of these investments are related to the different kinds of shares and stocks. Governments may be more interested in investing their money in governmental stocks and treasury bonds because of the high level of security they enjoys and the fixed income they give. The question now is: how can the Arab countries regain all its money invested abroad? The answer depends on providing a suitable economic and political environment for foreign investment.
12. The latest statements of the Vatican Pope against Islam and Muslims, which have been condemned by all Islamic countries, may result in the retreat of foreign direct investments from some Islamic countries, including Egypt.
13. The regional and international tension concerning the Iranian nuclear program may negatively affect foreign investments in the region, including Egypt.

(B) Local Challenges: These include:

1. The bureaucracy and obstacles facing foreign direct investment: The report of the World Bank in 1995 shows that 30% of the time of project organizers in Egypt is wasted in solving problems related to regulations.
2. The low level of manpower and the insufficient experience and training needed for foreign direct investment.
3. The insufficient propaganda needed for attracting foreign investments in the framework of world competitive.
4. Making foreign direct investment confined to certain sectors that suit the priorities of the government, such as, oil and tourism while neglecting other sectors.

5. The lack of a clear investment map for the geographical areas that attract foreign investment to create balanced development.
6. Not preparing the infrastructure in a way that may attract foreign investment.
7. The diversity of legislation and the change of laws and investment concessions – which lead to instability in investment laws.
8. The instability of financial polices and the increase of governmental interference in specifying costs and wages.
9. The rise in custom duty and the complicated custom procedures in comparison to the custom duties in other countries that are more attractive to foreign investment.
10. The rise in the taxes which investment companies have to pay after the end of the grace period the investment law specifies– which directs foreign capital to other countries that enjoy more investment advantages.
11. The inaccuracy of the information related to investment areas in Egypt and the contradictions between the statistics on the strength of Egyptian economy. This is in addition to adopting firm and ineffective polices with foreign investors.
12. The weak and insufficient mechanism of solving investment problems and imposing obligations on capital transfer and rates of exchange.
13. The insufficient transparency of the laws and administrative procedures related to foreign direct investment in the framework of the the General Authority for Investment in Egypt.

Section Five: Results and Recommendations:

The study has reached some results and presents some recommendations related to foreign investment in Egypt, the most important of which are:

- The retrogression of the traditional role of the government as the main financer of development and the rise of the phenomenon of foreign direct investment to play a clear role in meeting the funding needs of the projects required for economic and social development.
- Foreign direct investments are considered the best and most suitable funding source for the conditions of developing countries, including Egypt, if compared with foreign interest-loans and their tiresome consequences that do not help the process of development.
- The low competitive position of Egypt held among some Arab countries in 2005, as it came in the ninth position, followed by Algeria, Lebanon and Yemen because of the deficiency it suffers from at general level of economy as well as its humble performance according to the technological indicator.
- The diversity of laws and legislations and the slow implementation of procedures from which investors suffer led to the instability and weakness of foreign investments.
- National and international events such as September 11th events, the incidents of London in 2005 and the terrorist attacks in Sharm El-Sheikh, Sinai and Al-Azhar in 2005 affected foreign direct and indirect investment in Egypt.
- The industry sector comes in the first place among the economic sectors attracting foreign investment in Egypt. Its share in total foreign investments is about 31.5%. The free zones sector comes in the second place with a share of 22.5%, followed by the service and funding sector with a share of 21.8%.
- Foreign direct investment all over the world decreased by 59.6% from 1388 billion dollars in 2000 to 560 billion dollars in 2003 because of September 11th events and their international and regional repercussions.
- Developed countries have about 93% of total investment outflows all over the world, followed by developing countries that have about 5.8% and finally East Europe which has about 1.2%.
- The amount of foreign direct investments in Egypt in 2005 was 3.9 billion dollars, while in 2003/2004 it was about 400 billion dollars.
- The share of Egypt in total foreign investments in the Arab countries was about 63.5% in 2005, while in 1992/1993 it was 19.6%.
- The share of Egypt in total foreign investments in North Africa was about 79.5% in 2005, while in 1992/1993 it was 17.8%.
- The share of Egypt in total foreign investments in developing countries was 1.8% in 2005, while in 1992/1993

it was 1%.

- The rate of economic growth in Egypt increased from 4.2% in 1992/1993 to 5.1% in 2005. Inflation rate decreased from 11.1% in 1992/1993 to 3.1% in 2005.
- The percentage of foreign debts in comparison to that of gross national product retrogressed from 64.5% in 1992/1993 to 38.7% in 2005.
- Foreign direct investment is positively and negatively affected by political and economic stability which is related, for example, to gross national product, rate of economic growth, exchange rate, inflation rate, foreign debts, national investment rate, population and regional and international axes.

In the Light of the above Results, Foreign Investment in Egypt Can Be Increased and Activated Through the Following:

- Political stability: investors are impacted by the unlimited political possibilities. Political confusion cannot attract foreign investments. It is repulsive, on the contrary, as investors need security and stability.
- Economic stability: fixing financial polices can encourage economic stability, which can also be achieved through developing capital markets, specifying the profit rate through supply and demand powers, decreasing inflation and unemployment rates, decreasing the shortage in the general budget of the country, stabilizing the exchange rate.
- Rationalizing the tax system and adopting agreements that prevent double taxation on the part of investment companies in Egypt. This is in addition to increasing incentives and tax exemption to activate foreign investments (Attiya, 1994).
- Modifying and developing legislations and laws related to the climate of foreign direct investment.
- Developing the infrastructure in a way that creates a climate attractive to foreign investment.
- Creating a suitable climate for research, development, creativity, skillful manpower through training programs for workers and technicians to be able to use modern technology.
- Modifying the customs system, decreasing the customs tarriff, simplifying administrative procedures, shortening the time which custom-release takes, removing obligations imposed on imports to strengthen trust in the Egyptian economy and its ability to attract foreign investments.
- Activating the role of the General Organization for Investment in propagating local and foreign investment, developing a mechanism for solving the problems of investors, getting rid of red tap and administrative complications and making investment laws more flexible.
- Establishing a comprehensive database for economic indicators in the country, as well as for investment laws, procedures, guarantees and incentives.
- Making use of the agreements signed with the European Union and USA to attract more foreign direct investment.
- Deepening cooperation and communication with the the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group and benefiting by the role it plays in propagating investment and the services it offers to enhance the investment climate in Egypt.
- Connecting investment incentives with performance rates in the projects and sectors to which investment should be directed as well as with the production activities, which needs great manpower and which are directed towards exporting.
- Activating Arab economic integration, attracting Arab investments in foreign countries to the Arab region through creating a climate of political stability and an investment climate that can penetrate international markets and give a suitable profit
- The necessity to continue implementing economic reform programs and making sure that positive results are achieved in this regard. In this framework and to attract more foreign investments, Egypt has lately amended investment-related legislations. It has passed a number of laws that allow a rise in the capital owned by non-Egyptians in joint and private banks to more than 49%. In addition, these laws allow non-Egyptians to own buildings and to establish and run commercial ports on the Nile. The Cabinet approved of eleven new legislations aiming at giving foreign investors better incentives than previous incentives and facilities (Misr Bank, 1997).

***Conclusion*:**

This paper consists of four sections in addition to the introduction, results and recommendations. The first section tackles the different directions of inward foreign direct investment flows as well as foreign direct investment outflows in the world. This section has three subsections. The first shows inward investments in both developing and developed countries as well as in Central and East Europe. In addition, it explains the reasons behind the decline in inward foreign direct investment flow. The second subsection, however, deals with investment outflows in developed and developing countries as well as in Central and East Europe. Finally, the third subsection shows the relative importance of investment flows, both inward investment flows and investment outflows in which developed countries have the greatest share.

The second section of the present paper shows the regional distribution of inward foreign direct investment flows and foreign direct investment outflows. The distribution is country-based. For example, it shows the flow in developed countries such as USA, the European Union and Japan and in developing countries such as African countries, Latin American countries and Central and Southeastern Asian countries, Central and East Europe and Pacific countries. In addition, this section explains the factors affecting the flow of foreign investment.

The third section, on the other hand, deals with foreign investment in Egypt. It shows the total economic indicators of the investment climate in Egypt as well as the development in the amount of foreign investment in Egypt, the accumulative share of Egypt in foreign investments, the relative importance of foreign investment compared with total investments and gross national product and the distribution of foreign investments in some economic sectors. The fourth and last section tackles the international, regional and local challenges and difficulties facing foreign direct investment in Egypt.

The present paper presents some results, the most important of which are the decline in Egypt's share in total foreign investments, the impact of international events such as September 11th events on foreign investments in Egypt and the concentration of foreign investments in certain sectors such as industry and free zones – which has led to a decline in Egypt's competitiveness as far as attracting foreign investment is concerned. The study concludes by giving some recommendations that may help attract more foreign investments. Some of these recommendations are: providing a suitable investment climate through political, economic, legislative and administrative stability, activating economic integration and continuing the implementation of the economic reform program.

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