

**FDI in MENA:
Impact of political and trade liberalisation process.**

**Femise 4107
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Participants

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FDI in MENA:
Impact of political and trade liberalisation process.
Motivations

- Foreign Direct Investment (FDI) represents opportunities for emerging countries and especially for MENA countries during their political transition and trade liberalisation processes.
- Important issues for policy makers in MENA:
 - How to attract FDI and limit disinvestment (DFDI)?
 - What is the role played by trade liberalisation to attract FDI?
 - How Banking crises and the Arab Spring affected FDI in MENA?
 - Do it affect the number of investments or the amounts invested?

FDI in MENA:
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Objectives

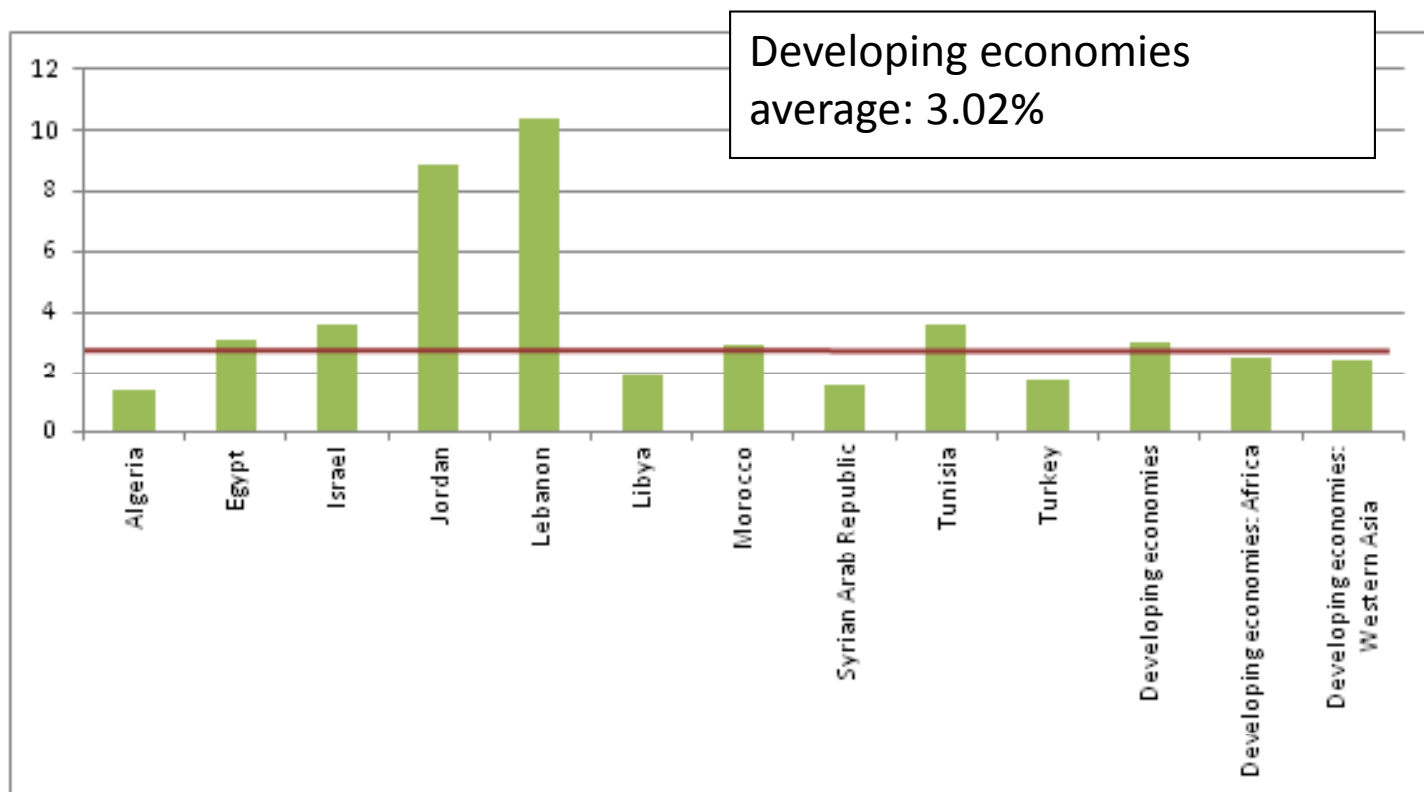
- How political, financial and trade liberalization reforms affect the volume (intensive margin) and number (extensive margin) of foreign investments?
- In a first step, we will analyze the **nature and trend of FDI in the MENA** and the different legislations applying to FDI in these countries. (Objective 1)
- In a second step, we will estimate **several augmented gravity equations to study**
 - Objective 2: Specificity of MENA as host countries;
 - Objective 3: Specificity of Emerging countries as investors in the MENA;
 - Objective 4: Impact of business, political and FDI enhancing policies on FDI flows to the MENA;
 - Objective 5: Impact of trade liberalisation on FDI: Within the EU-Med agreements.

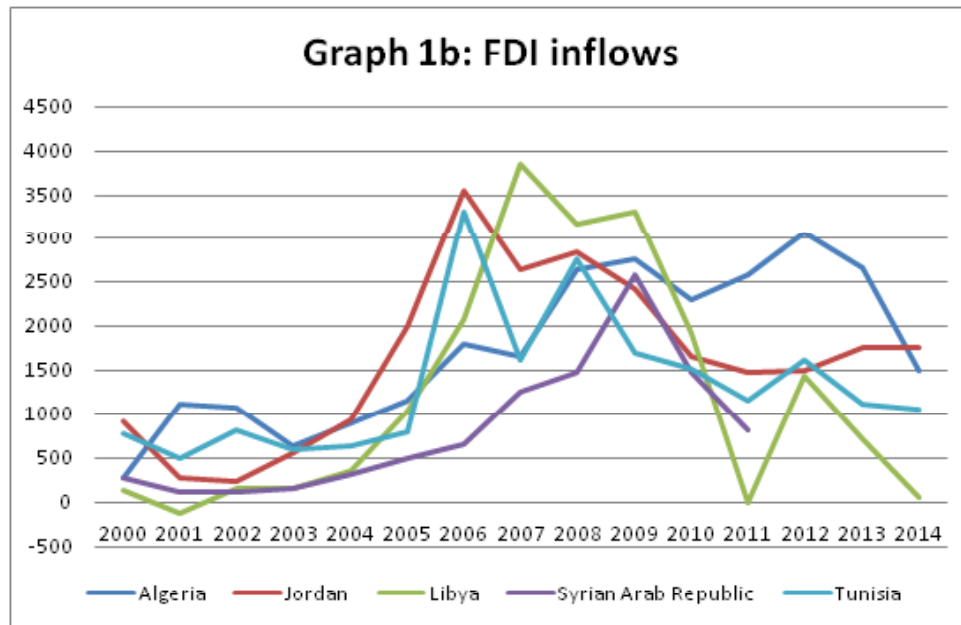
FDI in MENA:

Objective 1: Global outlook of FDI in the MENA

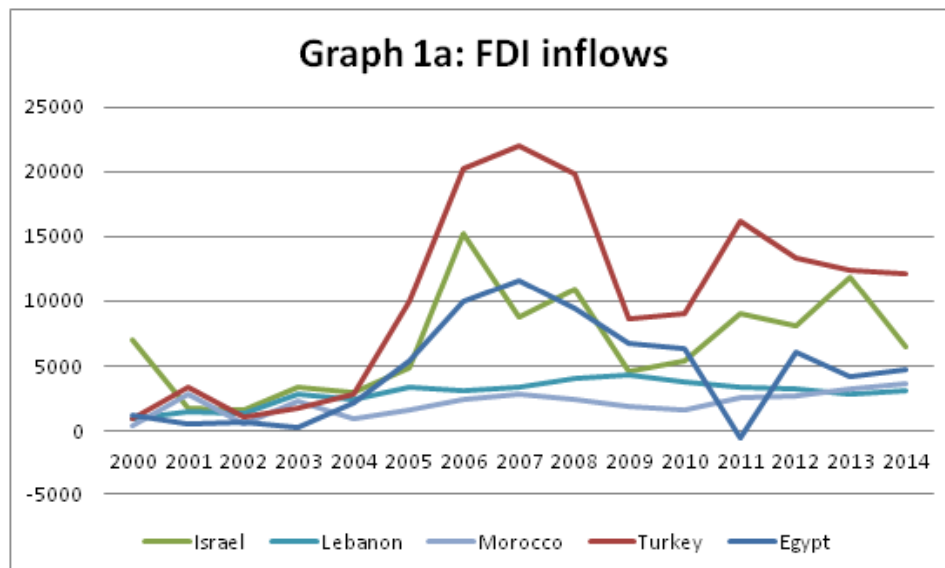
- Preliminary results:
 - Overview of FDI in MENA since 2000 (Unctad): weight in GDP and FBCF
 - Weight of Greenfield investment compared with M&A (Unctad)
 - Origin of Greenfield investment, activities, jobs creation
- In the future, we will review the local policies and measures undertaken in these countries to attract FDI

FDI in MENA:
Objective 1: Global outlook of FDI in the MENA
FDI inflows over GDP (%)
Average 2000-2013 UNCTAD





**FDI in MENA:
Objective 1: Global
outlook of FDI in
the MENA
FDI inflows
(millions \$)
2000-2013 UNCTAD**



FDI in MENA:
Objective 1: Global outlook of FDI in the MENA

Greenfield investment /Total Projects	Numbers	Value
Turkey	0.64	0.62
Israel	0.43	0.41
Egypt	0.76	0.80
Lebanon	0.88	0.67
Morocco	0.87	0.89
Algeria	0.91	1.00
Jordan	0.71	0.93
Tunisia	0.89	0.94
Libya	0.92	0.98
Syrian Arab Republic	0.94	1.00

FDI in MENA:
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Characteristics of the dataset

- FDI data set has been taken from the Financial Times Ltd. cross-border investment monitor FDI Markets.
- Dataset t includes data for Greenfield investments (both investments, disinvestments and reinvestments (RFDI)).
- Data are disaggregated by countries of origin and destination.
- For each project, information about the number of jobs created and the activity is provided.
- Then, we know both the number of projects and the volume of the projects.

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Characteristics of the dataset

	total GI	Number of projects	Average investment	Total jobs
Algeria2012	1.987	10	199	4.430
Libya2012	50	7	7	148
Egypt2012	6.882	31	222	8.602
Morocco2012	617	37	17	3.743
Israel2012	733	15	49	784
Syria2012	.	.	.	.
Jordan2012	1.057	14	75	1.004
Tunisia2012	1.066	18	59	2.281
Lebanon2012	68	6	11	188
Turkey2012	6.388	94	68	14.427

FDI in MENA:
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Characteristics of the dataset

	Manufacture %	Sales %	Construction %	Services %	Other %
Algeria2012	98,3%	0,1%	0,0%	1,6%	0,0%
Libya2012	0,0%	50,3%	0,0%	49,7%	0,0%
Egypt2012	55,2%	0,6%	36,9%	1,8%	5,6%
Morocco2012	42,9%	28,3%	0,0%	6,4%	22,4%
Israel2012	81,4%	3,6%	0,0%	0,8%	14,2%
Syria2012	.	.	.	.	.
Jordan2012	4,8%	11,6%	4,6%	1,3%	77,8%
Tunisia2012	5,4%	6,5%	32,6%	1,4%	54,1%
Lebanon2012	0,0%	25,9%	0,0%	28,6%	45,5%
Turkey2012	68,7%	11,0%	6,7%	2,8%	10,9%

FDI in MENA: Impact of political and trade liberalisation process. **Characteristics of the dataset**

	EU %	USA %	Japan %	China %
Algeria2012	5,3%	1,7%	0,0%	0,0%
Libya2012	39,6%	0,0%	0,0%	0,0%
Egypt2012	7,1%	0,4%	0,0%	1,4%
Morocco2012	48,3%	25,0%	4,4%	0,9%
Israel2012	9,7%	8,6%	0,0%	81,4%
Syria2012	.	.	.	.
Jordan2012	7,5%	0,0%	0,0%	0,0%
Tunisia2012	69,7%	4,7%	0,0%	0,0%
Lebanon2012	18,8%	2,6%	0,0%	0,0%
Turkey2012	20,1%	11,1%	3,0%	11,7%

FDI in MENA: Baseline model for objectives 2 to 5

- Gravity model to explain FDI_{ijt} (home i , host j in year t)
- Role played by:
 - demand and supply (GDP_{it} and GDP_{jt})
 - cultural (language), historical (colony), religious (rel) and geographical ($Dist$, border smctry $_{ij}$) distances,
 - bilateral investment (BIT) and trade (FTA) agreements
- we add fixed home and host country dummies (λ_{it} and λ_{jt}); and fixed year dummies, lastly e_{ijt} represents a stochastic error term.
- $FDI_{ijt} = \exp(\beta_1 \ln(D_{ij}) + \beta_2 \ln(\text{border}_{ij}) + \beta_3 \ln(\text{colony}_{ij}) + \beta_4 \ln(\text{lang}_{ij}) + \beta_5 \ln(\text{smctry}_{ij}) + \beta_6 \ln(\text{rel}_{ij}) + \beta_7 \ln(\text{comcur}_{ij}) + \beta_8 \text{BIT}_{ijt} + \beta_9 \text{FTA}_{ijt} + \beta_9 \ln(GDP_{it} + \beta_9 \ln(GDP_{jt} + \lambda_{it} + \lambda_{jt})) + e_{ijt})$
- To hedge estimation bias due to zeros in the database, we follow Silva and Tenreyro ([2006](#)) and estimate FDI counts and flows with the poisson pseudo maximum likelihood (PPML) method

FDI in MENA:

Objective 2: Specificity of MENA as host countries

- We study the specificities of MENA countries (compared to the world average) when attracting.
- To this end, we add to the baseline model, the key variables interacted with a dummy for MENA countries in order to identify specificities for these countries.
- Note that this would be impossible with a sample including only MENA countries and their main partners

variables	FDI (Value)	FDI (Nb projects)
ln(GDPi*GDPj)	0.575 ^{****}	0.690 ^{****}
ln(Distance)	-0.335 ^{****}	-0.362 ^{****}
ln(Distance)*MENA	-0.014	-0.037 [*]
Contiguity	0.150	-0.087
Contiguity*MENA	-1.676 ^{****}	-0.633 ^{**}
Common language	0.402 ^{****}	0.474 ^{****}
Language*MENA	0.574 [*]	0.126
Colony	0.545 ^{****}	0.566 ^{****}
Colony*MENA	-0.427	0.365 ^{**}
Same country	0.605 [*]	0.650 ^{****}
Same country*MENA	-0.282	-0.035
Religion	-0.149	-0.127
Religion*MENA	1.561 ^{****}	1.081 ^{****}
Free Trade Agreement (FTA)	0.171 [*]	0.207 ^{****}
FTA*MENA	-0.503 ^{**}	-0.239 ^{**}
Bilateral Investment Treaty (BIT)	-0.033	0.071
BIT*MENA	0.022	-0.054
Fixed effects	interaction s countries and year	interaction s countries and year
Observations	36772	36772
R ²	0.495	0.891
MENA: 1 if host is MENA		

- For the whole sample:
 - determinants of the intensive (value) and extensive (number) margins are similar
 - Religion and contiguity have no significant effect
 - FTA fosters FDI
 - BIT have no effect
- MENAs' specificities compare with the world average:
 - FTA have a negative impact on FDI!
 - Contiguity decreases FDI
 - Same religion increases FDI
 - Common language increases more the value of projects than for others
 - Colony increases more the nb of projects than for others

FDI in MENA:

Objective 3: Specificity of Emerging countries as investors in the MENA

- For FDI flows to MENA countries, we will compare the determinants of investments coming from developed and developing countries.
- To this end, we add to the baseline model , key variables interacted with a dummy **for FDI coming from emerging economies** in order to identify specificities for these countries.
- If differences apply, the policies to attract these investments should also be different depending on the origin of FDI.

FDI in MENA:

Objective 4 Impact of business, political and FDI enhancing policies on FDI flows to the MENA

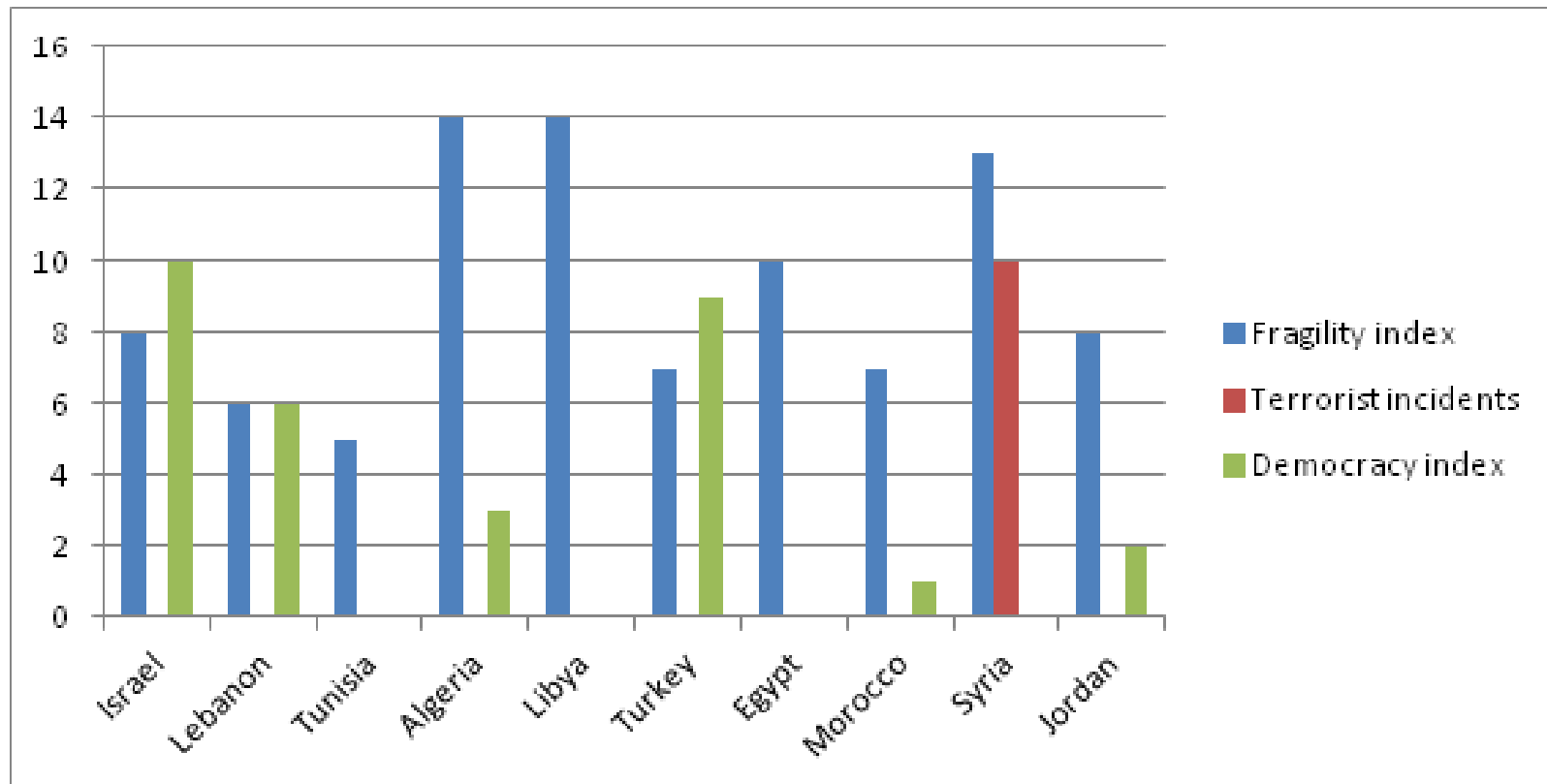
- We seek to assess to which extent local policies aiming at attracting FDI and the particular political and business circumstances of MENA countries have an impact on FDI.
- We include in the baseline model as explicative variables, some indicators of:
 - policies driven at the country level to attract FDI;
 - **Microeconomic determinants of investment** as measured by SACE indexes (Bank credit risk; Corporate credit risk; Expropriation and breach of contract; Sovereign credit risk; Transfer and convertibility risk; War and civil disturbance risk).
 - **Conflicts are taken from the Center for Systemic Peace:** Regime Authority and Transitions Characteristics, Armed Conflict and Intervention and State Fragility Indexes.

Center for systemic peace (2012).

Country fragility index (0 to 25 -fragile-)

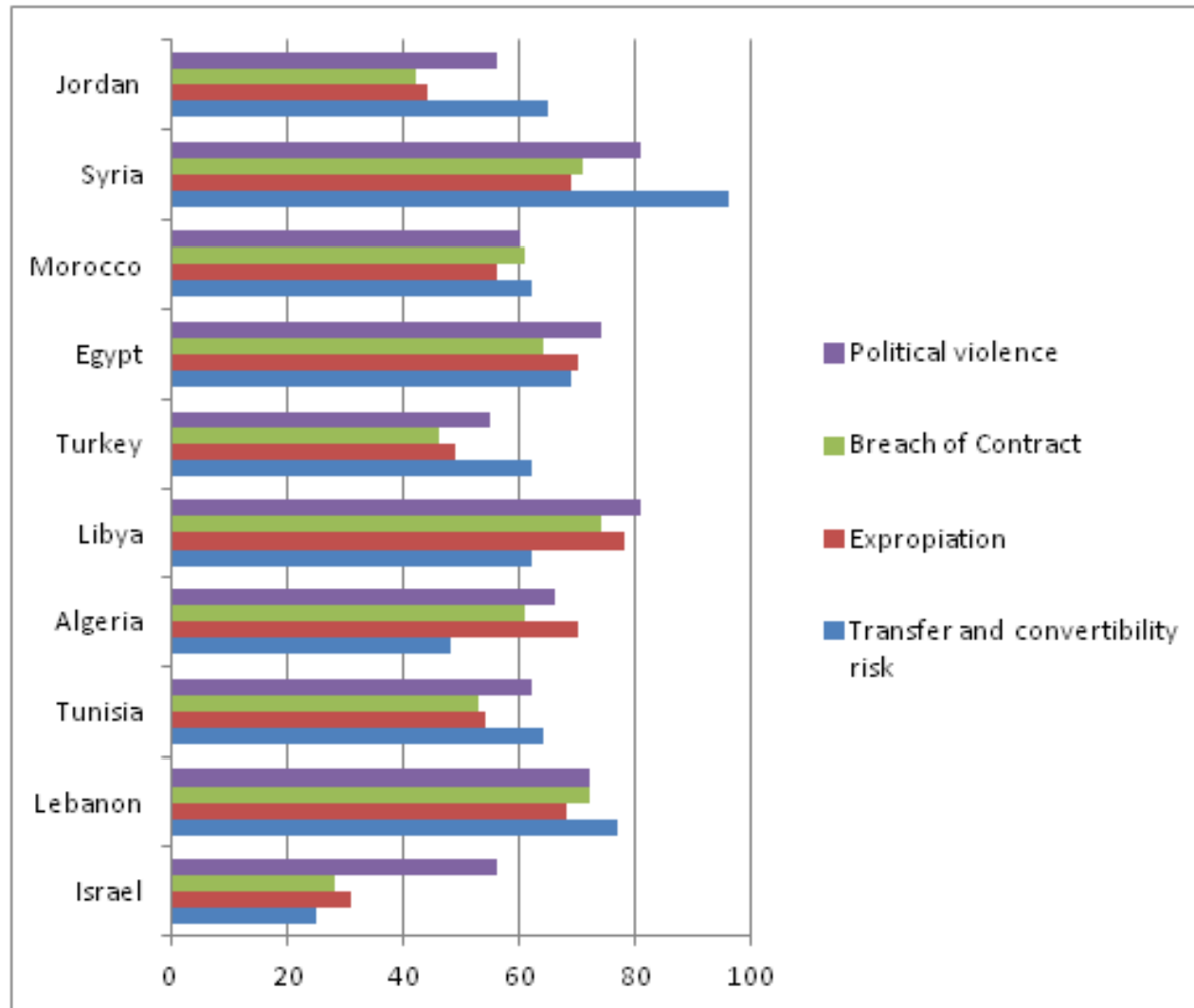
Terrorist incidents: number of terrorist attacks.

Democracy index (0 to 10 -full democracy-)



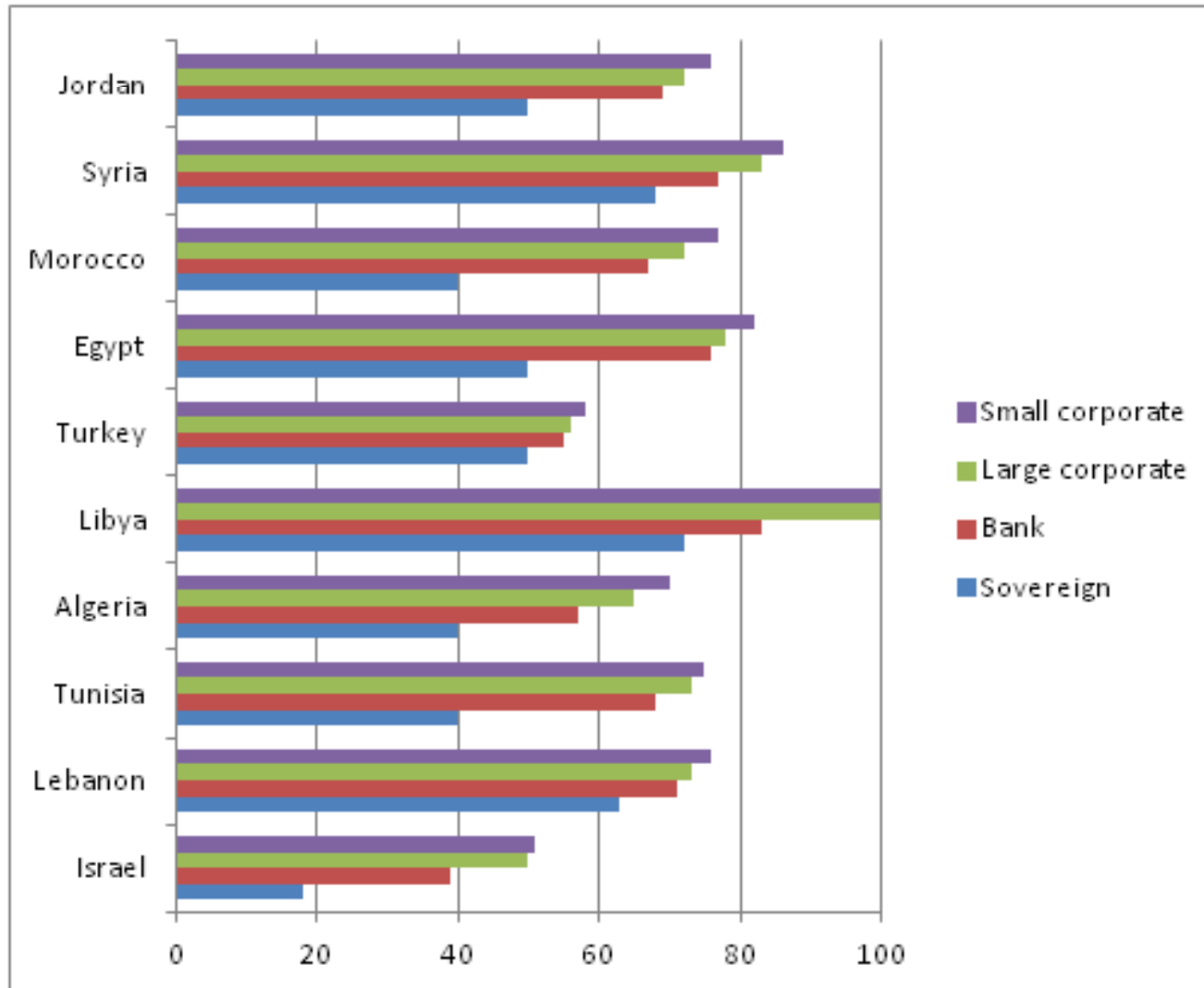
Microeconomic determinants of FDI (SACE)

Political violence, Expropriation risk and Breach of contract risk (likelihood to occur).



Microeconomic determinants of FDI (SACE)

Small and large corporate, Banks, and sovereign risk is the credit risk of these economic agents.



Other push or pull factors

Role played by :

WAIPA: World Association of Investment Promotion Agencies.
 ICSID: International Centre for settlement of investment disputes.
 New York Convention
 Funds from European Investment Bank (EIB)

	Weighted mean tariff %*	Member of WAIPA	ICSID	NY Convention	Finance contracts signed with EIB 03-12 (thousand euros)
Israel	0.9	Yes (1)	Yes	Yes	882.387
Lebanon	4.3	Yes (1)	Yes (2003)	Yes	8.735
Tunisia	15.9	Yes (1)	Yes	Yes	3.097.950
Algeria	9.4	Yes (1)	Yes	Yes	755.498
Libya	.	Yes (1)	No	No	0
Turkey	2.8	Yes (20)	Yes	Yes	17.655.819
Egypt	8.2	Yes (2)	Yes	Yes	3.666.179
Morocco	4.1	Yes (1)	Yes	Yes	3.674.180
Syria	14.2	No	Yes (2005)	Yes	1.331.850
Jordan	5.1	Yes (1)	Yes	Yes	508.572

FDI in MENA:

Objective 5 Impact of trade liberalisation on FDI

- Within the EU-Med agreements, MENA countries have reduced tariffs applied on EU products mainly for manufactured goods.
- Expected impact on FDI is not clear:
 - On one hand, imports may act as a substitute for horizontal FDI that seeks to access local consumers.
 - On the other hand, the liberalisation process may increase the efficiency of local plants and in general guarantee a more transparent environment for foreign investors what could enhance FDI.
- We propose to assess the **impact of tariffs and imports on FDI** flows from EU countries to the MENA by including these indicators in an augmented gravity model
- This will allow us to quantify to what extent trade liberalisation contributes to attract FDI or not.
- Bilateral tariffs and Non tariff barriers will be obtained from the UNCTAD/TRAINS database.