

Quote in FT article "Capital begins to return to Arab nations despite problems of political instability", 31 Mar 2014

[The article, written by Simeon Kerr, originally appeared in the [Financial Times](#) on Mar 31, 2014.]

The world may be recovering from the financial crisis, but the Middle East's attempts to lure investment have lagged behind during three years of political unrest.

Global foreign direct investment rose 11 per cent in 2013 to \$1.46tn, a level comparable with the pre-crisis average, according to the [United Nations Conference on Trade and Development](#). West Asia, however, was the only region to witness a fifth consecutive year of declining FDI in 2013, falling another 20 per cent to \$38bn.

Saudi Arabia, the largest Arab recipient, faced a decline of 19 per cent to \$9.9bn; Unctad said: "The worsening political instability in many parts of the region has caused uncertainty and negatively affected investment."

But despite the continued unrest across the region, large companies and some private equity funds are starting to deploy capital across the Middle East again. Some are also considering countries still reeling from political turbulence. Oil-rich Saudi Arabia, where the energy sector dominates investment, has always been subject to fluctuations in FDI as the numbers are distorted by "mega projects", such as the economic cities.

The Gulf's most populous country, however, is also becoming more open to public-private partnerships as it seeks to build

productive industrial and commercial ventures to provide jobs for its fast-growing population.

Elsewhere in the Gulf, as Dubai's property sector lurches back into life, the United Arab Emirates is expecting an uptick in foreign investment this year.

The UAE economy ministry is forecasting a 20 per cent increase in FDI to \$14.4bn from \$12bn in 2013. That increase – a tripling since the \$4bn recorded in 2009 at the height of the recession – marks a return to the federation's pre-crisis peak investment year of 2007.

Economists believe as much as 70 per cent of Dubai's FDI flows can be attributed to real estate, where another boom is prompting the revival of stalled projects as well as new developments.

But the broader economy is also thriving, led by trade, transport and the growing tourism industry, which will need to attract more than \$7bn of investment as the city seeks to double hotel capacity by 2020, [it city hosts the World Expo](#).

As well as hospitality, other sectors, such as retail and services are gaining traction in the UAE, says Jonathan Silver, managing partner for Mena (Middle East and north Africa) at lawyers Clyde & Co. Strong interest from developed markets such as the US, Europe and Japan is being followed by newer sources, such as China. Indeed, Asian investment is the most exciting trend, as the Gulf, especially Dubai, lures Chinese firms as a regional base for the [Middle East and, increasingly, Africa](#).

“That is the most significant change: east is moving west,” says consultant Nasser Saidi, former chief economist at the Dubai International Financial Centre. “Developed market investment into developing markets is being replaced by emerging markets going into other emerging markets.”

As western powers make progress with Iran over its nuclear programme, smaller businesses are already considering new investments in the Islamic republic, with more conservative

firms waiting for further progress and the lifting of sanctions.

Dubai is positioning itself to act as a base for those seeking to explore a potential opening up of Iran.

"If restrictions were lifted, we would expect Dubai again to become a base from which companies could do business with Iran," says Mr Silver.

Neighbouring Oman, which enjoys warm diplomatic relations with Iran, is also expected to reap the benefits of more trade.

But as the Middle East continues to adjust to life after the Arab uprisings of 2011, prospects for investment remain fraught with security and political risks.

Syria's bloody civil war is spilling over into its neighbours Lebanon and Iraq. In north Africa, the political transition in Libya has been derailed by violence.

In the more stable Gulf, Bahrain remains beset by worsening violence, as pro-democracy demonstrations mutate into a low-level insurgency in the region's former financial capital.

At the heart of the Arab world's countries in transition lies Egypt, where a struggling economy is in dire need of reform and investment three years after the ousting of the former president, Hosni Mubarak.

FDI has collapsed since the 2011 revolution, whereas in 2007 the economy was attracting almost as much investment as the UAE during the height of Dubai's credit-fuelled property bubble.

As domestic dissent flares after last year's coup against the country's first democratically elected president, most foreign investors are steering clear of an economy where just securing hard currency to extract profits remains difficult.

Arab Gulf states, led by the UAE and Saudi Arabia, have backed the interim military against Islamist opposition with more than \$12bn in financial aid.

Abu Dhabi and Riyadh are also seeking to complement this political and financial help with direct investment, encouraging large companies to enter the troubled market. In a

politically charged deal this month, UAE-based construction company Arabtec signed an agreement with Egypt's military rulers to build \$40bn worth of social housing across the country, saying the UAE was "[keen to mobilise all efforts to boost support for our brothers in Egypt](#)".

While analysts have raised eyebrows about the size and scope of the 1m "affordable" homes project, the symbolism was unmistakable. Arabtec's cosignatory, Field Marshal Abdel Fattah al-Sisi, resigned his military position last week to run for the presidency this year.

"Gulf investors want a clear signal that it is OK to go in, and the signal they are getting from Saudi and the UAE is: 'Yes, we want you to help revive Egypt – this is important strategically and we need stability there'," says Mr Saidi.

Emaar, the region's largest developer, has revived plans to build a large residential and commercial development in Cairo. Two retail giants, Majid al-Futtaim and the Al Futtaim Group, are also planning to build mall complexes.

Dubai-based emerging markets-focused Abraaj Group has been making some Egyptian investments and others say they will follow suit.

In a region where cross-border investment has always lagged behind the flight of capital to more developed markets, Mr Saidi believes the direct link between political and economic stabilisation could help transform this historic lack of intraregional investment flows.

Gulf-based multinationals could benefit from the stabilisation of countries in political transition, creating deeper opportunities, he says. Morocco, a popular investment destination for European firms, is also back on the horizon for Gulf companies that lost interest during the global financial crisis.

Most returning Arab investments have been channelled into the property sector, despite one of the region's best public-private partnership frameworks.

Mr Saidi hopes that, as Gulf states seek to support their

fellow Arab monarchy, commitments could flow into areas such as large infrastructure projects that could have a bigger impact on growth in Morocco's agrarian and industrial economy. "This all means greater integration in the region – the greater stake you have in countries in transition, the more likely it is you will want to help stabilise them," says Mr Saidi. "So, the economy will become more important than political factors, and that is a story in itself."