Transparency and Accountability in the Arab Region: A Political Economy Perspective

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Executive Summary

Transparency and accountability are needed not only for an "effective, efficient and equitable management in public institutions" but also for private investment, whether foreign or domestic. Greater transparency, the "unfettered access to timely and reliable information on decisions and performance," (draft UN and UNDP, Transparency and Accountability in the Public Sector in the Arab Region, 2004: p2) is key to generating confidence and attracting and guiding productive investment. Hindrances to the free flow of information in the Arab region, whether in public or private sectors, constitute greater barriers to development than the region's alleged freedom deficit.

This paper will review the changing composition of global capital flows over the past decade and the Arab Region's limited success in harnessing them to its developmental needs. With respect to foreign capital, the information needs vary, depending on the type of financial flow, whether 1) foreign direct investment (FDI), 2) bond issues, 3) portfolio investment in local stock markets, or 4) international bank and trade-related lending. FDI (outside the energy sector) and portfolio investment will be particularly demanding, as will many local private investors.

Analysis of the gross FDI flows of 83 countries reveals a strong association between stock market capitalization and the much larger flows of direct investment.[1] Even more significant for the purposes of this paper, however, is that both stock market capitalization and gross FDI in the developing countries remain significantly associated with indicators of information accessibility even after controlling for other economic factors. An Information Factor consisting of newspaper readership, mobile and fixed telephone lines, and Internet usage is significantly correlated with market capitalization and to gross FDI quite independently of per capita income (with which information is closely associated). While information, in turn, is enhanced by a liberal political climate, the information deficit in the Arab Region seems statistically more significant – and perhaps also more easily addressed – than the freedom deficit noted in the Arab Human Development Reports of 2002 and 2003.

This paper will spell out the importance of information – hence of transparency – for encouraging investment and stock market capitalization. The results suggest that civil society can promote greater transparency through freer exchanges of ideas and by mobilizing publics against corrupt practices. Indeed some of the Arab countries are taking substantial strides toward greater transparency and accountability, and case studies will be part of an expanded study of how FDI can be attracted without, at least not in the short run, engaging in more drastic regime change.

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[1] Earlier analysis produced statistically more robust results, but Hong Kong had to be excluded because it was an outlier with gigantic gross FDI and stock market capitalization and was not scored on Freedom House indicators.

Introduction

Transparency and accountability are needed not only for an "effective, efficient and equitable management in public institutions" but also for private investment, whether foreign or domestic. Greater transparency, the "unfettered access to timely and reliable information on decisions and performance," (draft UN and UNDP, Transparency and Accountability in the Public Sector in the Arab Region, 2004: p2) is key to generating confidence and attracting and guiding productive investment. Hindrances to the free flow of information in the Arab region, whether in public or private sectors, may constitute greater barriers to development than the region's alleged freedom deficit, but they may also be more readily removed.

Political structures may be inhibiting economic growth and reform by constraining information flows and thereby deterring private investment. In the antiseptic language of economists, there may be information "asymmetries" between private and public actors, implying that "public" officials have better information than private sector owners or managers. Even the distinction between the "public" and "private" sectors of most countries in the region is problematic, however; public officials may be less informed than ostensibly private actors enjoying close personal relations with rulers. Much economic as well as political information is kept out of any public domain, even within the formal government. Under these conditions it is difficult to attract private investment, whether national or foreign. Most regimes in the Middle East and North Africa (MENA) are information-shy but need to increase the transparency and accountability of their respective governments, if they are to benefit from more investment.

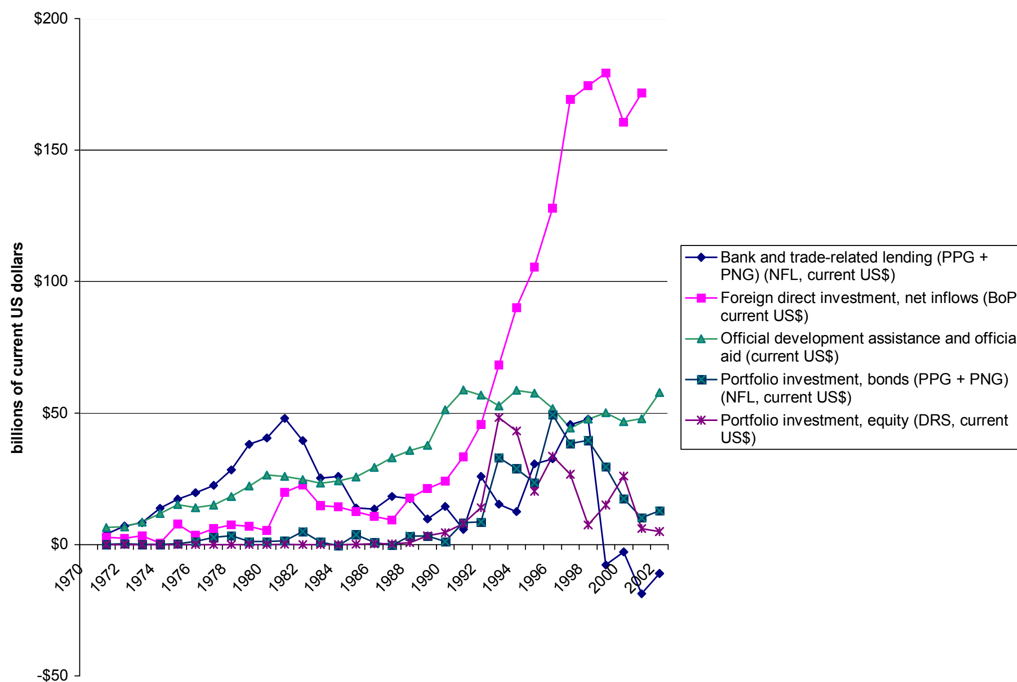
The Problem of Attracting Private Capital

In the 1960s and 1970s the international climate was relatively favorable to developing countries. They were encouraged to industrialize and to expand their administrative infrastructures, even to emulate the welfare states of the advanced industrial countries. Official development assistance (ODA) was relatively generous, even if the industrial countries outside Scandinavia never quite reached the 1 or 2 per cent of Gross Domestic Product (GDP) advocated by the international development community. But then the international climate changed with the emergence of the Organization of Petroleum Exporting Countries (OPEC), the tightening of international oil markets, and the explosion of oil prices triggered by the October (Ramadan, Yom Kippur) War of 1973. While the industrial countries continued to provide some development assistance, developing countries had to rely more on loans from international banks. These banks, flush with oil revenues that most major oil exporters could not invest at home, encouraged the other developing countries (and some major oil producers such as Algeria and Mexico) to borrow as much as they could possibly absorb. The banks profited enormously until 1982, when Mexico's problems initiated an international debt crisis, structural adjustment programs, and much suffering in the third world. Meanwhile, too, Maggie Thatcher and Ronald Reagan led an international offensive against wasteful public sector spending. In the 1980s and 1990s foreign direct

investment replaced official development assistance as the principal source of capital for financing third world development. The end of the Cold War in 1989 further encouraged the reliance on private capital.

Figure 1 highlights the significance of foreign direct investment (FDI) as a source of capital for developing countries by examining the various types of capital flows in and out of the region since 1970. Despite the Asian financial crisis, FDI to developing countries has consistently exceeded $150 billion since the mid-1990s. Official development assistance, by contrast, reached a plateau of $59 billion in 1991 and has steadily diminished, even in current dollars, despite a slight upsurge in 2002 following September 11, 2001.

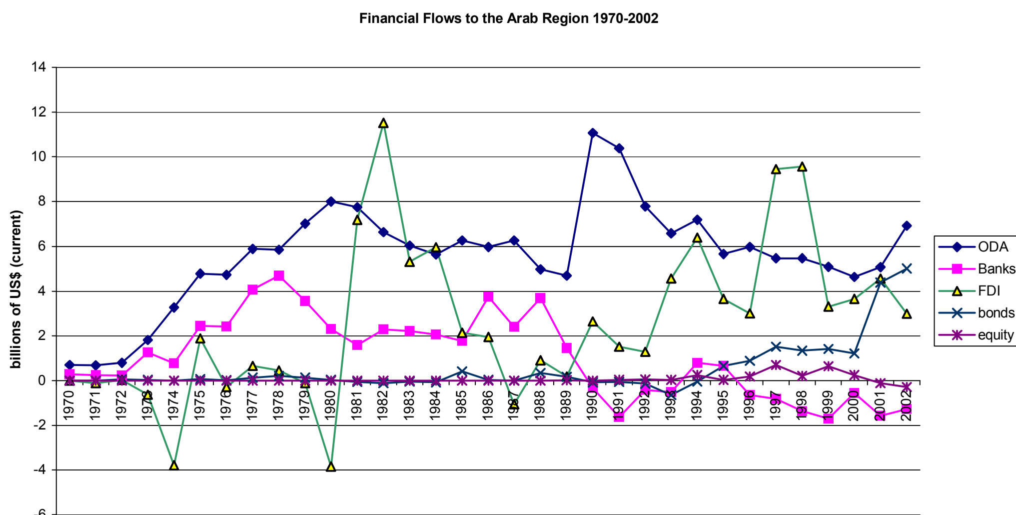
Figure 1: Types of Capital Flows to Developing Countries, 1970-2002



The Arab Region, however, has not adapted effectively to globalized financial markets. While the region has received more than its per capita share of official development assistance and bank loans, it has not attracted private investment in quantities that are commensurate with its populations. Recent studies of the United Nations' Economic and Social Commission for Western Asia (ESCWA) have analyzed the share of the Arab World in the world economy. While the Arab Region included 4.7 per cent of the world's population, it accounted for only 2 per cent of the world's GDP and attracted a bare 0.8 per cent of the world's foreign direct investment in 2001

(ESCWA 2002:1) and 0.7 per cent in 2002 (ESCWA 2003: 2). Figure 3 shows the amounts (in current, not constant US dollars) of the various sources of funds flowing into the region from 1970 to 2002. The region remains heavily reliant on official development assistance that has been drying up.

Figure 2: Types of Capital Flows to the Arab Region, 1970-2002



The Arab region evidently experiences difficulty in attracting funds for development from private sources. Greater transparency and accountability are clearly needed if the region is to attract a grater share of the developing world's FDI and other private sector funding.

Investors' information needs

Few investors may care whether a polity has competitive elections or a strong human rights record. Assuming, however, that laws are in place encouraging foreign investment and permitting the repatriation of profits, prospective investors--indigenous as well as foreign--will still need certain kinds of information. The needs will vary, depending on the type of financial flow, whether 1) foreign direct investment, 2) bond issues, 3) portfolio investment in local stock markets, or 4) international bank and trade-related lending. FDI (outside the energy sector) and portfolio investment will be particularly demanding, as will many local private investors.

Of the four sources discussed above, international bank and trade-related lending is least in need of public information. The international bankers have their own confidential sources, such as their borrowers, other banks, local government officials, in-house country risk analysts, teams of external consultants, and expensive country risk

publications. Commercial banks used to be the principal source of private capital flows to developing countries, and they carried the fewest potential ripple effects on the political structures of borrowing countries. International bankers continue prudently to avoid any appearance of involvement in host country politics, and governments can rely on their discretion. But unfortunately for information-shy regimes, traditional commercial bank lending has given away to more open capital markets which require greater transparency if they are to function properly.

As Figure 1 indicated, commercial bank lending peaked in 1982, and since the eruption of the Mexican crisis the banks have been more concerned about being repaid than about injecting new cash into overly indebted economies. The Arab Region drastically reduced its overall indebtedness, which had peaked in 1979; in fact today only Lebanon, followed by Syria and Jordan, displays debt-to-GDP ratios comparable to those of the heavily indebted Latin Americans, and Lebanon's, at least, are largely in the form of bond issues rather than bank borrowings. Figure 2 indicates that the region as a whole was paying back well over one billion dollars a year net to the banks after 1998.

Table 1 offers more country details. Algeria leads the way in repaying its international debt. The debt servicing wipes out any new lending, so that since 1997 the cash flows have been consistently negative, reflecting the general tendency of countries in the region depicted on the first line of Table 1. Like official development assistance, commercial bank lending has become a diminishing source of funds for most developing countries, whereas foreign direct investment, bond issues, and cross-border portfolio equity became major sources in the 1990s.

Table 1: Financial Flows to Arab Countries, 1993-2002 (Millions of current US dollars)
(About here)

It is perhaps no accident that countries in the Arab Region were then developing their national stock markets. Even the Palestinians opened their bourse in 1996 with online trading capabilities in the occupied territories. They were in tune with international financial developments. As Figure 1 shows for the entire group of less developed countries, portfolio investments in stocks and bonds peaked respectively in 1993 and 1996 at about $50 million each; in 1996, in fact, these portfolio investments accounted for almost one-third of the private sector capital that was replacing official development assistance and bank/trade financing. The investment behaviors of private investors residing in industrialized countries were perhaps changing. In the United States individuals have moved their funds from banks to mutual funds, and managers of mutual and pension funds have sought to diversify their investments into emerging markets.

However, all three of these expanding streams of private capital – foreign direct investment and the two types of portfolio investment -- require much more publicly available information than do commercial banks or foreign aid donors. Portfolio investors and managers have become particularly demanding in the wake of the collapse of "emerging markets" in Southeast Asia in 1997 and the broader collapse sine 2000. Demands for public information and signals are potentially more troubling and politically

destabilizing for information-shy regimes than are the discrete private queries of international bankers or public donors.

While bondholders will be less demanding than shareholders or certain kinds of direct investors, their requirements may still significantly constrain a country's economic policies. Investors in bonds are principally concerned with the macro-economic stability of the country issuing or guaranteeing the bond. One sign of future long-term stability may be the independence of the country's central bank. Sylvia Maxfield argues, in fact, that one reason for the recent increase in the number of independent central banks is that politicians desire to signal investors that orthodox macro-economic policies will be sustained (1997: 35-37). Just how much central bank independence can be tolerated, however, is a question that deserves to be addressed in the MENA. Any real independence -- and greater transparency of the country's commercial banking system -- may expose sensitive political patronage networks, yet international managers of bond portfolios will insist on greater openness. Table 1 indicates that Lebanon received the lion's share of financial flows from bond issues, reflecting the durability, experience, and credibility of its central bank and commercial banking system.

Information-shy regimes face even greater challenges in attracting portfolio investment in local stock markets and certain kinds of foreign direct investment. Figure 2 shows that the region (thanks largely to Lebanese bankers) was receiving more private capital in the form of bond issues than in the form of portfolio equity or FDI by 2002. In addition to macroeconomic stability, required as a protection against foreign exchange risk, portfolio investors in equities seek active, relatively liquid local stock markets, displaying a wide variety of traded companies. Consequently, as Table 2 shows, stocks markets were indeed being introduced – or reopened in countries such as Egypt – and were representing substantial amounts of capital as a percentage of GDP. Only East Asian markets seemed better endowed. In the Arab Region, however, the local stock markets seemed less active than those of any other region. Table 3 shows the turnover, or value of shares traded, as a percentage of the average market capitalization. Except in Saudi Arabia, turnover was remarkably thin in the region. And of the roughly 1800 companies listed on Arab exchanges in 2002,[2] only 68 were Saudi. Close to two-thirds of them were Egyptian, three hundred of which were de-listed when the Egyptian Capital Markets Authority enforced new regulations in 2003-2004 (see below, p. 24). Morocco, the only other highly populated Arab country to have a functioning stock exchange, had listed a total of only 55 companies by 2002.

Table 2: Stock Market Capitalization (as % of GDP
Table 3: Stock Market Turnover Ratio
(About here)

Only with difficulty can family firms in the Arab Region be persuaded to go public, much less to submit to the fuller disclosures required by international investors. Listings of public sector companies and banks pose other problems as well. Token privatization may not be palatable to international investors, yet real privatization

[2] This number includes 77 Kuwaiti and 22 Qatari companies listed in 2000.

transferring a public sector company to a private core management group may conflict with political patronage imperatives. Without foreign investors, moreover, local investors may also be wary, for they tend to follow the lead of foreign portfolio managers (Maxfield 1997: 45).

In the Arab Region, in fact, the very distinction between local and foreign investors may be more problematic than in other regions of the developing world. Many of the "foreign" investors are other Arabs who are in close touch culturally and politically with the recipient country. Other "foreign" direct investment seems to come from local investors redeploying their foreign assets. Local rulers and their close associates, operating through dummy foreign companies, may also account for some of the private foreign direct investment. They of course take advantage of inside information about publicly financed projects.

Private Kuwaiti citizens had already transferred over $200 billion overseas by the mid 1980s, and Egyptians may hold over $80 billion abroad, twice the equivalent of Egypt's total external debt (Richards and Waterbury 1996:224). Egypt's famed *infitah* attracted back only a small share of these holdings. In much of the MENA foreign direct investment is inseparable from local private investment. These investors' information needs may easily spill over from economic into political concerns. The traditional foreign direct investment of the multinationals, on the other hand, may be sector specific, focussed on large projects notably in oil, gas, and petrochemicals, and more reliant on confidential information than on public disclosure. This type of foreign direct investment will be less threatening to information-shy regimes in the region than investments repatriating their own citizens' capital. Regimes intent on keeping control over their economic patronage networks may be more wary of local investors deploying foreign finance capital than of the foreigners who invest directly in a particular sector.

The local investors, in turn, tend to be wary of their respective regimes. A survey of local entrepreneurs sponsored by the World Bank in 69 countries in 1997 included entrepreneurs from Morocco, Jordan, and the West Bank and Gaza. A full half of them registered dissatisfaction with unpredictable changes in government policies, and 70 per cent were dissatisfied with the judiciary (World Bank 1997). Their major concerns were with possible effects to their businesses of political instability and an unreliable judiciary. Surprisingly, they were less concerned than entrepreneurs from other regions with unpredictable changes in laws and policies, insecurity of property, and corruption, and they even rated their respective governments slightly more favorably on a "credibility index" than the samples from Central and Eastern Europe, Latin America and the Caribbean, Sub-Saharan Africa, and the Commonwealth of Independent States. Nevertheless, the survey's findings were universal: there is a major credibility gap between the entrepreneurs and regimes of developing countries. This finding may carry more negative implications for direct foreign investment in the Arab Region than in other parts of the world where foreign investors are less identified with indigenous entrepreneurs. Arab countries may have greater difficulty attracting foreign direct investment because its investors are more discriminating and demanding of information than the foreigners. As discussed elsewhere, even Egyptian investors close to the Sadat

regime (and therefore privy to much inside information) invested relatively little of their fortunes in *infitah* companies and projects (Henry 1996: 232-234). The climate was so restrictive that outsiders had little incentive to invest whereas insiders had little need to, since political connections enabled them to use public capital instead of risking their personal fortunes on new projects. Much of the "foreign" direct investment that flowed into the country was Egyptian capital seeking the protection accorded to foreign investors.

Evidently the Arab Region is at an even greater disadvantage in attracting foreign portfolio investment than direct investment. Table 1 suggests that in the aggregate the region tends to fare poorly in attracting all forms of private investment, but the table also shows that most of the individual countries, like Algeria, did not raise any portfolio capital, whether invested in stocks or bonds. As expected, moreover, these countries were in an even more disadvantageous position with respect to stocks than to bonds. Even Ghana outperformed the Arab Region. Until 1995 only Egypt, Jordan, Lebanon, and Tunisia were able to sell stocks to international investors, and the amounts were minimal, except for some investments in the reconstruction of downtown Beirut. Egypt and Morocco finally floated new equity issues on international markets in 1996. The Arab countries are arriving very late to these important emerging markets for finance capital. The Arab Region's delay is explained, of course, by the relative underdevelopment of its respective domestic stock markets. Egypt, Lebanon, and Tunisia then made substantial forays on the international bond markets, but bond issues, as we have seen, required less specific forms of information than stock issues.

Information-shy regimes may have the greatest difficulties stimulating local stock exchanges, where investors' needs for publicly available information appear to be the greatest. If, however, the local stock market fails for lack of economic transparency to win the confidence of the investing public, greater demands will be placed upon the bond markets and upon commercial banks. Prospective investors, foreign or domestic, will need to borrow funds if they cannot raise local equity. Consequently domestic credit allocation will have to be efficient if investment and economic growth are to be sustained. The primary source of finance capital will be the commercial banking system, yet maximizing its efficiency may be incompatible with sustaining vital political patronage networks. Banks may have to be kept in politically safe hands to insure that lending follows political as well as economic criteria.

To summarize, the Arab Region is falling behind other regions of the developing world in the race to attract foreign private capital. While part of the problem may be that its earlier advantages of greater oil rents, workers' remittances, and foreign aid protected it too long from adjusting to the new era of globalization, it is also a latecomer to the global information revolution. Part of the problem is political: information-shy regimes seem to find it more difficult than their Asian counterparts to disclose the information needed to attract private foreign investment or to promote local stock markets. Their likeliest "foreign" investors are their own citizens with foreign assets or citizens of neighboring countries whose information needs may be even more demanding than those

of corporate outsiders. Increasing the capital flows needed for sustained economic development will require breaking down barriers to the flow of information.

In theory economic information might be carefully separated from politics and freely and openly conveyed in the most repressive of political climates. The economic information needed by a foreign investor is presumably too arcane and specialized to be meaningful to the general public. Only an accountant or financial analyst will understand balance sheets and income statements, much less any technical debates about appropriate accounting standards. In theory a "bureaucratic-authoritarian" regime could successfully attract foreign capital by promoting free flows of relevant economic information while keeping a tight control over other information. Pinochet's Chile, for example, attracted some foreign direct investment and enjoyed a favorable economic image despite the severe repression of its domestic political opposition.

In practice, however, political reforms will also be needed. It is probably more difficult in the Arab Region than in Pinochet's Chile to separate out economic from other more politically charged types of information. And even Chile, despite its militantly free market orientation, had difficulty attracting foreign capital during the period of authoritarian rule; in fact foreign direct investment increased tenfold in 1989, just after a referendum had insured that there would be a transition from Pinochet to a democratically elected successor (World Development Indicators, Haggard and Webb 1994: 268ff). In Chile, as in most Arab countries, economic and political elites are closely intertwined, and the latter may control extensive patronage networks honeycombing the private as well as public sector. In these contexts economic information is inherently political, and it may expose the networks and their implied strategies of political domination. Regimes may fear economic disclosures and also the tools that disseminate information, such as personal computers, fax machines, and even typewriters in some MENA countries. The Internet is currently posing similar challenges to a number of them, although most information-shy regimes, even Tunisia’s, are now encouraging their citizens to go online, at least with filtered access.

Increasing Transparency and Accountability

The United Nations Development Programme’s *Arab Human Development Report 2002*, drafted by Arab intellectuals, triggered a series of studies documenting the region’s need for more transparency and accountability (AHDR 2003; World Economic Forum 2003; World Bank 2003). The original report recognizes that the region is falling behind the rest of the world. Per capita GDP grew annually on average by only 0.5% between 1975 and 1998 – “in effect a situation of quasi-stagnation” (2002: 88).[3] Until

[3] The writers could have made average Arab growth rates look a little better by slightly modifying the time span so as to limit the distorting effects of high or low oil prices. Consider, for instance, average growth rates from 1972, before the first major oil price hikes, and 1998, a year when oil prices were bottoming out. Calculating the per capita growth rates from the World Bank’s World Development Indicators 2001, Algeria doubles its average annual rate from 0.2 to 0.4 per cent if the base year is 1972 rather than 1975. Egypt’s is slightly reduced, to 4.9 per cent from 5.3 per cent. Morocco’s and Tunisia’s remain the same, respectively 2.0 and 2.9 per cent. Syria’s is substantially increased, from 1.4 to 2.3 per cent, while Saudi

1981 the region's per capita income appeared to be catching up with the world average, but it declined by 1998 to the equivalent, in real purchasing power parity, of only one-seventh that of the average inhabitant of OECD countries.

The Report tries to explain the region's unimpressive economic performance as a consequence of three "deficits" – abnormally low levels of political freedom, the condition of women, and the failure to keep up with science and technology. The one that concerns us here is the freedom deficit. In fact the team leader, Nader Fergany, proposed replacing the UNDP's classic Human Development Index (HDI) with an Alternative Index of Human Development (AIHD) that includes life expectancy and education but replaces the HDI dimension of per capita wealth with 1) Freedom House averages of civic and political freedom, 2) a gender empowerment measure devised by the UNDP, 3) internet hosts per capita, and, 4) negatively scored, carbon dioxide emissions per capita. Ranked along the AIHD, the Arab countries all fall into medium and low categories.[4]

The Report stresses the essentially political obstructions to human development in the region. Instead of camouflaging "governance" in Arabic translation as some antiseptic sort of management problem, the authors come out up front:

> …Efforts to avoid the political aspects of governance when discussing the question sometimes reflect fear of expected or imagined consequences of dealing directly with the subject. However, restricting discussion of governance in this way does not serve the long-term interests of developing countries, many of which still face tremendous challenges in building good governance or in achieving the levels of human development that only good governance, including its political aspects, can ensure (2002: 106).

"Governance" or *al-hokm* is modeled on universal democratic principles. The Report calls for participation, the rule of law, transparency, responsiveness to the various interests of civil society, equity, accountability, and wise leadership or "strategic vision" (2002: 106). Most authoritarian rulers, as well as their Islamist oppositions, pay lip services to these principles, but the Report advocates policies that would, if actually implemented, amount to gradual regime change in many Arab countries. Many of the

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Arabia's losses are reduced from an annual average negative growth rate of 1.3 per cent to 0.9 per cent. These data include all the major Arab countries with populations of 9 million or more, except Iraq; data were unavailable for Iraq or the others. The baseline that was selected discriminates against the wealthy oil producers and leads to the observation that "Among Arab countries, only Egypt and to a lesser degree Jordan and Tunisia had a tendency toward convergence with OECD. All other countries, without exception, moved in the opposite direction" (2002: 89). The small indigenous populations of Kuwait, Qatar, and the United Arab Emirates already enjoyed OECD per capita income levels, not that they had reached the OECD along other critical dimensions of human development.

[4] In a sample of 147 countries the only Arab countries that rank higher on AIHD than on HDI are Comoros, Morocco, and possibly Jordan. Among the 17 Arab countries included in the sample, Egypt, which ranks lower on the HDI than Tunisia, Algeria, and Syria, slightly outranks them on the new index.

policies suggested to stimulate economic and educational development are explicitly conditioned on better governance. Constitutional democracy is viewed not only as an intrinsic good by the putative globalizers who drafted this Report; it is also an instrumental necessity if the region is to stop stagnating and begin to catch up with the rest of the world.

Using Freedom House data collected over the years by a conservative American foundation, the Report documents the region's freedom "deficit," the fact that on their indicators most Arab countries are not free (although some of the monarchies attain "partly free" status) and that the region's mean score is far lower than those of other regions, including Sub-Saharan Africa. The Report also resorts to a number of other unpublished indicators generated from panels, typically of local and foreign businesspeople, that grade countries on the dimensions of voice and accountability, political instability, government effectiveness, regulatory burden, rule of law, extent of graft, and the quality of institutions.[5]

The Issue of Regime Change

If, the Report argues, the Arab world is to catch up with the rest of the developing world, it needs above all to tackle the issues of governance that the region's freedom deficit reveals. *Arab Human Development Report 2003* reiterates the argument, for "Building a Knowledge Society," the theme of this sequel to the original report, requires "an independent and self-limiting political sphere that allows for "an independent knowledge sphere." (AHDR 2003: 150-151). The UNDP's Programme on Governance in the Arab Region (www.undp-pogar.org) further lays out the dimensions of good governance as objectively as possible, in line with the original report's reform agenda calling for: fair and free elections with "a solid electoral system that permits the peaceful rotation of power" (AHDR 2002: 115), an elected, representative legislature that can exercise some real control over the executive power, a constitution that effectively defines the rules of the game separating executive, legislative, and judicial powers, the rule of law and autonomy of judicial institutions, local self-government, and reforms to invigorate civil society and guarantee a free press.

Evidently the UNDP's Arab Human Development reports are articulating new dimensions of globalization for the Arab world. During the debt crisis of the 1980s the region was summoned to remove its trade barriers, to plug up its fiscal and current account deficits, to stabilize its macro-economic indicators and structurally to reform

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[5] The Arab average was lower (by about three-quarters of a standard deviation on voice and accountability, a bit less on the others) than the mean for the sample of 147 countries on all dimensions except the rule of law, where the average of the 17 Arab countries was just above the mean. See Kaufmann et al 1999a and 1999b, cited by AHDR, pp. 111-113. The data used by Kaufmann came from a variety of polls of "experts" employed for political risk reports, economic environment reports, and reports on governance, also polls of businesspeople analyzed and cited by the World Bank (1997). They are available on line at: http://www.worldbank.org/wbi/governance/govdata2001.htm and were updated in 2003 to include 2000-2001 data in addition to the 1997-98 data sets.

various sectors of the economy and privatize public enterprises. Now it is also being called to engage in major political as well as policy reforms.

The Information Model

Short of regime change and despite the freedom deficit, however, there is much that Arab states can do to encourage greater investment flows. Whether sufficient transparency and accountability ultimately require constitutional democracy, incumbent regimes may still benefit from the opportunities associated with economic globalization. The key to increasing investment in the region may lie in partial reforms toward greater transparency and accountability within the context of existing regimes.

Such, at least, is the implication that can be drawn from the experiences of other countries that are already attracting significant capital flows. It may be not so much the freedom deficit measured by Freedom House or the other subjective indicators offered by panels of businesspeople and other experts on such matters as voice and accountability (where the Arab Region also fares more poorly than most other regions) that is hindering foreign direct investment and the development of stock markets. Rather, the availability of timely information will be shown to be the most significant variable, once relevant economic factors are taken into account.

The most convenient dependent variable to analyze is Gross Foreign Direct Investment, defined by the World Bank as "the sum of the absolute values of inflows and outflows of foreign direct investment recorded in the balance of payments financial account. It includes equity capital, reinvestment of earnings, other long-term capital, and short-term capital." As such, it captures in a single aggregate measure the critical capital flows discussed in this paper and is a revealing measure of a country's integration into the world economy. The question, then, is whether the freedom deficit or other subjective political indicators make any difference in a country's Gross FDI/GDP ratio, once purely economic factors are taken into account. Do free flows of information make a difference?

For the entire universe of countries for which World Bank data are available, including most of the Arab countries, a simple data set of correlates of Gross FDI can be constructed, consisting of:

1. Per Capita Gross Domestic Product
2. Trade as a percentage of GDP
3. The capital of companies listed on the national stock exchange as a percentage of GDP
4. Credit to the private sector as a percentage of GDP

Table 4: Correlates of Gross FDI (as % of GDP)
(About here)

The model (column A of Table 4) explains well over a third of the variation in Gross FDI for the most recent years of available data (1999 and 2000), and each variable is significantly correlated with Gross FDI, holding the others constant.[6] Credit to the private sector is weaklier correlated than the other variables, but its sign highlights the fact that economies based primarily on bank credit seem less attractive to investment than those with active stock markets.

When a dummy variable defined by OECD membership prior to 1980 is added to the model, the adjusted r-squared increases to .513 and being part of the industrial club adds over 12 % of Gross FDI/GDP (with a standard error of less than 3%), holding the other variables constant. OECD membership washes out any apparent effects of per capita income noted in the original model. Once all of these effects are taken into account, bank-based economies seem even less attractive to FDI. Column B shows that a percentage rise in credit to the private sector is associated with a decline in Gross FDI by almost 0.04 of a per cent ($p<.057$).

The question to be discussed is whether political or information variables may add more to the explanation of Gross FDI. One additional non-economic factor that might explain some of the OECD advantage is a freer flow of information. Readily available quantitative indicators do not address the critical questions of quality and credibility, but they may still serve as rough proxies. The indicators selected here from the World Bank's World Development Indicators are newspaper circulation, internet usage, and fixed and mobile telephone per capita.[7] They were selected because they denote horizontal, people to people flows rather than vertical ones largely dominated by governments in the region, such as radio broadcasting and television. One is free not to read a newspaper,[8] buy an internet connection, or obtain a mobile or a fixed telephone line – although of course these indicators, like radios and television sets, are conditioned by per capita income.

Column C of Table 4 indicates, in fact, that the Information Factor does add a bit to our understanding of Gross FDI. Controlling for the effects of the other independent variables, a standard deviation of information is associated with 2.6 per cent of Gross FDI/GDP. When the Information Factor is disaggregated, however, it turns out that telephone lines, rather than newspaper readership or Internet usage, is the most decisive dimension. Infrastructure, in other words, may be more crucial for investors than press

[6] Average GDP 1999-2000, the size of each national economy, and the average growth of GDP 1998-1999, were not included because they did not significantly correlate with Gross FDI either for the large sample or for the smaller one discussed below that excludes the old club of industrial nations constituting the OECD before 1980.

[7] Factor scoring the average newspaper circulation, telephones and mobiles (1999-2000), and Internet usage per capita 2000.

[8] Newspaper circulation (newspaper per thousand habitants) were spotty, so the years 1995-2000 are averaged. The only value available for 2001 on the WDI CD ROM 2003, ironically, was that of Tunisia, one of our most information-shy countries. I did not include the 2001 value although it would have slightly reduced Tunisia's average newspaper circulation, which declined precipitously from highs of 30 and 31 in 1995 and 1996 to 19 and 23 in 2000 and 2001, with blanks for 1997-1999 that were also not counted.

freedoms. Column D presents the data. In this model one more telephone per hundred people is associated with a 0.13 per cent of GDP rise in Gross FDI.

Column E substitutes civil liberties, as measured by Freedom House, for information. The results show that civil liberties are also positively associated with Gross FDI when the other variables are taken into account. One less unit of civil liberties – on a scale from 1 to 7 – is associated with almost one percentage point of Gross FDI/GDP, but the result is statistically significant only at the .12 level ($p<.12$). Evidently, too, liberties explain a bit less of the variation (adjusted r-squared = 0.522) in gross FDI than telephones (adjusted r-squared = 0.542).

In fact telephones, civil liberties, and per capita income are all highly interrelated. Which accounted for more Gross FDI, controlling for the effects of the other? In Column F these variables are all included. In this model the telephones reduce the impact of Freedom House scores on Gross FDI. Adding one telephone for every ten people is associated here with almost a one per cent GDP increase in Gross FDI. Civil liberties still seem to help a bit (one more unit of them on the 1 to 7 scale gains Gross FDI of about .38 per cent of GDP), but with much larger standard errors.

Could any other subjective political indicators improve upon the information model expressed in Column D? The various subjective World Bank political indicators cited above in footnote 5 were each added to the model, just as Civil Liberties had been added in Column F. The only one that turned out to have any significant effects, controlling for the other variables, was the indicator of business perceptions of government effectiveness (not voice, not rule of law, not regulatory quality, nor even perceptions of corruption).[9] Column G shows that a standard deviation of these perceptions is positively associated with a Gross FDI increase of almost 3 per cent of GDP.

A final column H in Table 4 examines any remaining variation between the Arab region and the rest of the world. Once the effects of the variables analyzed in Table 4 are taken into account, the fairly substantial differences between Gross FDI inside and outside the Arab region pale into insignificance. The dummy variable consisting of countries in the Arab Region[10] indicates that they on average attracted only marginally less investment than the others, when the variables listed in Column G are taken into account.

What explains the Arab disadvantage, apart from relatively low levels of trade outside the energy sector?[11] The writers of the *Arab Human Development Report*

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[9] "Government Effectiveness"combines "responses on the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies" (Kaufmann et al, 2004: 3)

[10] Iraq, Libya, Oman, Qatar, Somalia, the United Arab Emirates, and Palestine were excluded from the model because data was lacking on one or more of the other variables.

[11] It turns out that Arab countries do not suffer any deficit in stock market capitalization, once the substantial effects of per capita income are taken into account.

focused on the freedom "deficit," and indeed, controlling for per capita income, with or without the special effects of OECD membership, the Arab countries tended on average to score about two ranks higher (less freedom) on the Freedom House Civil Liberties index than other countries. But we have seen that information – and especially the telephone lines associated with Internet connections and newspaper consumption -- better explains Gross Foreign Direct Investment than civil liberties.

Further analysis reveals that the region suffers just as much from an information "deficit" as from a lack of civil liberties.

Table 5: The Arab Information Deficit

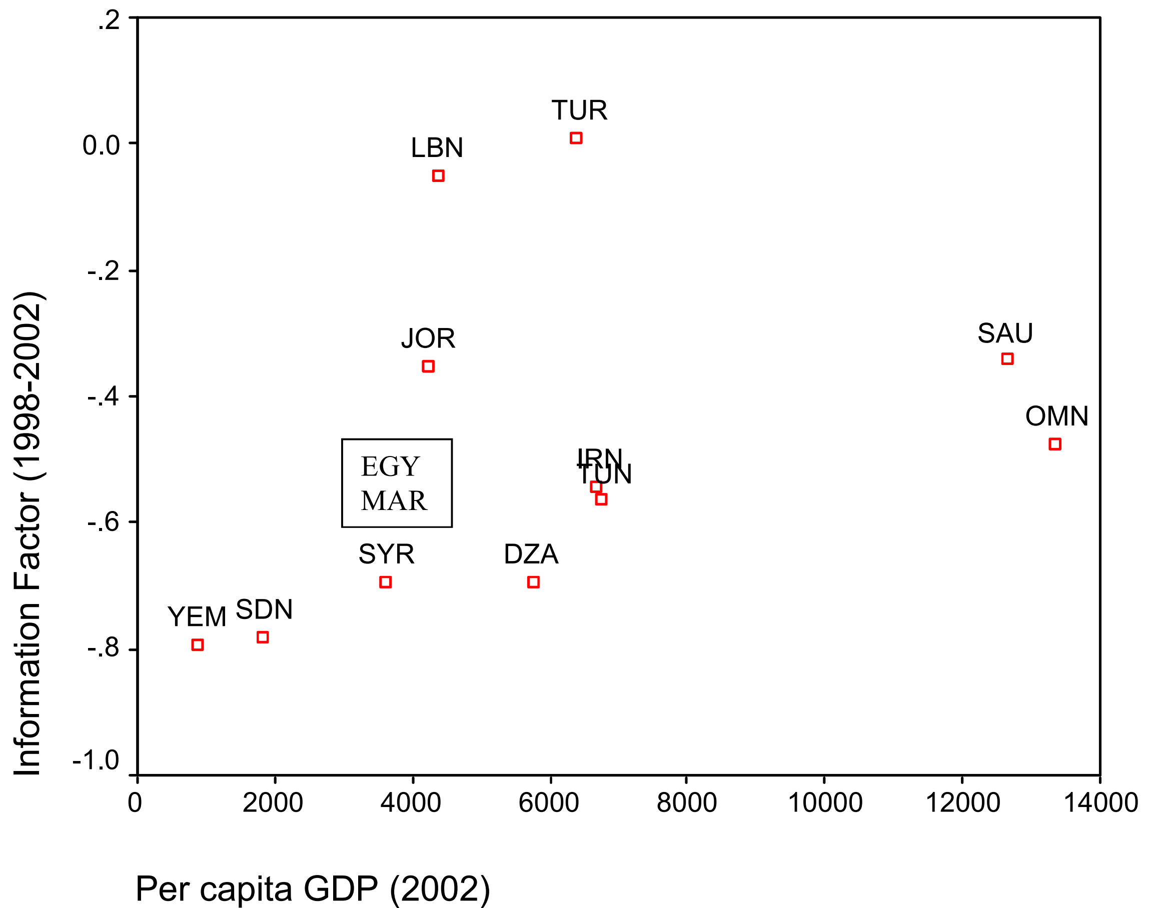
Regressions on the Information Factor (1999-2000)				
	Factor			
Dependent Variables		Telephones	Internet Use	Newspaper
Per Capita GDP	0.0001***	0.04213***	0.0000105***	0.01117***
	(t= 25.2)	(t= 33.3)	(t = 19.8)	(t= 15.6)
Arab dummy	-0.222	**(109.145)****	**(0.0346)***	-1.675
	t= -1.8)	t = - 2.8	(t = -2.1)	(t = -0.08)
Constant	-0.83	-7.506	-0.019	5.211
	(t = -16.3)	(t = -0.5)	(t = -2.9)	(t = 0.6)
Adjusted r-squ.	0.820	0.879	0.716	0.630
F stat.	321.7	563.6	199.9	121.7
N=	141	155	158	142

Table 5 compares the average information factor scores of the Arab countries with those of the rest of the world after controlling for per capita income (because wealth is closely correlated with telephones and Internet usage). The table shows that Arab countries tend on average to have 109 fewer fixed and mobile telephone subscribers per thousand people and 3.46 per cent less of their populations connected to the Internet, once their respective per capita incomes are taken into account, although they do not seem to be significantly deprived of newspapers (receiving, on average, less than 1.7 fewer newspapers per thousand inhabitants than people in other countries, and even these differences vanish when adult illiteracy is taken into account).[12]

In 2002 Lebanon and Jordan appeared more open to information flows than wealthier Tunisia or Algeria, much less the poorer Syrian neighbor or Egypt and Morocco. Figure 3 also shows that Turkey and Iran were outperforming wealthier Arab countries.

[12] Educational policies in the Arab region have tended to put more emphasis on secondary and higher education than on primary education, resulting in greater adult illiteracy than wealth alone and expenditures on education would predict.

Figure 3: Information Factor by Wealth in the MENA

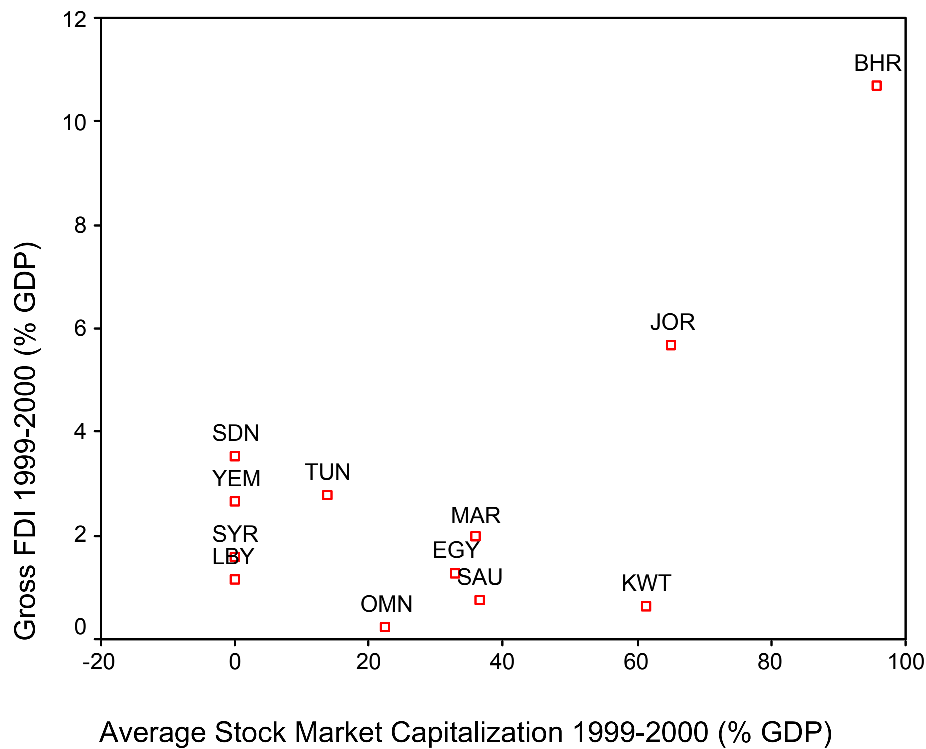


The picture is changing rapidly, however, with the spread of the Internet and telephone lines and the restructuring of the telecommunications industry.

Despite its alleged freedom deficit, the region is gradually progressing toward greater transparency and accountability. Figure 4 shows the average gross FDI and stock market capitalization of the Arab countries for which data were available. Libya, Sudan,

Syria, Tunisia, and Yemen all cluster in southwestern quadrant of low FDI and weak stock markets. They are also, together with Iraq, the countries in the Arab world with the lowest newspaper circulation figures. The more affluent ones in this quadrant obviously suffer from serious information anxieties and would probably be better off releasing some of their closely guarded economic and political secrets if they desire greater involvement in their economies by foreign investors or their own private citizens. Case studies will further illustrate the progress to date of some of Arab countries, beginning with Algeria and Dubai, then Egypt, Jordan, Lebanon, and Morocco.

(Figure 4 about here)



Algeria is gradually emerging from over a decade of civil strife. Despite continuing low levels of violence in parts of the country, the government is striving toward greater transparency and accountability. It subsidizes a vigorous private press much of the time, although amendments to the Penal Code in 2001 threaten journalists with heavy fines and up to 24 months in jail for defamation or "insult" of government figures. All of the principal dailies in Arabic and in French are online, including those of two journalists jailed in May and June by virtue of the law. They also kept publishing online even when financial pressures from the government have occasionally shut down their printing presses. Algerian journalism flowered in 1988 after years of political conformity and has recovered from severe press censorship in the mid-1990s at the height of the civil violence. It is young and strident, and its harsh polemics may muddy the political waters, but the leading Arabic and French dailies may also contribute in the long run to greater transparency.

Algeria is catching up in telecommunications with its neighbors after instituting an independent regulator and opening its mobile telephone industry to foreign direct investment. According to a recent World Bank study Algeria's "Market Openness Indicator" increased from 2 on a ten-point scale in 1998 to 6 in 2001, tied with Bahrain and outscored only by Jordan and Morocco (Rossotto et al, 2003: 20). In that year only three Algerians out of a thousand had a mobile phone, compared to 164 Moroccans, but Algeria, but the entry of Orascam, an Egyptian company, ended the state monopoly and resulted in fourfold increase of mobile telephones in 2002. New contracts concluded also with Al-Wataniya, a Kuwaiti firm, promise high Algerian growth rates in the current decade. The Arab Advisors Group (April 21, 2003) predicts 10 million mobile phone users in Algeria by 2007.

Algeria lags behind its neighbors in access to the Internet, despite its superb display of the daily press online. In 2003 roughly half a million Algerians used the Internet, compared to similar numbers of a much smaller but wealthier Tunisian population and some 800,000 Moroccans (International Telecommunications Union, 2004). The ITU also indicated in its new Digital Access Index, however, that Algerians were slightly better off than their Moroccan neighbors (ITU 2003), in that telephone access charges were cheaper.

In a recent study of e-government, that is, government information and services available on the Internet, Algeria tied with Egypt and Afghanistan and ranked in the third quartile worldwide. Countries were ranked based on the services, publications, accessibility, and feedback mechanisms provided by their websites. Several government agencies have websites that describe their organization and activities along with contact information for officials, but these sites lag behind in providing online services. Most sites are available in French and Arabic.

In one critical area of government the Algerians are pioneering an important experiment in transparency and accountability. The parliament, with the help of the UNDP and other international agencies, is offering new ways of relating its members to their constituents via the Internet. In November 2002 ten "Bureaux de Permanence

Parlementaire" (BPP) – standing parliamentary offices – were set up to enable constituents to access their deputies over the Internet. The pilot project serves some forty deputies in various regions of the country, and 167 out of Algeria's 380 deputies have signed up for the project. One female deputy from Sidi Bel Abbes is preparing her own web site, but the project wisely also includes training sessions for the staff of other deputies who may be less familiar with the Internet than the educated urban youth of the country. The project has also developed software to enable people to express their grievances. And for an annual charge of 20,000 Algerian dinars (about US $250) the Project will establish and maintain a deputy's personal website.

In Algeria, as in much of the Arab region, Internet cafés are readily available to the urban population – at a cost of 60 Algerian dinars (about US $0.75) per hour. Algerian aspirations for participatory democracy may achieve a real boost in the virtual and affordable world of cyberspace.

Algeria may also take the lead in public polling, another important indicator of transparency. A master's degree in public opinion polling at the Faculty of Economics and Business at the University of Algiers is being planned with assistance from the University of Michigan.

Dubai is another cyberspace wonder, driven not by civil strife but by the need to prove its utility to the region and the international community despite its small size and a population of only one million, of whom about 20 per cent are UAE nationals. It has taken the lead in promoting e-commerce and e-government in the Arab region, with a strategy aimed at becoming a knowledge-based economy and international information hub once the petroleum revenues run out. Dubai Internet City (DIC) opened in October 2000, "exactly 12 months after it was conceived" by Crown Prince Sheikh Mohammed bin Rashid Al Maktoum (Madar Research 2003).

DIC is one of three Knowledge Economy communities under the Dubai Technology, Electronic Commerce and Media (TECOM) Free Zone. Dubai Media City opened in 2001, followed by the Knowledge Village for advanced technological learning and training in 2002. By the end of 2003 TECOM had attracted 1453 companies, including most of the big international players in information and communications technology.

In the crown prince's words, "I was determined that we would be pioneers in the New Economy so that we could position the UAE and Dubai in the lead. I realized that it was easier to have a sound vision and to inspire people than to realize this vision. What is important is the implementation of a work plan that has different phases, each phase consisting of several projects, all of which have deadlines - this requires a lot of skill and a qualified team" (Makhtoum 2004).

An important dimension of Dubai's drive toward a knowledge-based economy has been e-government. Backed up by a young team of strategic planners, the crown prince announced e-government in April 2000 to an incredulous public. He called for Dubai's various public services to be on-line within 18 months. A high profile team of fourteen senior executives drew up an e-government roadmap and supervised the creation of a centralized platform in cooperation with 24 government departments. The various staffs were trained in time, so that the crown prince could indeed officially launch the Dubai governmental portal (www.dubai.ae) on October 29, 2001. "As I have said before, one can be a leader or a follower, and we always aim to take the initiative. The whole world will eventually take this path - why not take the lead?" (Makhtoum 2001).

After some trouble-shooting the site was fine-tuned and relaunched a year later. By October 2003, the end of the second year, Dubai was catching up, in terms of the percentage of services offered to the public that could be transacted online, with such advanced European countries as Finland, which ranked fourth (after Sweden, Ireland and Norway) in 2002 by offering an average of 76% of services online (Madar 2003: 59-62).

In Dubai government is defined as public service. As the crown prince explains, "The government is not an authority over the people but one that serves them. As a result, the best measure of a government's success is the satisfaction of those who deal with it" (Makhtoum 2004). Every year, in fact, government departments are evaluated by public surveys and by "mystery shoppers" who visit all government departments "unannounced and unknown to anyone" (Makhtoum 2002). Dubai may be the only government in the

Arab region that systematically evaluates the performance of every administrative unit and public servant. The mystery shoppers' survey is published annually, and shows consistently high ratings for the Dubai Chamber of Commerce and Industry (72% in 2003) and the Department of Tourism and Commerce Marketing (70%) – as well as low scores for the Department of Information (Dubai Radio and TV) (49%) and the Ministry of Labour and Social Affairs (48%). Every year the crown prince singles out exceptional workers at an awards ceremony – including chauffeurs and janitors as well as senior civil servants.

Corporate governance is also developing in a clear manner in Dubai as companies seek for good international reputations despite the risky international business environment. Private companies are spearheading the drive to adopt corporate governance standards alongside with official regulatory boards. The aggressive campaign to implement strong standards is reflected in numerous seminars and workshops in Dubai that not only tackle Dubai but also the entire Arab region.

A particularly daunting challenge is to regulate the financial markets that the Dubai International Financial Centre (DIFC), established in mid-2003, is trying to develop. The Center set up an independent regulatory agency, the Dubai Financial Services Authority (DFSA), as "a world-class regulator and regulatory regime" (DIFC 2004). As of late 2003 DFSA had prepared seven of the 19 laws expected for the new regulatory regime. Despite a change of chief regulators in June 2004, the Dubai International Financial Exchange (DIFX) was incorporated as a limited liability company inside DIFC in September 2004, and leading international banks were being licensed to operate as 'authorised firms' from within the DIFC. The new stock exchange is to begin business in early 2005 and open to all non-nationals as well nationals, trading in dollar denominated securities. Its competitive edge is expected to be not so much in equities as in corporate bonds (Keay 2004).

Perhaps the most daunting of the challenges to which Dubai is responding is in building a real twenty-first knowledge economy. Knowledge Village is pioneering e-learning in the region. "Let us say it out loud – let us admit that education has fallen behind," Crown Prince Sheikh Mohammed explained to the World Economic Forum meeting in Amman in May 2004. "The Arab world is rich with ideas and educated people. If we have succeeded in Dubai then the whole Arab world can succeed as well." (2004 WEF)

Egypt is by far the most populated country in the Arab region and also has one of the richest and most complex legacies of modern administration built up since the early nineteenth century. The Center for Democracy and Technology, in its *E-Government Handbook* funded by the World Bank's Information for Development Program, offers the country special recognition for Records Management: "In Egypt, officials realized that while data was plentiful, there was no information management framework to make sense." (Center for Democracy and Technology, 2002: 19) The Information and Decision Support Center (IDSC) was created in 1985 following the government's inability to calculate the country's international debt and methods of servicing it. The mission of this important agency is to provide information and decision support services to the Egyptian cabinet concerning socio-economic development.

The agency is concerned with debt monitoring, servicing and re-negotiation of loan terms, but it has many other important duties. Most significantly, it works to develop information systems and projects at various ministries and agencies in order to facilitate management. The IDSC has also worked on reorganizing Egypt's customs agencies as well as the Ministry of Electricity to make both agencies more transparent and information-friendly as well as developing their abilities to respond to challenges and problems. The IDSC has played a very important role in developing the infrastructure of Egyptian governorates and thereby enhancing the decentralization agenda of the Egyptian state.

The IDSC launched the Egypt Information Highway project in 1995, leading in turn to several pilot information networks regarding e-government, in the governorates as well as in the ministries of tourism, health, and culture and information through online libraries (http://www.highway.idsc.gov.eg/). Egypt's push to centralize information through an online presence adds a new dimension to its historical role as the center of the media and entertainment industry in the Arab world. The Information Highway theoretically strives to create greater transparency of government actions and to facilitate the interaction of citizens with their government. It also places great emphasis on the access by Egyptians to various services through the Internet. E-government is referred to as the "government services web" aiming at giving citizens access to all government institutions through a virtual world in the hope that better services can be rendered in real life. The project appears to be a virtual success, given the strong online presence of the various agencies and sectors, but questions remain concerning access and the practicality of this virtual world. Egypt is estimated to have had only 28.2 Internet users per 1000 people in 2002, compared to the Emirates' 337.

Egypt has the necessary mechanisms, laws and agencies to encourage greater transparency and efficiency within its complex web of government administration, but the monitoring and auditing agencies are largely under the control of the president, not parliament. Although the Public Audit Agency was theoretically an independent body reporting to parliament, it has been brought under the wing of the prime minister's office and cannot independently implement its reports or recommendations. The Public Audit Agency's annual reports do, however, offer valuable information about patterns of government expenditure, although they are accessible only to select journalists and others

who have access to parliamentary documents. The head of the agency is nominated by the president, confirmed by parliament and can only be relieved of his/her duties by the president. The agency can investigate unions and syndicates, the media, political parties, government agencies and any public enterprises, but it cannot supervise or investigate private sector companies unless they are at least 25% owned by the Egyptian Government. The more powerful Administrative Control Authority is an arm of the presidency, not the parliament, as are two investigative agencies of the prosecutor general, whom the president appoints and may dismiss. Consequently some critics perceive that greater transparency and accountability faces political obstacles (Transparency International, 2004: 185-186).

The presidency stands at the center of all investigative and auditing agencies directly or indirectly through its influence or through formal ties to such agencies such as appointing directors and controlling the decision-making process of these institutions. Though the government began a program in 2003 aimed at tackling corruption, Transparency International and other observers noted that the campaign targeted the cronies of certain senior officials in government and the governing party, the National Democratic Party, and thereby strengthened its younger echelon of leaders headed by the president's son. Another criticism of the campaign is that it was completely government-run and operated and lacked the input of any private sector and civil society institutions and NGOs. Because institutions that can play a role in investigating and curtailing corruption are severely restricted by laws and institutional limitations, the efficacy of the anti-corruption campaign is put into question. NGOs are crippled due to law no. 84 of 2002 that imposes severe restrictions upon them; likewise, newspapers are faced with heavy fines and penalties for going after government officials. Finally the parliament, which can perform an important function in checking on corruption, has been dwarfed by the powers of the presidency.

Egypt has tried, however, to reform its banking system after a series of scandals involving politicians and their friends defaulting on loans and even fleeing the country, as well as international concern about money laundering. Law No. 80, Egypt's first anti-money laundering legislation, was issued on May 22, 2002. The law dictated the creation of a special semi-independent unit within the Central Bank to combat and investigate money laundering. The unit is to investigate any suspicious activity in any financial institution and to share information with the prosecutor general's office. All financial institutions are obligated by law to inform the agency of any suspicious behavior or financial transactions. As a result of this anti money laundering activity, the Financial Action Task Force, the international body leading the charge to safeguard the global financial system against money laundering and terrorist financing, announced the removal of Egypt from its list of Non-Cooperative Countries and Territories in February 2004. Parliament also passed a Unified Banking Law (No. 101 of 2004) giving the Central Bank greater oversight authority so as to cut down on imprudent lending. Critics point out, however, that the law does not give the central bank greater independence from the presidency.

As for corporate governance, Egypt is implementing the recommendations of the World Bank and the IMF issued in their Report on the Observance of Standards and Codes (ROSC) assessment of March 2004. The goal is to bring corporate practices in line with those advocated for the advanced industrial nations of the Organization for Economic Cooperation and Development (OECD). The new norms are gradually being enforced. From 2002 to 2004 the Egyptian Capital Markets Authority de-listed over 300 companies, family-owned firms for the most part, for not being able to comply with OECD standards. The de-listed firms lose certain tax advantages. Addressing the needs of the remaining 821 firms that were listed on the Cairo and Alexandria stock exchanges as of August 2004, the Authority has established an Egyptian Institute of Directors to translate and disseminate appropriate standards for the respect of shareholders' rights, notably those of minority shareholders, for transparent financial disclosure, and for the accountability of boards of directors. The ROSC assessment recommends the development of a Code of Corporate Governance in conjunction with the Cairo Alexandria Stock Exchange. It also recommends more legislation updating both the company and the accounting and auditing laws.

The Institute of Directors nourishes a further long run objective of introducing modern OECD standards to the many companies, for the most part family-owned, that are not listed on the stock exchange. The huge majority of Egyptian firms are not listed, although the stock exchange, the most developed in the region, includes almost double the number of firms listed in the rest of it. The unlisted ones have fewer incentives to become more transparent and accountable. Those dependent on bank credit might have more incentive if the banks themselves encouraged more professional credit analysis emphasizing good corporate governance among their lending criteria.

Egypt's commitment to transparency and accountability was extended to the entire Arab region when representatives of Arab civil society were invited to the Bibliotheca Alexandrina on March 12-14, 2004 to issue a vision for Arab reform. They called for "genuine democracy" and asserted it to be "closely linked to achieving the highest level of transparency in public life, to stamping out corruption within the framework of establishing good governance and support for human rights provided according to international agreements." These representatives of civil society urged structural reform that includes "inculcating good governance rules for economic activity, with special focus on transparency, accountability and the rule of law," and more specifically, concerning the corporate governance, "establishing an Arab institution, funded and managed by the private sector, to train leaders in management in order to enable new generations to develop and carry out reform programs." One implication of this statement is that reform is perceived to be a very gradual process.

Jordan was one of the first countries in the Arab region to undertake extensive economic and political reform in the 1990s, and King Abdullah II, since his accession to the throne in 1999, has taken the lead in modernizing Jordan's information technology and educational systems and in creating conditions of greater transparency and accountability. Since Jordan has a very limited natural resource base, the king is determined to make it one of the most progressive countries in the region and a magnet for foreign direct investment. The goal is a knowledge-based economy supported by skilled human resources.

To this end Jordan has aggressively pursued the expansion of Jordan's presence on the Internet, creating the National Information System to serve as a portal and search engine for various government and private sector websites. In general, timely information is available; for example, the Ministry of Finance and the Central Bank each release economic summaries and statistics on a monthly basis. Most of the websites are available in both English and Arabic. Many of the sites, however, require high bandwidth connections to access in a country where such connections are rare, and very few of the sites offer completely executable services online. In a study of e-government worldwide conducted by the United Nations in 2003, Jordan ranked 63rd out of 173 countries on an overall "index of e-government readiness," taking account of telecommunications and human capital as well as web content, but it scored 43rd in content, tied with the United Arab Emirates for top score in the Arab region (UN, Oct 2003: 186-190).

The Jordanian government has been diligently working with the OECD to develop, bolster, and increase e-government activity in Jordan. Such cooperation aims at combining public and private sector efforts to turn Jordan into a hub of e-services. The goal is to create an institutional, legal, and commercial environment in which information and communication technology can thrive. All e-services related to the 20 Jordanian ministries are expected to be functioning by the end of 2004. Some of them, including business registration, telecom licensing, taxation, and social security, are already up and running.

The king has also personally engaged in high profile business diplomacy to accelerate the development of information technology and foreign direct investment more generally. Following up on his meeting in February 2000 with Bill Gates at the World Economic Forum in Davos, Switzerland, Jordan became one of the first beneficiaries of Microsoft's "Partners in Learning" program. The Information and Communications Technology minister signed a five year strategic partnership agreement with Microsoft in October 2003 to accelerate the development of e-government and e-learning strategies. Under the deal, Microsoft will co-invest in projects selected jointly with the government in keeping with national strategies to bring the educational system online and to enable citizens to obtain government services directly from official websites.

Three projects were identified to inaugurate the partnership with Microsoft: 1) setting up electronic gate systems for Jordan's airports; 2) providing infrastructure for e-transactions at the e-government operations center; and 3) establishing an "enterprise

project management" system at the ministry of planning. Microsoft also agreed to provide advanced training to 1,000 engineers, to establish electronic libraries for 50,000 children in rural and remote areas, to disclose source codes as part of technology transfer, and to set up new IT academies.

Meanwhile, the ministry of education has introduced computers to all schools, is retraining the teachers, and has initiated a new two-year specialty program in information technology for high school students. They are to be hired by the private sector in due course if the Arab Academy for Microsoft Technologies succeeds. This project, launched in 2002 by Microsoft and Arab Software Company for Development, a Jordanian company, is intended to bridge the gap between an abundant supply of fresh graduates in IT-related fields and the private sector's growing need for certified and specialized human resources. The king's business diplomacy may be stimulating these needs, as Microsoft has also invested in one of Jordan's leading software development companies in efforts to develop an industrial infrastructure for the knowledge economy. On the ground, the Information Technology Association of Jordan (INTAJ or "production") is a non-profit private entity that promotes the Jordanian software and IT services industries in the world market. On the domestic front the Jordan Computer Society is a nonprofit based trade association of ICT businesses that promotes the industry to other businesses and the general public.

A business-friendly investment climate will be crucial for building the new economy. As the International Monetary Fund (IMF) states in its country report of May 2004, "Prudent macroeconomic policies and effective structural reforms over the last decade have transformed Jordan from an inward-oriented, mostly state-controlled, and highly indebted to an export-oriented economy where the private sector is the primary engine of growth" (IMF 2004: 7). To encourage private local and foreign investment, Jordan has taken steady strides toward greater transparency and accountability. At the macro level it participates in the IMF's General Data Dissemination System (GDDS) and is progressing toward participation in its more demanding Special Data Dissemination Standard (SDDS). Although still burdened with substantial international debt, it is improving its credit ratings in hopes of gaining investment grade ratings that will open the doors for overseas institutional investors. An important part of this effort lies in making the financial sector, in the words of the IMF (2004: 145), "crisis-proof."

A major scandal in January 2002 had suggested flaws in the supervision of the banking system. A local businessman fled the country, leaving as much as US$ 100 million in outstanding bank loans, after being accused of falsifying contracts with government departments to gain credit. In the wake of the scandal, the Central Bank ordered the three banks involved, Jordan Gulf Bank, Jordan Investment and Finance Bank, and Jordan National Bank, to increase their capital. Subsequently Bank Law No 28 of 2000 was amended by Temporary Law No.46 of 2003, giving the Central Bank greater control over any bank that "sustains financial problems substantially affecting its financial position" (Article 80). Not only has banking supervision undergone thorough reform; in 2004 the Central Bank issued a code and guidelines for corporate governance that the banks are expected to implement.

The Jordan Securities Commission has also committed itself to corporate governance reform, especially for the 190 companies listed (as of July 2004) on the Jordanian Stock Exchange. All of them are required to use International Financial Reporting Standards. The Securities Law No. 76 of 2002 granted the Commission full monitoring and supervisory authority with financial and administrative autonomy, reporting directly to the prime minister. In an important display of confidence in the reforms, the Californian Public Employees' Retirement System, the largest American pension fund, added Jordan to its Permissible Investment List in 2003. Another vehicle for improving corporate governance practices in Jordan, reflecting its growing integration in the world economy, consists of bi-lateral trade agreements aiming to attract international direct and portfolio investments.

The main supervisory agency in the financial area is the Audit Bureau of the Hashemite Kingdom of Jordan, established under the Constitution as a financially and administratively independent organization within the government. The bureau is charged with monitoring government revenues and expenses, in the areas of ministerial departments, public enterprises, local authorities, and rural councils. It conducts both regular and surprise examinations of publicly funded operations. Each year the bureau submits to Parliament a report of its findings, including any violations.

A Chartered Accountants Association is also active in the country. In Jordan all financial statements must be audited; the auditor must not be a founder, board member or employee associated with the company or board, though a shareholder can be an auditor.

The drive for greater transparency and accountability is also signaled by periodic campaigns against corruption. Already in 1996 the "Anti-Corruption Department," largely consisting of staff affiliated with the General Intelligence Department, was founded and attached to the royal court. Within its first year of operations it referred 500 cases of corruption and abuse of public power to the prosecutor general. Its director once observed that the department performs "a monitoring role in an unconventional way that was a deterrent to many irregularities" (Adailleh 2000: 66). Complementing its continuing efforts to root out corrupt practices in both the public and private sector, the Higher Committee to Fight Corruption was established in 2000 by royal decree. One fruit of its efforts is that Jordan ranks in the least corrupt third of the 133 countries included in Transparency International's Corruption Perceptions Index and in the least corrupt five per cent of lower middle and low income ones.

A branch of Transparency International has been "in formation" since the late 1990s and has held well publicized meetings attended by the Jordanian political elite in Amman in 2000 and again in 2002. Other active NGOs include the Arab Organization for Human Rights, Jordan Society for Human Rights, the Women's Committee Forum, and the Human Forum for Women's Rights. On the governmental level, the Royal Commission for Human Rights, The Human Rights Department at the Prime Ministry, the Public Freedoms Committee at the Jordanian Parliament, and the Supreme Court of

Justice work to ensure equality and justice, and to monitor the protection of the rights and freedoms of all Jordanians.

Lebanon in many ways presents a situation distinct from that found in other Arab countries. A vibrant civil society, a free press and a reliable banking system coexist alongside weak Lebanese governmental authority. In contrast to its neighbors, Lebanon suffers greatly from a political system in which no actor is sufficiently strong to enact substantial reform. As a result, Lebanon finds itself floundering in a sea of debt and mired in bureaucratic inefficiency, but with a building boom financed mainly by Arab Gulf investors.

Civil society thrives perhaps more in Lebanon than in any other part of the Middle East. Numerous non-governmental organizations operate unencumbered by prohibitive or obscure legislation. These groups engage in debates on public policy in which scathing criticism of national leaders is the norm. Differing viewpoints are easily accessible, and the Lebanese are generally aware of the challenges facing their country, and are cognizant of the presence or absence of national policies to address them. Several daily newspapers are available in French, English, and Arabic; these tend to be independent editorial voices that contribute uniquely to the national discourse (Casero et al., 5).

Among the NGOs operating in Lebanon is the local chapter of Transparency International, an international organization dedicated to the exposure and elimination of corruption worldwide. The Lebanese Transparency Association promotes an awareness of issues surrounding corruption and organizes conferences and forums in which high level policy makers, businessmen and academics join together to address the factors that promote corruption and to propose policies that work to improve the situation. In this discourse, each element of society has its own contribution. The Lebanese Business Association, for example, has developed a Code of Ethics that enumerates basic principles of good corporate governance and appropriate managerial conduct. This environment, which facilitates such open and frank discussion, is rare in the region, and speaks well of the freedom of information in Lebanon.

Before the civil war that raged in Lebanon for over a decade, Lebanon served as a financial hub for banking transactions in the Middle East, and the banking system inherited from that legacy remains well-organized and independent from the state. The volume of assets held in these banks is far out of proportion to what Lebanon's size and population would merit, and that despite some recent setbacks in the credibility of individual banks.

Indeed, without such a strong banking system, Lebanon would not be able to survive fiscally. Lebanon's sovereign debt amounted to 190 percent of GDP in 2002, with debt service comprising at least a third of public expenditures every year. Revenues have increased somewhat with the imposition of a value-added tax in 2001, but nonetheless the 2004 budget projects that despite a primary surplus of $147 million, the balance of payments will register a deficit of $384 million, or 25 percent of all expenses. Lebanon obtained significant concessions on its debt service at the Paris II Summit of Friends of Lebanon in 2002 in return for the promise to initiate administrative reform, but reform efforts have stymied in the midst of political bickering and the

absence of political will to enact austerity measures. The only factor that allows Lebanon to continue to operate under its heavy debt burden is the fact that the Lebanese banks and investors carry most of the weight. Over half of the sovereign debt is denominated in Lebanese pounds, and much of the debt in foreign currency consists of bond issues underwritten by the local banks and other Lebanese investors. In this sense, Lebanon relies on the strength of its economy, remittances from its extensive Diaspora, and the deep pockets of Lebanese bankers (Nabli, 4). So long as all these elements continue to contribute to bailing out the national system, Lebanon will remain solvent. Yet its economic situation is precarious.

The inability of Lebanese politicians to push through promised administrative reform and privatizations, notably of the mobile phone industry, points to a lack of effective accountability within the Lebanese political system. Though politicians on the local level are directly accountable to the people they represent, national politicians are subject to the intervention of neighboring states. Because of international influence on national politics, national politicians may not be directly accountable to the electorate, but rather to outside forces that they are compelled to appease. In this situation, popular pressure to implement reform can go unheeded, to the detriment of the nation.

The effects of the government's failure to reform should not be understated. In addition to the massive and looming debt problem, antiquated bureaucratic practices hinder the growth of the Lebanese economy. Much of the administrative legal structure in place in Lebanon dates back to pre-civil war days, and procedures required by these laws are lengthy and unpredictable (Casero et al, 6). The legal process for starting a business can require an extensive investment of time and resources at the outset. Recourse to the judicial system for lawsuits or bankruptcies can be slow, and alternate methods of conflict resolution, such as arbitration, are not legally provided for. While in other respects the legal system may be well organized, the area of commercial law is greatly in need of reform. Given the richness of the civil society that undergirds the Lebanese system, many of these deficiencies could be effectively resolved by better legislation.

In addition to electoral issues, the juridical status of parliamentary ministers and members of the government leaves little room for accountability in cases of fraud or other corruption. No criminal charges may be brought against a minister unless one-fifth of the members of parliament request prosecution, and the motion to lift immunity requires an absolute majority. In this case the Supreme Judicial Council hears arguments. The cases in which these rules have been applied provide an account of jurisprudence as tangled as the conduct of the ministers in question. In a 1998 case, the Court of Cassation ruled that fraud on the part of ministers did not constitute a failure to discharge their duties. This ruling and others like it have spurred more recent parliamentary debates about the issue of corruption for which the conclusion is as yet unclear. On the more positive side, the Lebanese Audit Court generally exercises broad and independent powers over governmental organizations to judge the legality of transactions before they take place and to audit accounts once submitted (Audit Court, 30-31). It should be noted, however, that the Court's powers do not extend to the government or the parliament.

Lebanon, in short, suffers not from a deficit of information, but of accountability on a national level. The social structures that have proven so difficult to build in other nations already exist within Lebanon's borders. What remains to be seen is whether politicians will listen to the discourse of the country's rich heritage of social institutions in order to reform Lebanon to compete as it should in the 21st century.

Morocco has taken several bold steps forward in recent years by such actions as permitting opposition parties within the political system, allowing voices of political dissent to be heard, and reforming personal status laws. Economically, a process of liberalization that began in the mid-1980's has made Morocco one of the more open economies of the Arab world. The Investment Charter put in place in 1995 allows foreign companies to own businesses and repatriate capital, and companies that meet certain qualifications can receive a 60% reduction in taxes. A considerable effort has also been directed into renovating the nation's telecommunications infrastructure to bring Morocco into the international information economy. This is of great importance to the issue of accountability and transparency in that this infrastructure creates a new level of information accessibility that increases the popular awareness of how corporate and governmental affairs are being managed, and thus strengthens democratic processes already in place.

Morocco's infrastructure had been lagging up to that point; applications for fixed telephone lines could wait up to 80 months due to the lack of existing lines to support demand. The government began a series of reforms aimed at renovating the telecommunications industry. A new law on telecommunications, Law 24 of 1996, was enacted to provide the regulatory framework within which a modern communications industry could emerge. This law separated telecommunications from the postal service to form Maroc Telecom. In addition, the National Agency for the Regulation of Telecommunications (ANRT) was created as an independent public institution charged with overseeing an environment favoring competition, privatization, and modernization.

The first private mobile telephone operator's license was awarded in 1999. This was followed by the sale of a 35 percent stake in Maroc Telecom in 2000. Maroc Telecom holds a monopoly on fixed lines, but this belies the depth of competition between the two telecoms, marked by the meteoric rise of the cellular phone, from just over 40,000 mobile phones in 1997 to over 6 million at the end of 2003. Over the same period, the percentage of the population with telephone lines increased from 5 to 28 percent, with cellular phones becoming available even in rural areas. By comparison, the number of fixed lines peaked at 2.1 million in 2000, then fell to 1.17 million by the end of 2003 (Royaume du Maroc, Département de la Poste, des Télécommunications et des Technologies de l'Information). In light of these developments, ANRT has twice offered a second fixed operator's license, but has yet to find a bidder.

The liberalization of the telecommunications sector has also generated a considerable amount of foreign direct investment. FDI in the telecommunications sector brought in $2.3 billion in 1999 and $2.7 billion in 2000, compared to government investment of $1.2 billion between 1995 and 2002 (Ibahrine). As a result of this investment, Morocco moved from one of the last in the Arab world in terms of telephone availability to become second only to the oil-rich United Arab Emirates.

Even greater freedom has been allowed in the area of Internet access, with the ANRT providing licenses to dozens of Internet service providers (ISPs) and encouraging the proliferation of cyber cafes across the country. In an environment of few restrictions

and rapidly improving infrastructure, internet usage in Morocco has increased substantially in recent years, from a few thousand in 1996 to about half a million by 2004. Dial-up access now costs less than $10 per month, and in the major cities broadband access is available for as little as $20 per month. Still, rather than purchase home service, most Moroccans who use the Internet instead pay $1.00 per hour at the cyber cafes popping up across the country. Virtually no limitation has been placed on internet content, even for politically sensitive issues and organizations. In general, however, most material is available only in French and English, and Arabic content lags behind somewhat.

While most Internet users are concentrated in Rabat and Casablanca, the government has undertaken initiatives to broaden computer literacy and to steer Morocco towards a knowledge economy. In 2001, the government launched its E-Morocco strategy with the goal of establishing high bandwidth networks for use in education and commerce. The program falls under the Office of the Secretary of State for the Post, Telecommunications and Information Technology, who reports directly to the Prime Minister. This office optimistically anticipates that fully one-quarter of all Moroccans will have Internet access in some form by the year 2010. The king has set a goal for 10,000 computer professionals to be trained by the country's universities each year. While it does not seem likely that this goal will be met anytime soon, this focus on building IT infrastructure is likely to have far-reaching results.

Perhaps the greatest hindrance to the growth of the Moroccan economy, however, is the relative difficulty of obtaining capital. The Casablanca Stock Exchange (CSE) lists just 55 companies, with a capitalization of about $15 billion. The large majority of enterprises are funded through the banks. Since banks rely on longstanding business relationships between loan officers and their clients, they tend to require a lower level of public disclosure than would be sought from a publicly listed company. Thus there is less pressure on companies to provide the accountability structures associated with good corporate governance. The Conference Général des Entrepreneurs Marocains (CGEM) recently published a survey of businessmen showing that 41% of investors in Morocco would be willing to pay a premium, however, for a well-governed company. While the government has done much to improve the investment environment in Morocco, the country only stands to benefit from encouraging the listing of more companies on the stock market. In addition to alleviating the scarcity of capital for enterprise, such a development would also increase the accountability, quality, and, ultimately, profitability of Moroccan enterprises.

Morocco also possesses a growing civil society. Transparency Maroc, a chapter of Transparency International, has been permitted wide latitude in publicizing the fight against corruption in Morocco, even running an ad campaign on billboards and television in 2002. Maroc 2020 is another initiative that seeks to create a forum for debate on the issues facing Morocco by bringing together various associations and holding conferences across the country.

Morocco has made noteworthy progress in increasing public accountability both in political and in technological arenas. These developments have already brought considerable gains, both financially and with regard to quality of life. It is therefore to be hoped that Morocco will continue to pursue the implementation of laws and practices that increase the openness of Moroccan society and allow all Moroccan citizens to participate in their common welfare.

Conclusion

These case studies illustrate the recent progress in the Arab Region toward greater transparency and accountability. They are steadily increasing their communications capacities. Although the number of telephone lines or Internet connections cannot indicate the quality of the information flows, the steady expansion of telecommunications and information technology is building momentum and, statistically at least, seems as much of a determinant of foreign direct investment as greater civil liberty. The region is experiencing a communications and information revolution that may more closely integrate it into global economy.

While better communications do not of themselves guarantee the quality and content required to attract more investment, the available data from a cross national sample of 83 countries indicate that information infrastructure matters. An information factor consisting of mobile and fixed telephone lines per capita, internet use, and newspaper readership was significantly correlated with gross FDI, averaged for the years 1999 and 2000, even after taking per capita income, stock market capitalization, foreign trade, and domestic credit into account. Table 4 also showed that information infrastructure, especially telephone lines, was a better predictor of gross FDI than the country scores of civil liberties provided by Freedom House (or other subjective measures of political liberalization).

The Arab countries tend, as Table 5 indicated, to have fewer telephone lines and Internet users per inhabitant than their wealth would predict. The case studies indicate, however, that a number of these countries are taking important strides to overcome their information deficit. Algeria, for instance, may be rapidly coming from behind, after a decade of domestic violence, to catch up with Morocco, which has already made astonishing progress in the telecommunications sector. Algeria is also trying to harness the Internet to the cause of greater accountability, by linking members of parliament to their constituents. Furthermore, Algeria features one of the liveliest presses in the Arab world, and the principal newspapers are available online.

Dubai, enjoying special advantages of wealth and size as well as visionary leadership, leads the way in e-government, providing many government services online and meeting the highest standards of the industrial world (e.g. Finland). Other poorer, more populated countries of the region, however, are also developing cutting edge Internet presences. Jordan plans to forge ahead in alliance with Microsoft. Egypt’s Information Highway expresses ambitious government designs to bring services to the people. Facilitating the flow of information may also render the government service agencies more accountable. Perhaps other reformers will take note of Dubai’s methods of monitoring them – “mystery shoppers” on the Internet – and of awarding the outstanding administrators and workers in annual ceremonies presided by the crown prince.

The work of traditional government auditing agencies is being supplemented by a growing involvement of civil society organizations. Transparency International has

active affiliates in Jordan, Lebanon, and Morocco that hold conferences and publicize the importance of transparency and accountability in combating corruption in both the public and private sectors. Jordan also creatively invigorated its auditing authority with the help of General Intelligence Department. Stock markets have provided an important context for improving transparency and accountability in the private sector (including listed public sector companies). These markets are new to most countries of the region, and the older ones of Egypt and Lebanon have been recently modernized so as to offer investors new platforms for portfolio investment. As Egypt illustrates, they offer opportunities for propagating OECD guidelines of corporate governance to the private sector. The Egyptian Capital Market Authority de-listed companies that did not comply with the new guidelines. Efforts are also being made in a number of Arab countries to promote these guidelines to family-owned enterprises that are not listed on stock exchanges.

Reform is a piecemeal process that involves traditional government agencies, new authorities and financial institutions, bilateral and multilateral technical assistance, and transnational organizations. New technologies are helping gradually to open up the flows of information that may render authorities more accountable and investors more forthcoming. In many of the countries the media are becoming bolder, following the examples of Lebanon and the transnational media such as Al-Jazeera and Al-Arabia. The needs of the growing financial markets are also encouraging the development of a more specialized economic press, especially in Egypt and Morocco. While regional tensions may be postponing substantial political reform, better communications seem quietly to be promoting greater transparency and accountability to meet investors' needs.

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Table 1: Financial Flows to Arab Countries, 1993-2002 (Millions of current US dollars)

Fund Flows to	Type	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Algeria	FDI	..	..	..	..	..	..	..	..	..	..
	Bonds	-$663.0	-$444.5	-$278.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Banks	$210.2	$1,014.3	$793.0	$11.3	-$537.1	-$1,328.2	-$1,511.0	-$1,242.0	-$960.4	-$42.2
	ODA	$225.0	$293.9	$297.7	$308.2	$249.7	$420.5	$138.2	$201.0	$185.1	$361.0
Bahrain	FDI	-$313.8	$9.6	$446.5	$1,743.1	$281.6	-$1.3	$290.4	$354.0	-$134.6	$40.2
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..
	ODA	$97.0	$44.7	$49.2	$82.0	$92.0	$47.1	$4.0	$49.1	$17.9	$70.6
Djibouti	FDI	$1.4	$1.4	$3.2	..	..	..	..	..	..	..
	Bonds	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Banks	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	ODA	$134.1	$128.8	$105.1	$96.9	$85.5	$81.0	$75.1	$71.4	$57.6	$77.8
Egypt	FDI	$493.0	$1,213.0	$505.0	$631.0	$761.4	$1,031.0	$1,027.8	$1,184.0	$497.5	$619.1
	Bonds	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$100.0	$0.0	$1,500.0	$0.0
	Equity	$0.0	$0.0	$0.0	$0.0	$514.5	-$160.0	$657.8	$269.0	$39.2	-$212.1
	Banks	-$411.4	-$283.9	-$311.4	-$420.9	-$37.1	$34.1	-$234.5	$114.7	$14.5	$2.6
	ODA	$2,387.3	$2,681.5	$2,016.3	$2,199.6	$1,985.5	$1,954.9	$1,582.1	$1,328.4	$1,256.7	$1,286.1
Iraq	FDI	..	..	..	..	..	..	..	..	..	..
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..
	ODA	$182.0	$259.2	$339.3	$348.0	$220.2	$115.8	$75.9	$100.8	$122.5	$115.8
Jordan	FDI	$19.5	$26.0	$40.6	$58.8	$360.9	$310.0	$153.5	$781.9	$91.0	$30.7
	Bonds	$15.0	$0.0	$0.0	-$4.9	-$9.9	-$10.2	-$9.2	-$95.0	-$45.0	-$10.5
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$21.9	-$16.8	-$145.1	-$52.2

	Banks	-$126.4	-$183.5	-$200.9	-$154.4	-$122.8	-$113.0	-$59.1	-$60.4	-$24.5	-$24.0
	ODA	$310.3	$372.4	$540.1	$506.9	$462.4	$411.4	$432.1	$552.5	$432.6	$534.3
Kuwait	FDI	-$639.4	$1,519.2	$1,028.7	-$1,392.7	$989.0	$1,926.1	$49.3	$319.5	-$511.9	$164.5
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..
	ODA	$1.0	$3.4	$3.2	$2.5	$0.4	$5.9	$7.2	$2.9	$3.6	$4.6
Lebanon	FDI	$1,811.0	$2,100.0	$2,933.0	$2,552.0	$2,672.0	$1,097.0	$1,400.0	$1,037.0	$1,225.0	$1,783.0
	Bonds	$0.0	$400.0	$350.0	$460.0	$719.4	$1,350.0	$1,126.1	$1,696.0	$2,500.0	$4,625.9
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$44.0	-$51.0	$1.0	$8.0	$4.0
	Banks	-$5.1	-$1.8	$333.3	$77.8	$105.1	$40.6	$68.9	-$308.9	$3.1	-$84.3
	ODA	$137.4	$228.5	$187.2	$235.6	$251.4	$240.8	$194.0	$199.7	$240.8	$455.8
Libya	FDI	$537.5	-$98.5	-$157.1	-$163.9	-$301.4	-$383.7	-$354.0	..	..	..
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..
	ODA	$3.6	$4.2	$6.3	$8.2	$7.1	$7.2	$7.4	$15.4	$10.0	$10.4
Morocco	FDI	$468.3	$527.0	$320.1	$327.1	$1,070.7	$312.8	$831.5	$368.0	$2,727.5	$452.0
	Bonds	$0.0	$0.0	$0.0	$293.3	$0.0	$0.0	-$34.7	-$30.0	-$29.1	-$30.7
	Equity	$23.7	$237.8	$20.4	$141.8	$37.7	$23.9	$6.0	$17.8	-$7.0	-$13.8
	Banks	$28.8	$145.6	$158.2	-$473.6	$91.9	$352.2	-$168.9	$339.3	$91.5	-$368.6
	ODA	$712.5	$631.3	$495.2	$650.1	$464.2	$530.0	$678.7	$419.3	$518.6	$636.2
Oman	FDI	$142.0	$76.5	$46.3	$59.8	$65.0	$101.4	$20.8	$70.2	$41.6	..
	Bonds	$0.0	$0.0	$0.0	$0.0	$225.0	$0.0	$0.0	$0.0	$0.0	-$225.0
	Equity	$0.0	$0.0	$0.0	$10.4	$85.8	$239.3	$13.0	-$10.4	-$2.6	-$13.0
	Banks	-$118.0	$238.4	-$14.8	$86.5	-$314.0	-$325.4	$48.1	$22.8	-$910.2	-$933.3
	ODA	$47.5	$95.3	$58.7	$61.6	$65.0	$43.8	$39.9	$45.6	$1.6	$40.8
Qatar	FDI	..	..	..	..	..	..	..	..	..	..
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..

	ODA	$2.3	$1.3	$2.3	$2.2	$0.9	$1.3	$4.9	$0.5	$1.0	$2.2
Saudi Arabia	FDI	$1,369.0	$349.8	- $1,877.2	- $1,129.0	$3,043.5	$4,289.2	-$780.0	- $1,883.6	$19.7	- $1,015.0
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..
	ODA	$29.4	$16.9	$17.3	$23.3	$10.7	$25.4	$28.9	$31.0	$27.1	$26.9
Somalia	FDI	..	..	..	..	..	..	..	..	..	..
	Bonds	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Banks	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	ODA	$893.3	$537.1	$188.9	$88.3	$80.8	$80.4	$114.7	$103.8	$149.7	$193.8
Sudan	FDI	$0.0	$0.0	$0.0	$0.4	$97.9	$370.7	$370.8	$392.2	..	..
	Bonds	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Banks	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	ODA	$454.0	$412.1	$242.4	$219.6	$138.5	$209.4	$243.0	$225.4	$185.4	$350.9
Syria	FDI	$109.0	$251.0	$100.0	$89.0	$80.0	$82.0	$263.0	$270.0	..	..
	Bonds	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Banks	-$7.0	-$5.3	-$5.4	-$5.4	-$5.4	-$4.1	-$4.8	-$4.0	-$1.4	-$1.4
	ODA	$259.0	$744.7	$359.3	$219.1	$196.8	$155.1	$228.5	$158.5	$155.3	$80.8
Tunisia	FDI	$561.9	$426.1	$269.6	$237.3	$332.8	$650.7	$347.3	$750.7	$456.7	$794.1
	Bonds	$0.0	$0.0	$588.3	$138.0	$586.2	$0.0	$240.0	-$371.3	$453.0	$650.0
	Equity	$19.9	$5.9	$11.6	$28.8	$55.2	$58.0	-$2.5	-$17.5	-$14.6	$6.3
	Banks	-$97.8	-$120.4	-$96.0	$241.9	-$2.9	-$18.0	$150.9	$584.1	$213.8	$174.3
	ODA	$225.7	$105.0	$75.2	$127.2	$194.3	$150.2	$252.6	$222.8	$377.7	$475.0
United Arab Emirates	FDI	..	..	..	..	..	..	..	..	..	..
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..
	ODA	-$10.2	-$8.0	$5.5	$6.7	$1.8	$4.0	$4.2	$4.0	$3.0	$4.2

West Bank and Gaza	FDI	..	..	..	..	..	..	..	..	..	..
	Bonds	..	..	..	..	..	..	..	..	..	..
	Equity	..	..	..	..	..	..	..	..	..	..
	Banks	..	..	..	..	..	..	..	..	..	..
	ODA	$178.7	$460.0	$498.6	$549.8	$603.1	$607.5	$516.2	$637.3	$869.6	$1,616.5
Yemen	FDI	..	..	..	..	..	-$219.4	-$307.6	$6.4	$155.1	$114.3
	Bonds	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Equity	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
	Banks	$9.8	-$5.1	-$1.8	$0.0	$0.0	$1.8	$5.1	-$0.3	-$6.7	$0.0
	ODA	$312.3	$170.1	$169.1	$247.5	$356.3	$370.3	$458.3	$264.8	$461.0	$583.7

Source: World Development Indicators, 2004

Table 2: Stock Market Capitalization (as % of GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bahrain							109.5	108.0	86.9	87.9	89.2
Egypt, Arab Rep.	7.8	8.1	8.2	13.4	21.0	27.5	29.7	36.9	28.9	24.5	29.0
Jordan	62.7	86.3	73.0	68.6	64.8	74.4	73.4	71.6	58.5	71.5	76.2
Kuwait	..	42.0	43.7	54.0	70.3	87.1	72.2	64.5	58.0	..	
Lebanon	..	..	..	3.6	..	19.5	14.7	11.6	9.6	7.3	8.1
Morocco	6.7	9.9	14.4	18.0	23.8	36.4	43.8	38.8	32.7	26.7	23.8
Oman	9.4	9.8	15.0	16.4	17.4	44.9	31.2	27.4	17.4	17.0	19.7
Saudi Arabia	44.6	44.5	32.2	32.0	29.1	36.0	29.2	37.5	35.6	39.3	39.7
Tunisia	5.3	6.5	16.4	21.8	21.8	12.3	11.4	12.9	14.5	11.5	10.1
United Arab Emirates							19.5	14.0	8.2	11.4	..
West Bank and Gaza	..	..	..	..	..	13.1	14.0	19.8	17.5	18.2	..
East Asia & Pacific	25.3	55.6	47.6	43.0	49.0	26.7	32.5	45.8	53.1	45.4	40.4
Europe & Central Asia	1.5	5.9	4.9	7.6	11.1	22.9	11.9	30.5	19.4	19.2	22.7
Latin America & Caribbean	20.9	31.1	29.9	24.0	27.0	30.9	20.4	33.5	33.3	33.0	27.4
Middle East & North Africa	29.0	24.1	19.4	20.2	23.7	28.9	26.3	32.2	31.6	26.1	..
South Asia	22.4	30.5	34.0	29.7	27.5	26.8	21.0	34.1	26.9	19.6	22.7
Sub-Saharan Africa	52.0	92.8	119.8	127.3	110.0	100.8	79.6	119.9	94.4	47.3	..

Source: World Development Indicators, 2004

Table 3: Stock Market Turnover Ratio

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bahrain								6.4	3.6	3	3.0
Egypt, Arab Rep.	..	..	..	10.9	22.2	53.3	22.3	31.6	34.7	14.2	16.1
Jordan	44.4	33.2	13.1	11.1	6.4	10	11.6	9.4	7.7	16.6	14.8
Kuwait	..	..	..	52.8	..	144.9	..	32.8	21.3	..	..
Lebanon	..	..	..	..	..	..	12.4	9.3	6.7	4.1	4.7
Morocco	..	..	..	45.9	5.9	10.2	10.1	17.6	9.2	10	10.7
Oman				11.4	23.5	79.4	33.8	10.4	14.2	14.6	13.0
Saudi Arabia	..	..	..	15.6	..	31.4	26.9	28.8	27.1	31.7	30.4
Tunisia	..	..	..	..	1.5	1.4	0.9	13.3	23.3	12.6	13.7
United Arab Emirates										3.9	3.4
West Bank and Gaza	..	..	..	..	..	..	11	20.9	..	10	10.3
East Asia & Pacific	118.1	115.2	147.5	79.7	208.8	189.1	109	111.5	123.6	72.7	75.4
Europe & Central Asia	..	..	..	..	53	64	59.6	49.2	82.4	53.6	55.5
Latin America & Caribbean	41.1	32	52.6	32.5	39.2	52.5	41.9	28.4	26.8	21.7	23.9
Middle East & North Africa	..	..	..	17.6	..	28.1	18.4	22.2	..	19.6	19.4
South Asia	32.1	25.9	24.6	13.1	23.1	36.9	64.7	101.9	161.1	180.3	210.6
Sub-Saharan Africa	..	..	..	5.3	7.8	20.8	20.5	21.7	22.5	23.7	42.5

Source: World Development Indicators, 2004

Table 4: Correlates of Gross FDI (as % of GDP)

	Basic Model						Telephones	
			Information		Civil Liberties		and Effective	with Arab
				Telephones			Governance	dummy
Per Capita GDP	.0003941***	- 0.000124	-0.000358	(0.000522*)	-0.000188	(0.000503*)	(0.000586**)	(0.000576*)
	t= 3.7	t = -0.85	t= -1.8	t= -2.5	t= -1.3	t= -2.3	t= -2.8	t= -2.6
Trade as % GDP	0.03559*	.05947***	0.0572***	0.0523***	.05934***	0.05251***	.0459**	0.0458
	t= 2.6	t= 4.5	t= 4.2	t= 3.9	t= 4.5	t=3.9	t= 3.5	t= 3.4
Stock Market Cap-	0.0396*	0.0414**	0.0403**	0.0377**	.04217**	0.03825**	0.03068*	0.03065*
italization (% GDP)	t= 2.5	t= 2.95	t= 2.9	t= 2.75	t= 3.0	t= 2.8	t= 2.2	t= 2.2
Credit to Private	-0.0351	-0.0379	-0.04	-0.0335	-0.0356	-0.003	(0.0039*)	(0.0388*)
Sector (% GDP)	t= -1.6	t= -1.9	t= 1.98	t= -1.8	t= -1.8	t= -1.7	t= -2.0	t= -2.0
Information Factor			2.63					
			t= 1.8					
Civil Liberties 1998-2000)					-0.811	-0.382		
					t= -1.6	t = -0.7		
Business Perceptions of							2.95	2.976*
Government Effectivess							t= 2.1	t= 2.1

Fixed and Mobile Telephone				0.0107*		0.009094	0.00905*	0.00881
per 000 people				t= 2.5		t= 1.96	t= 2.1	t= 1.9
OECD dummy		12.672***	12.0***	11.1***	11.8***	10.969***	9.82**	9.74**
		t= 4.6	t= 4.4	t= 4.1	t= 4.3	t = 4.0	t= 3.6	t= 3.5
Arab dummy								-0.348
								t= -0.16
Constant	0.145	0.898	3.18	1.31	4.113	2.813	3.498*	3.535*
	t= 0.1	t= 0.7	t= 1.7	t= 1.0	t= 1.7	t= 1.1	t= 2.1	t= 2.1
Adjusted r-squared	0.386	0.513	0.530	0.542	0.522	0.539	0.560	0.554
F stat.	14.1	18.5	16.2	17.4	16.1	14.8	15.9	13.7
N=	83	83	81	83	83	83	82	82

Source: World Development Indicators, 2003