KADIR HAS UNIVERSITY
GRADUATE SCHOOL OF SOCIAL SCIENCES
DEPARTMENT OF INTERNATIONAL TRADE AND FINANCE

INVESTMENT POLICIES AND DETERMINANTS OF FDI INFLOWS: AN ANALYSIS OF THE LAST TWO DECADES IN FIVE NORTH AFRICAN COUNTRIES

AHMED M.H. MUSABEH

SUPERVISOR: ASST. PROF. DR. SABRI ARHAN ERTAN

PHD THESIS

ISTANBUL, MAY, 2018

INVESTMENT POLICIES AND DETERMINANTS OF FDI INFLOWS: AN ANALYSIS OF THE LAST TWO DECADES IN FIVE NORTH AFRICAN COUNTRIES

AHMED M.H. MUSABEH

SUPERVISOR: ASST. PROF. DR. SABRI ARHAN ERTAN

PHD THESIS

Submitted to the Graduate School of Social Sciences of Kadir Has University in partial fulfillment of the requirements for the degree of PhD in the Discipline Area of SOCIAL SCIENCE under the Program of BANKING AND FINANCE

ISTANBUL, MAY, 2018

ACCEPTANCE AND APPROVAL

This work entitled **INVESTMENT POLICIES AND DETERMINANTS OF FDI INFLOWS: AN ANALYSIS OF THE LAST TWO DECADES IN FIVE NORTH AFRICAN COUNTRIES** prepared by **AHMED MUSABEH** has been judged to be successful at the defense exam held on **08.05.2018** and accepted by our jury as **PH.D. THESIS**.

Asst. Prof. Dr. Sabri Arhan ERTAN	(Advisor)	Kadir Has University
Prof. Dr. Nurhan DAVUTYAN		Kadir Has University
Prof. Dr. A.Suut DOĞRUEL		Marmara University
Assoc. Prof. Dr. Hasan TEKGÜÇ		Kadir Has University
Assoc.Prof. Dr,Tolga Umut KUZUBAŞ		Bogazici University

I certify that the above signatures belong to the faculty members named above.

Prof. Dr. Sinem AKGÜL AÇIKMEŞ
Dean/ GSSS
Date of Approval
8/5/2018

I, AHMED MUSABEH;

Hereby declare that this Ph.D. Thesis is my own original work and that due references have been appropriately provided on all supporting literature and resources.

AHMED MUSABEH

FORWARD

Foremost, I would like to express my sincere gratefulness to my advisor Asst.Prof.Dr. S. Arhan ERTAN for the continuous support of my Ph.D. study and research, for his precious guidance, patience, enthusiasm, motivation, immense knowledge, and “being a brother more than a teacher” throughout the completion of this study. Furthermore, my study experience with him enriched my knowledge to the point of becoming an unforgettable stage in my life.

Besides my advisor, I would like to thank the jury committee Prof. Dr. A.Suut DOĞRUEL, Prof. Dr. Nurhan DAVUTYAN, Assoc. Prof. Dr. Hasan TEKGÜÇ, and Assoc. Prof. Tolga Umut KUZUBAŞ for their support and every advice they gave. I admit that they are really encouraging scholars.

Last but not least, all my love and gratitude to my family, my mother, my father, and my brothers and sister for their unutterable support and being patient waiting for me to come back again to my country Palestine. Absolutely, neither this thesis nor my education would have been possible without their encouragements and "sacrifices".

Finally, to my uncle, Mr. Saeed Musabeh, thank you for your unforgettable and limitless support during this journey.

TABLE OF CONTENT

TABLE OF CONTENT ..... **vi**
ABBREVIATIONS ..... **xi**
LIST OF TABLES ..... **xii**
LIST OF FIGURES ..... **xiv**
ABSTRACT ..... **xv**
1. INTRODUCTION **17**
1.1. RESEARCH MOTIVATION 20
1.2. RESEARCH AIMS AND QUESTIONS 21
1.3. RESEARCH METHODOLOGY 22
1.4. STRUCTURE OF THE THESIS 22
2. FOREIGN DIRECT INVESTMENT: CONCEPTUAL FRAMEWORK **24**
2.1. DEFINITION OF FOREIGN DIRECT INVESTMENT 24
2.2. TYPES OF FOREIGN DIRECT INVESTMENT 26
2.2.1. Type by Direction (Inward and Outward FDI) 26
2.2.2. Type by Target 26
2.2.3. Type by Motive 29
2.3. THE PROS AND CONS OF FDI 30
2.3.1. The Pros of FDI to The Host Country 30
2.3.2. The Cons of FDI to the Host Country 32
3. THEORIES OF FOREIGN DIRECT INVESTMENT **34**
3.1. Capital Market Theory 35
3.2. Product Life Cycle Theory 35
3.3. Internationalization Theory 36
3.4. Industrial Organization Theory 37
3.5. International Production theory (Eclectic Paradigm) 38
3.6. Entry Mode Theory 40
3.7. Investment Development Path Theory 42
4. REVIEW OF THE LITERATURE FOCUSING ON POLICIES AND VARIABLES AFFECTING FDI **44**
4.1. THE GENERATIONS OF INVESTMENT PROMOTION POLICIES 44
4.2. ECONOMIC VARIABLES 46

4.2.1. Market Size 46
4.2.2. Natural Resources 47
4.2.3. Infrastructure Improvements 48
4.2.4. Human Capital 49
4.2.5. Macroeconomic Stability Variables 50
4.3. DOMESTIC INVESTMENT POLICIES 51
4.3.1. Privatization Policy 52
4.3.2. Investment Incentives Policies 53
4.3.3. The Policies of Removal of Investment Restrictions 54
4.4. INTERNATIONAL TRADE AND FDI POLICIES 54
4.4.1. Bilateral Investment Treaties 55
4.4.2. Regional Investment Agreements 56
4.4.3. Double Taxation Agreements 56
4.4.4. Trade liberalization Policies 56
4.5. INSTITUTIONAL VARIABLES AFFECTING FDI 60
4.5.1. Corruption Control 61
4.5.2. Legal and Organizational Framework of Investment 62
4.5.3. Private and Intellectual Property Protection 62
4.6. POLITICAL VARIABLES AFFECTING FDI 63
5. FDI INFLOWS IN NORTH AFRICA REGION: ANALYSIS OF INVESTMENT ENVIRONMENT 64
5.1. OVERVIEW OF NORTH AFRICA ECONOMIC INDICATORS 66
5.1.1. FDI Inflows Trend in North Africa (1990-2013) 67
5.2. FOREIGN DIRECT INVESTMENT IN ALGERIA 69
5.2.1. Overview of the Algerian Economy 69
5.2.2. Investment Promotion Laws and its Development in Algeria 70
5.2.3. Regional and Bilateral Investment Agreements 71
5.2.4. The Trend of FDI inflows in Algeria 1990-2013 71
5.2.5. Sectoral Distribution for Inward FDI in Algeria (2003-2015) 75
5.2.6. FDI and Foreign Trade Policies 75
5.2.7. Human Capital Development 76
5.2.8. Infrastructure Development 78
5.2.9. Business Environment Indicators 79
5.2.10. Main Constraints of FDI in Algeria 83

5.3. FOREIGN DIRECT INVESTMENT IN EGYPT 85
5.3.1. Overview of the Egyptian Economy 85
5.3.2. Investment Promotion Laws and its Development in Egypt 86
5.3.3. Regional and Bilateral Investment Agreements 88
.5.3.4 The Trend of FDI Inflows in Egypt (1990-2013) 88
5.3.5. Sectoral Distribution for Inward FDI in Egypt 2003-2015 90
5.3.6. FDI and Foreign Trade Policies 91
5.3.7. Human Capital Development 92
5.3.8. Infrastructure Development 94
5.3.9. Business Environment Indicators 95
5.3.10. Main Constraints of FDI to Egypt 97
5.4. FOREIGN DIRECT INVESTMENT IN LIBYA 100
5.4.1. Overview of the Libyan Economy 100
5.4.2. Investment Promotion Laws and its Development in Libya 100
5.4.3. Regional and Bilateral investment agreements 102
5.4.4. The Trend of FDI inflows in Libya 1990-2013 103
5.4.5. Sectoral Distribution for Inward FDI in Libya 2003-2015 105
5.4.6. FDI and Foreign Trade Policies 105
5.4.7. Human Capital Development 106
5.4.8. Infrastructure Development 107
5.4.9. Business Environment Indicators 107
5.4.10. Main Constraints of FDI in Libya 110
5.5. FOREIGN DIRECT INVESTMENT IN MOROCCO 112
.5.5.1 Overview of the Moroccan Economy 112
5.5.2. Investment Promotion Laws and Its Development in Morocco 113
5.5.3. Regional and Bilateral Investment Agreements 114
5.5.4. The Trend of FDI inflows in Morocco (1990-2013) 114
5.5.5. Sectoral Distribution for Inward FDI in Morocco 2003-2015 117
5.5.6. FDI and Foreign Trade Policies 117
5.5.7. Human Capital Development 118
5.5.8. Infrastructure Development 120
5.5.9. Business Environment Indicators 121
5.5.10. Main Constraints of FDI to Morocco 123
5.6. FOREIGN DIRECT INVESTMENT IN TUNISIA 125

5.6.1. Overview of the Tunisian Economy 125
5.6.2. Investment Promotion Laws and Its Development in Tunisia 125
5.6.3. Regional and Bilateral Investment Agreements 127
5.6.4. The Trend of FDI inflows in Tunisia (1990-2013) 127
5.6.5. Sectoral Distribution for Inward FDI in Tunisia 2003-2015 128
5.6.6. FDI and Foreign Trade Policies 129
5.6.7. Human Capital Development 129
5.6.8. Infrastructure Development 130
5.6.9. Business Environment Indicators 131
5.6.10. Main Constraints of FDI to Tunisia 131
.5.7 SUMMARY of TREND OF FDI INFLOWS IN NORTH AFRICA 133
6. AN EMPIRICAL ANALYSIS OF DETERMINANTS OF FDI INFLOWS IN NORTH AFRICA REGION 139
6.1 LIMITATIONS OF THE STUDY 139
6.2 DATA AND VARIABLES 139
6.2.1. The Measurement of Foreign Direct Investment (FDI) 140
6.2.2. Explanatory Variables 141
6.2.2.1. Economic Variables and Policies 141
6.2.2.2. Investment FDI Policies 145
6.2.2.3. Institutional Quality Variables 147
6.2.2.4. Political Instability Variables 148
6.3. EMPIRICAL ESTIMATION 150
6.3.1. Summary Statistics and Correlation 151
.6.3.2 Pre-Estimation Tests 154
6.3.2.1. Stationarity Test 154
6.3.2.2. Hausman Test 155
6.3.2.3. Heteroscedasticity Test 156
6.3.2.4. Test for Serial Correlation 156
6.3.2.5. Cross- Sectional Dependence Test 157
6.3.3. Post-Estimation Tests 163
6.3.3.1. Unit Root Test For Error Terms (Level) 163
6.3.3.2. Normlity Tests for Error Term 163
6.3.3.3. Robustness Test 164
6.4. EMPIRICAL RESULTS 168

7. DETERMINANTS OF BILATERAL FDI WITH NORTH AFRICA REGION: AN ANALYSIS WITH GRAVITY MODEL 171
7.1. DATA AND VARIABLES 173
7.1.1. Economic Size 173
7.1.2. Geographical and Culture Factors 173
7.1.3. Bilateral Trade 174
7.1.4. Inflation Rate 175
7.1.5. Financial Development 175
7.1.6. Bilateral Investment Treaties 175
7.1.7. Human Capital Development 176
7.2. EMPIRICAL ESTIMATION 177
7.2.1. Summary Statistics, Correlation and Stationarity Tests 178
7.2.2. Multicollinearity Test 179
7.3. SUMMARY OF RESULTS 186
8. CONCLUSION 187
8.1. CONCLUDING REMARKS 187
8.2. LIMITATION OF STUDY 191
8.3. THESIS CONTRIBUTION AND FUTURE RESEARCH 191
REFERENCES 193
APPENDIX 218

ABBREVIATIONS

AEC	African Economic Community
AIM	Annual Investment Meeting report
APSI	Agency of Promotion and Support Investment
BITs	Bilateral Investment Treaties
CAPMAS	Central Agency for Public Mobilization and Statistics
COMESA	Common Market for Eastern and Southern Africa
DTAs	Double Taxation Agreements
EFTA	European Free Trade Association
ERSAP	Economic Reform and Structural Adjustment Program
EU	Europe Union
FDI	Foreign Direct Investment
Fisher	Fisher-type test
FTA	Free Trade Agreement
GCC	Gulf Cooperation Council
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
HDI	Human Development Index
IDP	Investment Development Path theory
IMF	International Monetary Fund
IPAs	Investment Promotion Agencies
IPS	Im-Pesaran-Shin test
ITFA	Trade and Investment Framework Agreement
JVs	Joint Ventures
LFs	Labor Force survey
LIB	Libya Investment Board
LLC	Levin-Lin-Chu test
MENA	Middle East and North Africa
MNCs	Multinational Corporations
MNEs	Multinational Enterprises
OECD	Organization for Economic Co-operation and Development
OFDI	outward Foreign Direct Investment
OLI	Ownership, Location and Internalization Eclectic Paradigm
RIAs	Regional Investment Agreements
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United State
VAT	Value Added Tax
WTO	World Trade Organization
ZFTZ	Zuwara Free Trade Zone

LIST OF TABLES

Table 3.1: The electic approach 39
Table 5.1: The main 10 companies investing in Algeria (2003-2015).....74
Table 5.2: Index of education system performance in Algeria. 77
Table 5.3: The value of human development index for Algeria (1995-2013). 77
Table 5.4: Summary of the main procedures in the infrastructure field in Algeria. 78
Table 5.5: Infrastructure development index in Algeria. 79
Table 5.6: Global Competitiveness Index for investment environment Algeria. 82
Table 5.7: The Main Investment Constraint in Algeria. 83
Table 5.8: Inward FDI in Egypt relative to developing countries.....89
Table 5.9: The biggest 10 companies investing in Egypt accumulated (2003-2015). ...90
Table 5.10: The value of human development index for Egypt (1995-2013).....93
Table 5.11: Summary of the main procedures in field of infrastructure in Egypt. 94
Table 5.12: Global Competitiveness Index for investment environment in Egypt.....96
Table 5.13: The main investment constraints in Egypt 2009.2011.....97
Table 5.14: The main investment constraints in Egypt 2013.....98
Table 5.15: The biggest 10 companies investing in Libya (2003-2015).....104
Table 5.16: The Main Countries Exporting Goods to Libya 2014.....106
Table 5.17: The value of Human Development Index for Libya (1995-2013).....107
Table 5.18: Infrastructure Development Index for Libya (2009-2015). 107
Table 5.19: Global Competitiveness Index for investment environment in Libya. 109
Table 5.20: The main investment constraint in Libya 2009.2011.....110
Table 5.21: The main investment constraint in Libya 2013.....111
Table 5.22: Inward FDI in Morocco relative to developing countries.....115
Table 5.23: Index of Primary Higher Education and Training in Morocco.....119
Table 5.24: The value of Human Development Index for Morocco (1995-2013).....119
Table 5.25: Infrastructure development index in Morocco.....120
Table 5.26: Global Competitiveness Index for investment environment in Morocco. 122
Table 5.27: Main investment constraint in Morocco. 124
Table 5.28: Main investment constraint in Morocco. 124
Table 5.29: Inward FDI in Tunisia relative to developing countries. 128
Table 5.30: Index of primary higher education and training in Tunisia. 130
Table 5.31: Infrastructure development index in Tunisia. 130
Table 5.32: Global Competitiveness Index for investment environment in Tunisia. ..131
Table 55.33: The main investment constraint in Tunisia 2009.2011.....132
Table 5.34: The main investment constraint in Tunisia 2015.....132
Table 5.35: Main FDI contributors in North Africa by origin (2003-2015). 133
Table 5.36: Main countries implementing FDI project in North Africa (2003-2015). 134
Table 5.37: Job created by main Greenfield projects in North Africa (2003-2015). ...135
Table 6.1: Data definition and Sources. 149
Table 6.2: Summary statistics of the variables.....151

Table 6.3: Partial correlation VIF test. 152
Table 6.4: The correlation matrix between variables. 153
Table 6.5: Panel Unit Root Tests (Levels). 154
Table 6.6: Panel Unit Root Tests (1st differences). 155
Table 6.7: Breusch-Pagan / Cook-Weisberg test for heteroscedasticity 156
Table 6.8: Random Effects Estimate (time trend) 158
Table 6.9: Random Effects Estimate (Continued) 159
Table 6.10: Random Effects Estimate (Time Dummies). 160
Table 6.6.11: Random Effects Estimates (country-specific time trend) 161
Table 6.12: Random Effects Estimates (country-specific time trend) (Continued) 162
Table 6.13: Unit Root Test for Residual 163
Table 6.14: Result of Multivariate Normality for Residual. 164
Table 6.15: Robustness check (I) with Oil supply. 165
Table 6.16: Robustness check (I) with Government Effectiveness. 166
Table 6.17: Robustness check (III) panel model with lagged variables. 167
Table 7.1: Data definition and Sources. 177
Table 7.2: Summary statistics of the variables. 179
Table 7.3: Partial correlation VIF test. 179
Table 7.4: The correlation matrix between variable. 180
Table 7.5: Cross -section estimation results for (10- years average). 181
Table 7.6: Cross -section estimation results (Fixed effect of home countries). 184
Table 7.7: Cross -section estimation results (Fixed effect of home countries) cont. 185

LIST OF FIGURES

Figure 1.1: FDI Inflows of North Africa region (1990-2015) 18
Figure 1.2: FDI inflows Trend in different regions 1996-2013(%GDP) 19
Figure 1.3: FDI inward stock as a percentage of GDP, Average (1996-2013) 19
Figure 2.1: Types of International Capital Flows. 25
Figure 5.1: Population Trend in North Africa Region (1996-2013) 66
Figure 5.2: Average of Inflation rate and FDI inflows (1996-2013) 67
Figure 5.3: Fuels exports (% of total exports) average (1996-2013) 67
Figure 5.4: Trend of FDI inflows in North Africa region (1990-2015) 68
Figure 5.5: Trend of accumulated inward FDI stock in North Africa (1996-2013) 68
Figure 5.6: Number of Greenfield FDI projects in North Africa region 69
Figure 5.7: Trend of FDI inflow as % of GDP in Algeria (1996-2013) 72
Figure 5.8: The main Greenfield FDI projects in Algeria by origin (2003-2015) 73
Figure 5.9: Number of job created by main Greenfield projects in Algeria (2003-2015) 74
Figure 5.10: Distribution the inward FDI by sector in Algeria (2003-2015) 75
Figure 5.11: The Main Countries Exporting Goods to Algeria (2014) 76
Figure 5.12: GDP contribution by sector in Egypt (2013) 85
Figure 5.13: Trend of FDI inflow in Egypt (1996-2013) 89
Figure 5.14: The main Greenfield FDI projects in Egypt by origin (2003-2015) 90
Figure 5.15: Distribution the inward FDI by sector in Egypt (2003-2015) 91
Figure 5.16: The Main Countries Exporting Goods to Egypt (2014) 92
Figure 5.17: Trend of FDI inflow in Libya (1996-2013) 103
Figure 5.18: The Main Greenfield FDI projects in Libya by origin (2003-2015) 104
Figure 5.19: Distribution the inward FDI by sector in Libya (2003-2015) 105
Figure 5.20: Trend of FDI inflow in Morocco (1996-2013) 115
Figure 5.21: Main Greenfield FDI projects in Morocco by origin (2003-2015) 116
Figure 5.22: The biggest 10 companies investing in Morocco, (2003-2015) 116
Figure 5.23: Distribution of inward FDI by main industries (2003-2015) 117
Figure 5.24: The Main Countries Exporting Goods to Morocco (2014) 118
Figure 5.25: Trend of FDI inflow in Tunisia (1996-2013) 127
Figure 5.26: Main Greenfield FDI projects in Tunisia by origin (2003-2015) 128
Figure 5.27: Main FDI contributors in North Africa by origin 134
Figure 5.28: Main countries implementing FDI project in North Africa by origin 135
Figure 5.29: Jobs created by main Greenfield projects in North Africa (2003-2015) 136
Figure 6.1: Histogram normality test for residual. 163

ABSTRACT

MUSABEH,AHMED. *INVESTMENT POLICIES AND DETERMINANTS OF FDI INFLOWS: AN ANALYSIS OF THE LAST TWO DECADES IN FIVE NORTH AFRICAN COUNTRIES*, PH.D. THESIS, Istanbul, 2018.

North Africa region is considered as one of the wealthiest areas due to (natural resource and strategic location), and "the weakness of economic indicators" in this area regarding investment and FDI represents a considerable challenge for governments and policymakers in these countries. This study examined the main determinants of FDI inflows in North Africa countries and evaluates the effectiveness of FDI related policies on attracting FDI inflows in a sample of five North African countries, namely Algeria, Egypt, Libya, Morocco, and Tunisia.

The empirical analysis of this thesis conducted at two related levels. Chapter six investigated the factors determining FDI inflows of North Africa countries using the annual dataset from the period 1996 to 2013. The regression results indicate that signing investment agreements and adopting more efficient investment policies are statistically significant and has a positive impact on FDI inflows growth in North Africa region. Additionally, the trade liberalization policies and integration into global business have a positive and significant relationship with FDI inflows growth. The study also found that increasing the domestic investment in host countries attract more FDI. Chapter seven used a gravity model to examines the relationship between bilateral trade and FDI inflows in host countries (North Africa countries). And investigating the main determinants of bilateral FDI using a pooled time-series -cross-sectional regression method (10-years average over the period 2001-2010) for net FDI inflows in Five North African countries with 25 investment partners. The Findings asserted that economic size, bilateral trade, common language, financial development of host countries tend to increase the bilateral FDI inflows between North Africa countries and other countries simultaneously, having a common language between host and home countries was found to have a significant and positive impact on bilateral FDI between nations. however, the bilateral distance between host and home countries has a negative impact on FDI.

Keywords:

FDI, North Africa, Investment policies, Trade openness, Gravity model

ÖZET

MUSABEH,AHMED. INVESTMENT POLICIES AND DETERMINANTS OF FDI INFLOWS: AN ANALYSIS OF THE LAST TWO DECADES IN FIVE NORTH AFRICAN COUNTRIES, PH.D. THESIS, Istanbul, 2018.

Bu çalışmada, Kuzey Afrika Ülkeleri'ndeki Doğrudan Yabancı Yatırım (FDI) girişlerinin temel belirleyicileri incelenmiş. Cezayir, Mısır, Libya, Fas ve Tunus olmak üzere, beş Kuzey Afrika ülkesi örneğinde, FDI akışını çekmek ile ilgili politikaların etkinliği değerlendirilmiştir.

Çalışmanın ampirik analizi iki bağlantılı düzeyde yapılmıştır. Altıncı bölümde, 1996 – 2013 döneminin yıllık veri setleri kullanılarak, Kuzey Afrika Ülkeleri'nin FDI girişlerini belirleyen faktörler incelenmiştir. Veri setlerinin analizi, yatırım anlaşmaları imzalanmasının ve daha etkin yatırım politikaları benimsenmesinin istatistiksel olarak önemli olduğunu ve Kuzey Afrika bölgesindeki FDI girişlerinin artması konusunda olumlu bir etkiye sahip olduğunu göstermiştir.

Buna ilaveten, serbest ticaret politikalarının ve küresel iş dünyasına entegrasyonun, FDI girişinin büyümesi ile pozitif ve önemli bir ilişkisinin olduğu görülmüştür.

Çalışma, ayrıca, ev sahibi ülkelerdeki yerli yatırımların artışının, daha fazla FDI çektiğini tespit etmiştir. Yedinci Bölüm'de, ev sahibi ülkelerdeki (Kuzey Afrika ülkeleri) ikili ticaret ile FDI girişleri arasındaki ilişkiyi incelemek amacıyla bir yerçekimi modeli kullanılmıştır. Ayrıca, beş Kuzey Afrika ülkesinde net FDI girişleri için, (2001-2010 döenmindeki 10 yıllık ortalama), 25 yatırım ortağı ile yapılan, havuzlaştırılmış zaman serisi kesitsel regresyon yöntemi kullanarak, ikili FDI'nin temel belirleyicileri araştırılmıştır.

Bulgularda, ekonomik büyüklük, ikili ticaret, ortak dil ve ev sahibi ülkelerin finansal gelişiminin, Kuzey Afrika ülkeleri ve diğer ülkeler arasında, eşzamanlı olarak FDI akışlarını artmasına neden olduğu saptanmıştır. Ayrıca, ev sahibi ülkeler ile yatırım yapan ülkelerin ortak bir dile sahip olmasının, bu ülkeler arasındaki ikili FDI akışında önemli ve olumlu bir etkisinin olduğu bulunmuştur. Ancak, ev sahibi ülke ile yatırım sahibi ülke arasındaki mesafe FDI üzerinde olumsuz bir etkiye sahiptir.

Anahtar Sözcükler:

DYY, Kuzey Afrika, Yatırım politikaları, Ticaret açıklığı, Gravity modeli

1. INTRODUCTION

Changes that have taken place in last thirty years played a pivotal role in restructuring economic infrastructure in different aspects, where it can be clearly noticed that technological development and financial liberalization have been one of the most important forms of these changes. Within that, these changes have contributed in turn made the flows of foreign investments between countries a vital element in the economic development.

In this regard, FDI is deemed as one of the primary sources of capital flows that have played a crucial role in increasing development and economic growth in many developing countries. Furthermore, FDI stands as an essential vein for financial development, productivity improvement, and disseminating technology as well as knowledge between countries, along with creating job opportunities, improving trade and accelerating growth and development (Asiedu,2006 and Pradhan et al.2016).

In the 90s, and as an outcome of these spillovers of FDI, governments were motivated to look for best-practice policies towards FDI, and they strived to be more liberalized to gain the confidence of investors. Consequently, governments started to implement a wide range of policies which can bring about the stable environment for investors, to support them carrying out their businesses without incurring avoidable risks. That was through the adoption of several economic reforms including the improvement of institutional quality, minimizing entry barriers, facilitating the operations of such investors within the borders of their countries and offering various kinds of incentives. Undoubtedly, that will generate opportunities for investors to achieve more profit. Besides all these policies and procedures, many governments improved the financial and monetary incentives and infrastructure environment commensurate with attracting foreign investment policies.

As result of realizing the importance of attracting FDI and its role to achieve economic growth, governments in North Africa countries (Algeria, Egypt, Libya, Morocco, and Tunisia) set off extensive economic reforms aiming to restructure their economy through liberalization and moving towards a gradual integration with the global economy. For instance, Egyptian government in the ascendancy of the 1990s turned to open economy, liberalized the financial system, and started to privatize a lot of public sector enterprises

which spurred FDI ahead (Rady,2012). Meanwhile, the government in Morocco carried out several economic reforms such as privatization and the liberalization, which aimed to create a favorable investment climate making the country much attractive hub for foreign investors. In the same way, a lot of reform procedures were deployed in Tunisia, Libya, and Algeria. Consequently, the foreign direct investment in this region markedly increased from 2000 to 2010, see Figure 1.1.

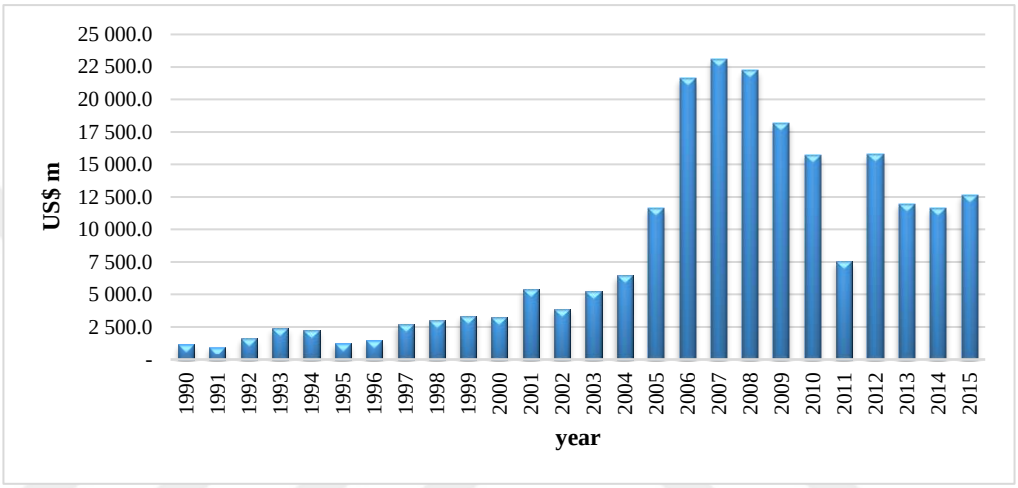


Figure 1.1: FDI Inflows of North Africa region 1990-2015(US$mil), (Source: World Investment Report, UNCTAD, 2016).

According to (UNCTAD, 2016) the amount of FDI flows into North Africa countries have raised from an annual average of US $ 2.2 billion during the 1990s and US$ 12.5 billion during 2000s and reached its peak in 2007 by the US $ 23.1 billion. However, the level of FDI inflows notably decreased in 2011 by US$7.5 billion, which is a repercussion of political disturbances (Arab Spring) to reach an annual average from 2011 to 2015 by the US $ 11.9 billion.

It is worth mentioning that in 2006 and 2007, most developing countries received a massive amount of FDI resulting from the economic growth of the global economy in that period. see Figure 1.2.

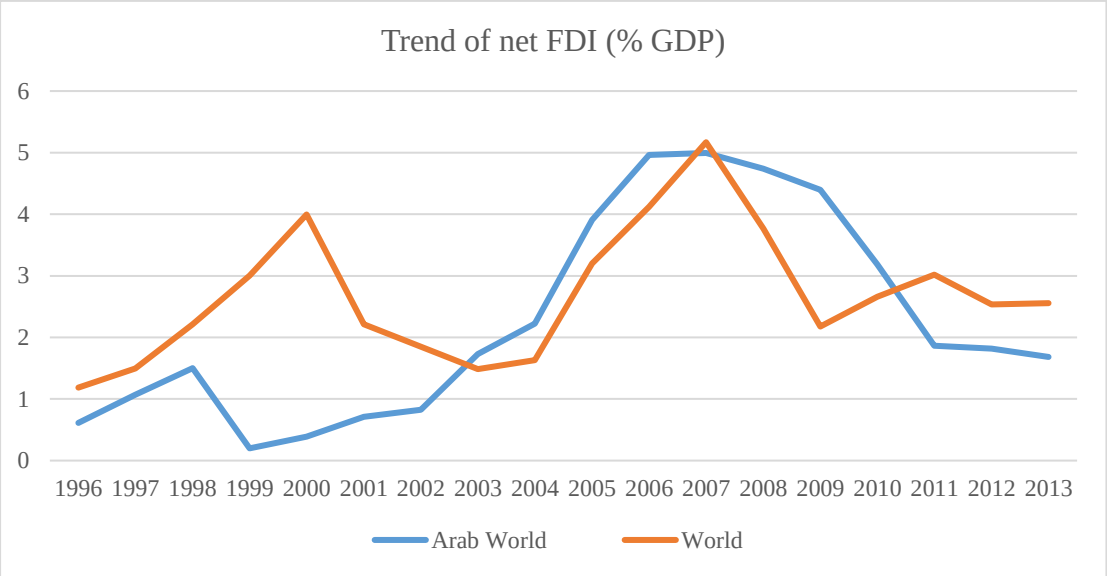


Figure 1.2: FDI inflows Trend in different regions 1996-2013(%GDP), (Source: World Bank data, 2016).

Despite the previous indicators, increasing rate is still emerging compared to what North Africa countries have had from natural resource and geographic location. Interestingly, it is still meager in respect to FDI inward stock as a percentage of gross domestic product. For example, the average of inflow FDI stock over GDP (1996-2013) in North Africa region was 25.7 % compared 47.3 % Southern Africa region, and 49.7 % for South-East Asia., see Figure 1.3.

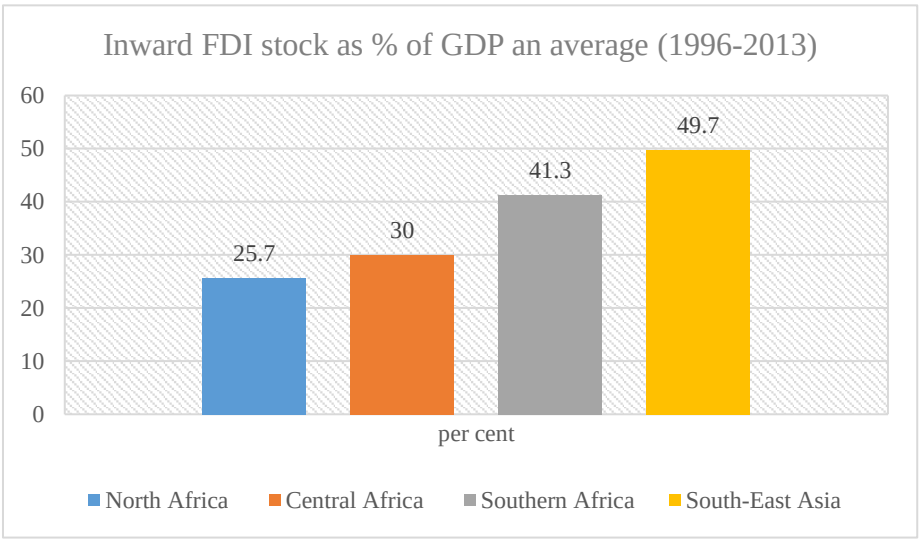


Figure 1.3: FDI inward stock as a percentage of gross domestic product, Average (1996-2013), (Source: World Investment Report, UNCTAD, 2016).

1.1. RESEARCH MOTIVATION

Many studies including Lean and Tan (2011), Tang and Wang (2011), Koojaroenprasit (2012), Abdelhafidh (2013), Pradhan et al. (2017) and others confirmed that there is a positive relationship between FDI inflows and achieving economic growth and development. Within that, and as noted above, statistics indicate that the North African countries are still tinkering with attracting foreign investment and they have not, so far, succeeded to reap the benefits of FDI as much as other developing countries have done concerning economic development. Nevertheless, these countries are in desperate need for more FDI inflows to help in resolving their economic issues particularly unemployment and poverty. From North African studies side, according to Ellis and Zhan (2011) few studies on FDI dealt specifically with the North Africa region and the volume of representation of this area in the field of international business is under-represented.

Accordingly, this research was motivated by numerous reasons. First, North Africa region is considered as one of the wealthiest areas due to (natural resource and strategic location), and "the weakness of economic indicators" in this area regarding investment and FDI represents a considerable challenge for governments and policymakers in these countries. Second, ample studies talked about FDI-policies and its role in economic growth focusing on sub-Saharan African countries. Other studies focused on determinants of FDI in MENA countries in general by taking a sample of MENA countries. However, few studies dealt with evaluation of governmental investment policies and its role to attract FDI as well as determinants of FDI inflows in North Africa countries separately and deeply.

Third, the desire to have a closer look and stand on the nature of the difficulties faced by these countries regarding implementing investment policies and its mechanism of attracting foreign investment especially the parts related to the paucity of statistical studies of the investment policies impact to encourage FDI. Therefore, one of the motives for carrying out such an empirical analysis is to evaluate the government role to attract FDI and examine the determinants of FDI inflows to this region.

1.2. RESEARCH AIMS AND QUESTIONS

As a result of a favorable spillover for FDI, most political leaders and policymakers are searching for best practices that governments have to embrace to encourage FDI and how they can reduce the obstacles for boosting FDI, especially in unstable environments. Thus, the essential purpose of this study is to help governments make a well justified and more informed decision about how they can encourage and attract foreign direct investment and determine which investment policies are suitable according to current and future predictions through examining the main determinants of FDI flows into North Africa countries, and explore how effective are these policies in attracting inward FDI to North Africa. In order to best fulfill the study's aim, we will address the following questions:

Main question:

- How effective are governmental investment policies to encourage inward FDI to North Africa?
- What are the main determinants of FDI in North Africa?

Sub-questions:

1) What are the main factors influencing foreign investor's decision?
2) What are the main sectors which attract FDI to North Africa countries?
3) What are the main characteristics of investment climate in North African countries?
4) What are the main constraints of FDI in North Africa?
5) Do investment agreements and treaties (Bilateral, regional, and double taxation) attract a higher volume of FDI?
6) Do trade liberalization policies lead to attracting higher volume FDI?
7) Do more bilateral trade transactions between North Africa countries and other countries attract a higher amount of FDI?

1.3. RESEARCH METHODOLOGY

The methodology of this study comprises:

- An analysis of FDI flows and its development path in North Africa, based on the descriptive previous related work on the region
- Investigating the main investment policies and laws in North Africa countries through reviewing promulgated "investment and trade laws"
- Identifying the main constraints towards FDI in that region based on the historical ranking of these countries in terms specific related indices (GCI, HDI, EDB, etc.)
- Empirically estimate for determinants of FDI Inflows in that region.
- Empirically estimate for determinants of bilateral FDI between North Africa countries and other countries using gravity model.

1.4. STRUCTURE OF THE THESIS

Following this introductory chapter, the thesis is divided into three main parts. The first part is covered in (chapter two, three, and four) that is related to the theoretical foundation and background of the study. Second part covered in the five chapter aims to assess FDI path in North Africa region, by analyzing the business environment and investment risk in this area. Finally, the third part which is covered in (chapter six, seven, and eight) is related to discussing the hypothesis to be tested, methodology research findings, and research conclusion.

Chapter two provides an overview FDI and investment policies conceptual framework, through identifying FDI, and its type and forms, objectives, determinant as well as clarifying the benefits and cost of FDI to host countries. In Chapter three, the development of FDI theories, hypotheses, and schools of thought that contribute to understanding the motivations behind FDI are summarized. Chapter four provides a review of central thoughts that contribute to explaining the importance of government intervention to attract or restrict FDI and discussing the main government policies to attract FDI. With provide investigation for the empirical literature relating to the importance of FDI inflows, and impact of government policies in attracting foreign firms.

Chapter five provides In-depth overview of the foreign direct investment in North African countries (with details about each state). This analysis involves (type, sources, sectors, investment policies and laws. Additionally, business environment assessment, and main investment constraints in each country).

Finally, chapter six and seven investigate empirically the determinants of FDI inflows and impact of government policies (FDI-policies) that are followed by the host countries (North Africa countries) to encourage the inward foreign direct investment. The study concludes with a summary and a set of final remarks provided in chapter eight.

2. FOREIGN DIRECT INVESTMENT: CONCEPTUAL FRAMEWORK

Since 1980, many countries have enacted policies aimed to encourage foreign direct investment and reduced the restrictions on the movement of cash flows. Thus, the FDI became the lynchpin of economic growth, and one of the most important channels of cash flows. This was reflected positively on the host country economic performance through enhancing the balance of payments and increase cash flows, which add more capital to the current account that can be used in the implementation of local projects. Moreover, FDI is also considered as a mean to improve the general welfare of the citizens by creating job opportunities, enhancing trade and accelerating growth and development(Asiedu, 2004).

Based on the above- mentioned facts and given the importance of foreign investment in driving economic growth, it was necessary to tackle the central concepts that revolve around FDI. Hence, this chapter casts light on the definitions, types, forms, pros, and cons of FDI.

2.1. DEFINITION OF FOREIGN DIRECT INVESTMENT

The liberalization of capital flows across borders is a preferred strategy by economists' policy makers, mainly because of its role in achieving high rates of return on capital, and reducing potential investment risk, through diversification of investment portfolio across different markets (Feldstein, 2000). According to finance literature, the cross-border capital flows are used mostly in three different ways: FDI, Portfolio Investment, and bank loans (IMF, 1993).

Regarding FDI, it basically involves a long-term relationship, lasting interest, and control of the direct investment enterprise in the host country. FDI can be classified into three components: first, equity capital, which refers to purchase of foreign direct investors number of shares of firms in a country other than its own. Second, intra-firm loans, which indicates the short or long term borrowing and lending of the fund between direct investors (parent firm) and affiliate firms. Third, reinvested earning. As for portfolio investment, it is different from FDI in that it does not include the aspects of direct control

and lasting interest. While loans are mainly in the form of bank loans from international financial institutions (Ietto, 2012).

As illustrated in Figure 2.1 foreign direct investment is one of the three types of international capital flows. It is classified into three main types according to its direct, target, and motive.

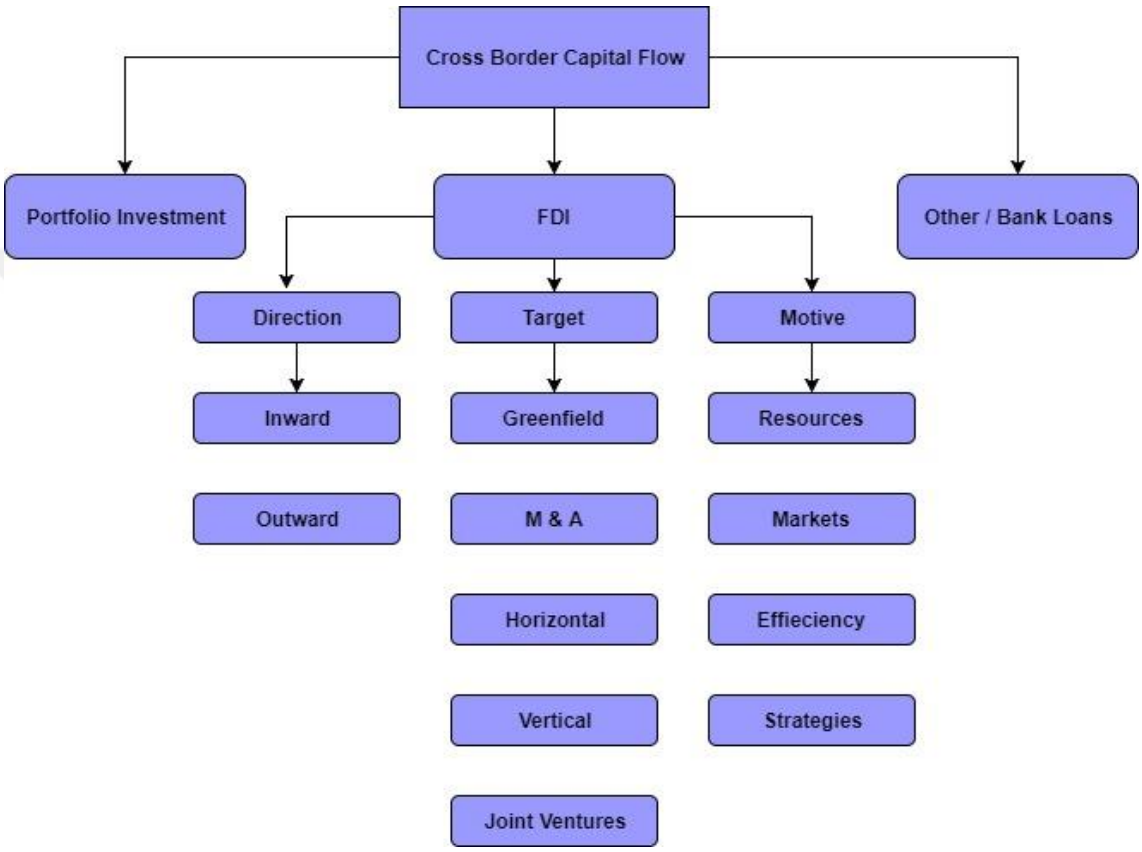


Figure 2.1: Types of International Capital Flows.

There are many definitions of FDI, and each definition is different from the other in terms of investment purpose and goals. Primarily, investments activities take two main forms, direct and indirect investment, where direct investments concern is essentially with direct managerial, financial, and operational control over firms, and this type of investment includes several forms of assets management and contractual arrangements. While, indirect investments concern is with investments that flow through intermediate markets such as banks (loans) and exchange markets (stock exchange) (Campos and Kinoshita, 2003).

According to World Bank, FDI is defined as a type of investment that involves transmitting a foreign capital into firms that work in a different country of origin from the investors. Also, to classify this investment as FDI, the investor must own at least 10 percent of the local firm. In another word, FDI is an investment in which the investor obtains a substantial controlling interest in an international company or builds a subsidiary in a foreign country.

According to Mossa (2002) FDI is defined as a form of long-term international capital movement that aims to achieve the purpose of the productive activity and accompanied to increase the foreign capital flows and gain the managerial skills and technical knowledge to the host country. International monetary fund defined FDI as an investment that aims to acquire "lasting interest" in firms working outside the investor's country to gain an effective voice in the management of the firm.

2.2. TYPES OF FOREIGN DIRECT INVESTMENT

2.2.1. Type by Direction (Inward and Outward FDI)

Every FDI flow is an outflow from one country and inflow into another country. Thus, the inward FDI is defined as the foreign capital invested in the host country using the local resources, and it includes purchasing or establishing a new business in the state different than the investing entity's origin. While outward (OFDI), takes place when the local firm expends its activity and operations in another country (OECD, 2008).

2.2.2. Type by Target

- **Horizontal FDI:**

One type of FDI occurs when a firm duplicates the number their affiliates firm that produces the same goods or services in several plants in different countries, where each plant serves the local market using local production factors. The main reasons behind firm's movement toward this type of FDI are (Elia et al., 2011):

1) To cut down their transportation costs and trade costs such as tariffs through turning from exporting their goods and services to produce it locally.

2) To gain an easy access to foreign markets which can only be served locally and with this type of FDI, the process of responding to the demand becomes easy, and delivery time speeds up.
3) To enhance their competitive considerations through strengthening their monopoly power. Hence, it raises their political and market power.
4) To defend their market share, where horizontal FDI gives enough protection from taking any action against it or an action taken over by others, avoiding other merged entities in the industry from becoming stronger (Gorton et al., 2005).
5) Achieving high benefits from economies of scale, where firms can enjoy lower average costs when operating at a joint size that is larger than when working separately. Added to that, it reduces the costs of secondary operations such as organizing safety training, joint fuel facilities and it cuts purchasing, marketing and R&D costs (Voorde and Vanelslander, 2008).

- **Vertical FDI:**

This type of FDI takes place when the multinational firm fragments production process geographically (Protsenko,2004). It is called "vertical" because MNEs divide the production chain vertically by outsourcing in some production stages (Markusen, 1995). The fundamental idea behind this kind of FDI is that a production process consists of various steps with separate input requirements. If input costs diversify across countries, it becomes beneficial for the firm to split the production chain (Venables et al., 1999). Thus, vertical FDI is conducted to benefit from differences in prices between countries (Gordon et al., 2003). In vertical FDI, the firms can earn benefits from economies of scope, where the total cost of producing two different goods combined is lower than manufacturing each of the products separately (Neary, 2009).

Besides, the firms can offer a better quality of services such as reliability of delivery times, geographical coverage, and frequency of deliveries at lower costs (Carbone and Stone, 2005, Cruijssen et al., 2007). In the same context, the existence of vertical FDI leads to cut the transaction costs by replacing market transactions between firms, through planning and coordination among companies (Goldman and Gorton, 2000).

- **Greenfield FDI (New Plant):**

In investment literature, the term of "Greenfield Investments" is known as a type of FDI where a parent firm establishes a wholly new operation from the ground up in a foreign country. This kind of investment is seen as more desirable because its role to transfer new technology and create new jobs opportunities (Tomsik et al., 2001). The decision of joining this type of investments is influenced by several factors such as competition intensity and market structure and others.

In this context, Buckley and Casson (1998) concluded that the expansion through greenfield investment enhances the local capacity and intensifies competition. Within that, Gorg (2000) posits that the market structure of host country plays an essential role in the entry decision as greenfield investment. In the perspective of the effect of greenfield investment on economic growth, many studies including Neto et al., (2010), Sahoo et al., (2014) and Davies et al., (2015) confirmed that the greenfield investment positively contributes to economic growth.

- **Brownfield FDI (M&A):**

This type of FDI takes place when a firm decides to expand and invest with existing firms abroad. brownfield investment mostly carried out through Merger and Acquisitions (M&As) in the destination country. A merger is a joint agreement between two or more firms to an alliance in the new legal entity through the exchange of shares or funds. Whereas, an acquisition takes place when the management of one company makes a direct offer to the shareholders of another company to acquire controlling interest in this firm (Wall and Bronwen, 2001).

There are a lot of advantages for this type of FDI such as: reducing the initial set up cost and expenditure and benefiting from fewer requirements of government licenses and approvals where the existing firms satisfied the state's standards. Besides that, M&As enable foreign firms to access to better information at a lower cost and cut the transactions cost as result of owning the bargaining power, enhancing the competitive position and market power of the partners (Kogut, 1988). According to Ashraf et al., (2016) the merger and acquisitions affect positively the productivity growth in the host countries.

- **Joint Ventures (JVs):**

In this type of investments, the firms cross-border are combining their activities, and contribute such assets like finance, land, and access to markets. In JVs investments the stakeholders share a degree of managerial responsibility and risks to the value of their respective contribution to the venture. According to Tong et al., (2015) joint ventures investments have become a vital channel to transfer managerial skills and to acquit advance technology between firms.

2.2.3. Type by Motive

Foreign direct investment can be also classified according to the motives or reasons behind the investment from the side of the investing firm. Dunning (1993) categorizes multinational enterprise (MNs) activities according to their motives into four groups of FDI, (1) Resource-Seekers (2) Market-Seekers (3) Efficiency-Seekers and (4) Strategic Asset-Seekers –FDI, (More details in chapter three).

- **Resource-Seeking FDI:**

This type of FDI aimed mainly to obtain raw materials from the host countries to use them as inputs in the industry. Especially, in the states that have abundant physical natural resources at a lower cost than could be obtained in their home country, and to take advantage of low labor costs particularly in the sectors that depend on labor-intensive like manufacturing and services sector (Dunning and Lundan, 2008).

- **Market-Seeking FDI:**

This type of FDI aims to find new markets for foreign companies to sell the surplus of goods and services, especially when they don't find a market in their home country. It also targets to develop marketing policies through the physical presence of suppliers and customers in the leading markets (Franco et al.,2010).

- **Efficiency-Seeking FDI:**

The efficiency-seeking FDI is defined as the investments which firms hope will increase their efficiency by exploiting some advantages of economies of scale and scope.

- **Strategic Asset-Seeking FDI:**

This type of investment is motivated by the desire of foreign firms to promote their global competitiveness position by acquiring assets or shares of domestic existing firms for long-term strategic objectives (Wadhwa and Sudhakara, 2011).

2.3. THE PROS AND CONS OF FDI

According to Hill (2006) and Kurtishi (2013) the benefits and costs of FDI in developing countries are different from one state to another depending on various factors related to how the government in the host country behaves towards FDI and the volume of stability in the political and institutional environment. They also argued that the benefits of FDI in developing countries can be significant, through its role to enhance the resource transfer effects, which include (capital transfer, technology transfer, and management transfer). FDI also has its own clear effect on balance-of-payments, competition, and economic growth. Despite the fact that FDI has many economic benefits, it can impose burdens on the host country's economy through adverse effects on the competition with local firms and others. In the next subsection, we summarize the main pros and cons of FDI to host countries according to their review (Kurtishi, 2013).

2.3.1. The Pros of FDI to The Host Country

- **First: Resource Transfer Effects:**

Foreign direct investment affects positively the host economy through providing financial capital, technology, and management resources that are not available for the host country's economy.

Capital Transfer Effect: According to Borensztein et al. (1998), Bosworth and Collins (1999) Feldstein (2000), Whalley and Xian, (2010) FDI can contribute significantly to economic growth in the host country by injecting foreign capital. It can also increase the access of large firms to financial resources that are not available in the host country with more ease.

Technology Transfer Effects: FDI can be a way of technology transfer and may positively contribute to the economic development of the host country. Many studies include Clark et al. (2001), Zhu (2010), Ahmed (2012) were concerned with identifying how the FDI can leave positive technology spillover in the host state. Especially in the developing countries that have lack of innovation skills and need to develop their products and technology.

Management Transfer Effects: In addition to the previous benefits of FDI, several studies including Fu (2012) and Wahab et al. (2012) concluded that FDI plays a vital role in enhancing the managerial and organizational skills for the domestic labors in the host country. They also mentioned that international management skills acquired through spin-off effect when local personnel who are trained to occupy managerial, and technical posts in the branch of multinational firms.

- **Second: Job Creation Effects**

Another positive impact of FDI is job creation in the host country's economy, which can be seen directly or indirectly. The direct effect occurs when foreign firms employ many local labors. Whereas, the indirect effects generated as a result of increasing the number of employees of international companies. The matter that leads to improving the local spending in the economy. Thus, the number of jobs that created by domestic investments will increase (Dunning and Lundan, 2008)

- **Third: Balance of Payment Effects**

Furthermore, FDI can be reflected positively on the host country’s balance of payment in three ways: First, when multinational enterprises establish a foreign subsidiary, that means adding more financial capital to the current account in the host country’s economy which can be used for domestic investment purposes (Borensztein et al., 1998) Second, if the FDI enhances the production locally and can meet the demand in the local market, as a substitute for the imports, the volume of imports versus exports will decline, which would be reflected positively on the balance of payment for the host country. A third way occurs when the MNE uses a foreign subsidiary to export goods and services to other countries. Hence, the host country’s balance of payment will raise (Dunning and Lunden, 2008 and Kastrati, 2013).

An extensive number of empirical studies in last two decades investigated the relationship between foreign direct investment and economic growth. They considered FDI as one of the important factors that contribute to economic growth and it has an impact due to increasing and augmenting of the supply of funds for domestic investment. Thus, the third strand of literature delves into the relationship between foreign direct investment and economic growth.

Many studies including Caves (1996), Gregorio and Lee (1998), Shan (2002), Lee (2010), Ekanyake and Ledgerwood (2010), Lean and Tan (2011), Tang and Wang (2011), Koojaroenprasit (2012), Abdelhafidh (2013), Guidibly (2014), Pradhan et al. (2016) were concerned with exploring whether there is a relationship between FDI and economic growth, and to explore how effective were these FDI on economic growth. The findings showed that the FDI leads economic growth uni-directionally. However, studies by Messinis et al., (2011), Herzer (2012) concluded that there is a bi-directional causality between economic growth and FDI. Vijayakumar (2009) examined the nature of the relationship between direct investment and economic growth. The study produced a mixture of findings; it found that growth leads FDI bi-directionally for Brazil and Russia, and FDI leads Growth uni-directionally for India and China.

Conversely, the number of studies including Adewumi (2006), Wang (2009), Karimi and Yusop (2009), Mah (2010), Audi (2011), Koojaroenprasit (2012) have found that FDI does not necessarily lead to higher economic growth. They also concluded that there is no evidence of direct causality and long-run relationship between FDI and economic growth. Likewise, Tekin (2012), Belloumi (2014) mentioned that there is no a straight effect of FDI on economic growth in the short run.

2.3.2. The Cons of FDI to the Host Country

FDI can affect negatively the local firms, where attracting more FDI creates crowding out effect on the local firms and reduces the productivity and competitiveness of these firms. Especially with foreign firm possessing technological abilities higher than the host country's firms, and therefore this leads to a counter-effect on the domestic firm's ability to compete (Krugman, 1995). Besides that, more FDI inflows may lead to expanding the "wages paid gap" between foreign firms and local firms, where the international

companies have the ability and willingness to pay high wages than domestic firms. Hence, the global firms seek to hire the most-qualified workers in the market. Consequently, monopolistic power of foreign companies is enhanced in the market as another negative spillover of FDI.

With regard to spillovers on balance of payment, there are two potential negative effects of FDI on the balance of payment for the host country. First, the repatriated profits from the foreign subsidiary to its parent firm, where the expansion of the number of FDI in the host country drives an increase in the capital cash outflows as a result of repatriated profits in foreign currency, as a consequence of this, repatriated earnings in foreign currency leads to increase the current account deficit. The second dilemma, is that expansion of FDI amount in the host country leads to increase importing foreign firms for their inputs from abroad, which results in a deficit in the current account of the receipts country's balance of payments. Furthermore, compatibility gap between the objectives of foreign firms with the development strategy in developing countries, where the priorities of foreign firms to invest in the marginal sectors is to generate profit, making development strategy in the country as last priority for foreign corporations (Hailu, 2010).

From another perspective, the variation in power and influence of the big multinational firms in developing countries leads to unequal bargaining between them, as some foreign firms possess more monopolistic power, financial and technological capabilities. This imbalance in power create some conditions of unfair competition in developing countries regarding rights and benefits, where the foreign firms have authority to impose a high price for their technical knowledge to serve their interests. Moreover, increasing the amount of FDI in the host country may affect negatively the national sovereignty and autonomy through the influence of foreign firms on decision makers (Duanmu, 2014).

3. THEORIES OF FOREIGN DIRECT INVESTMENT

After the 1960s, and due to the emerging of globalization and trade liberalization policies, the expansion of foreign direct investment grew remarkably. These changes motivated many researchers to examine the issue of multinational corporations and international movement of capital. Hence, many economists were interested in explaining different aspects of this phenomenon, even if it adopts a different point of views. For example, in the early stage of FDI researches, the FDI theories depended on trade theory perspective (Faeth, 2009). In general, these theories aimed to investigate reasons like why multinational undertakes FDI, and why some firms prefer to do their business activities in a particular country rather than another. In this context, the economic literature indicated that the FDI theories could be categorized into two types. The first one is FDI theories on macroeconomic perspective, and the other one is about the micro level.

A different kind of literature classified FDI theories from the development perspective, which combines both the micro and macro-level FDI theories, and examined the policies and factors that attract FDI, and why firms prefer to invest abroad and how they make entry to the foreign countries. According to Faeth (2009) and Denisia (2010), the current researches in the field of foreign direct investment show that there is no single theory of foreign direct investment, which explain foreign direct investment and the location decision of multinational firms. And every single argument adds some new elements and criticisms to existing theories. This chapter sheds light on the main stages of the development of FDI theories and outlines which enhance our understanding of FDI phenomenon, through presenting a summary of the relevant theories, hypotheses, and schools of thought that contribute to the understanding and fundamental motivation of FDI flows. A review of these theories will be instrumental in selecting suitable variables and proxies, and it will assist in expected signs of explanatory variables, and it will support arguments to be used in empirical estimation and discussion.

3.1. Capital Market Theory

The capital market theory is a part of portfolio investment theory and is considered one of the oldest theories that explain the idea behind expansion of firms abroad. According to this approach, FDI is determined mainly by interest rate and the value of host country's currency. Aliber (1971) argued that firms are more likely to expand abroad when their currency value in the home country is strong. While, firms that hosted by countries with have a weak currency avoid investing abroad (Moosa, 2002, Faeth ,2009). Moreover, higher currency fluctuations in the host countries encourage foreign firms to borrow money at lower interest rate than domestic companies. According to Boddewyn (1985), the capital market theory explained the reasons behind firms' investment abroad, where he mentioned three situations which encourage firms to expand their activities overseas. Firstly, lower (undervalued) exchange rate in the host country, which allows lower production costs in the host countries. Second, the absence of organized securities markets in the less developed countries, the matter that encourages FDI rather than purchases of securities. Third, the lack of information about securities markets in these countries. That is why it favors FDI which allows control of host country assets (Hennart, 2015).

3.2. Product Life Cycle Theory

The theory of product life cycle was established by Vernon (1966), and it provided a rational framework to explain the reasons behind the establishment of operations in a foreign country. This theory employs the theory of comparative advantage, and it analyzes the relationship between product lifecycle and possible FDI flows. Vernon in this theory explained certain types of FDI for US companies in Western Europe after the World War II in manufacturing industry, He believes that there are three stages of production cycle (Dunning and Lundan, 2008).

Stage one: Innovation (New product): At this stage, local companies create new innovative products mainly for local consumptions and export the surplus to serve the foreign markets. In this stage, the product is not standardized regarding costs and final specification (Peltoniemi, 2011).

Stage two: Growth products**:** At this stage, the volume of demand is increased, and products become more standardized, as well as the local market reach to saturation level. Hence, the local firms start to expand their operations abroad in different locations, where the cost of production is cheap, and the competitiveness is enhanced.

Stage three: Maturity products**:** In this stage of product lifecycle, the characteristics of products become fully standardized, and price's considerations represent a vital role in the competition**.** Hence, the number of foreign firms that expand abroad increased, especially in counties that create value-add for its productions. Therefore, firm's export position becomes threatened, and the firm is induced to produce goods in the host country through its foreign subsidiaries (Chen et al., 2017).

3.3. Internationalization Theory

The internationalization theory sought to provide another explanation for FDI through concentrating on intermediate inputs and technology. This theory was founded by Buckley and Casson (1976) based on the seminal work of Coase (1937), where they attempted to answer the question why production is carried out by the same firm in different locations. In this context, Buckley and Casson (1976) and Hennart (1982) developed the theory of internalization which relied mostly on the assumption of market imperfections, where the firms expand their activities abroad to overcome the market failure, and to enhance their monopolistic advantage (Kang and Jiang, 2012).

The central assumption of this theory is that the established multinational enterprises are motivated to reduce transaction cost related to failures in the market for intermediate products, the matter that raises the profitability of these firms. Buckley and Casson (1976) classified several types of market failure that result in internalization. For example, the government interventions in markets create an incentive for transfer pricing as well as the inability to estimate the prices correctly. According to Buckley and Casson (2009) internalization takes place as a result of the market failure in intermediate input markets, which lead to horizontally integrated MNEs (horizontal FDI). Moreover, due to market failure in the intermediate output markets which lead to a vertical integrated MNEs (vertical FDI).

3.4. Industrial Organization Theory

The industrial organization theory of Hymer (1976) is seen as a core to provide sufficient explanation for the motivations of an active multinational corporation. Hymer was one of the most famous economists who established an organized approach towards understanding the motives of domestic firms to extend their activities internationally. Hymer's theory is based on the idea that firms extend their operations abroad to compete with local companies and to capitalize on specific capabilities and advantageous position regarding consumer's preference, the legal system, and culture that are not shared by other competitors in foreign countries, which is called "monopolistic advantage." However, expanding abroad exposes foreign firms to various risks originating from market imperfection (market failure) (Rugman et al., 2011).

Based on that, this market imperfection takes various forms, and it might affect access to capital markets, and causes a shortage in existence of some specific managerial skills, and collusion in pricing. In addition to that, market failure can stem from government policies such as taxes, tariffs, interest rates, and exchange rates. Thus, these shortcomings must be offset by some forms of market power to make the foreign investment profitable. For example, international firms must have cheaper sources of finance, and some kind of patented technology. The Hymer's interpretation was criticized by Dunning and Rugman (1985), where he failed to distinguish between structural market failure and transactional market failure. The former originates from the firm's ownership advantage that acts as an entry barrier for other competitors in the industry (monopolistic power) (Dunning and Pitelis, 2008).

However, the" Transactional Type" generated is the result of the inability for foreign firms to enter the market with full information or perfect certainty (cognitive deficiencies) about consequences of the transactions and activities they are undertaking (Dunning and Lundan, 2008). Moreover, Robock and Simmond (1983) argued that owing firms specific features does not necessarily mean that investing abroad is a sign that a firm well exploited the ownership advantage. That is because some factors can affect the decision of choosing between FDI and licensing/exports, and these factors include government policies and market size; institutional quality, and political stability, where FDI might allow the firms to benefit from some host countries privileges.

3.5. International Production theory (Eclectic Paradigm)

This theory was introduced by John Dunning in 1976, and it is seen as a strong since it underlies the explanation of the relationship between earlier theories of FDI and international production. Moreover, International Production theory provides a coherent framework and basic outline to help economists to understand the behavior of multinational enterprises that investing abroad (Dunning, 2001). The essence of this theory is based on the idea of integrating between three main hypotheses, which represent the main important factors that affect the firm's decision to extend their operations abroad (OLI); "Ownership, Location, and Internalization". The OLI model is a combination of earlier theories that attempted to explain the reasons behind FDI phenomenon such as the internalization theory, Industrial Organization Theory of Hymer, and location theory (Moosa, 2002).

According to an eclectic paradigm, there are three conditions that must be satisfied before a firm engages in FDI. First, a firm needs to have an ownership advantage factor, and thereby it gives it an advantage over other firms. These advantages are for example property rights of a particular technology, firm size, monopoly power, and access to raw material or cheap finance (Moosa, 2002). Second, the firm must exploit these advantages internally instead of contracting, selling or leasing them to other firms. Third, the benefits of setting up production abroad must be higher than the benefits of depending on exports (Wadhwa, 2011).

According to Dunning (2001) and Faeth (2009) the ownership advantages consist two types of advantages: asset ownership advantages and transaction ownership advantages. They mentioned that the monopolistic asset ownership advantages originate from the possession of the firm to particular intangible assets such as property rights of a specific technology, patents, and trademarks, while the transaction ownership advantage originates from possessing the necessary knowledge to reduce transactional market failure. Regarding "Location Advantages" (L), the firms must combine their ownership advantages with a set of location factors. Location advantages include lower of transportation costs and production, incentives policies, stable political and legal system, and relative market costs and the size of the market. (Dunning and Lundan, 2008 and Faeth, 2009).

In another word, the location advantages determine the host country based on several quantitative and qualitative factors such as resource availability, lower costs of transportation, infrastructure quality, market size, government facilities, etc.

The internalization advantages (I) explain how market transactions can be done efficiently without any other additional costs. The internalization specific advantages arise when firms decide to produce internally, and this could be seen as the way firms maximize the gains from their ownership advantages to overcome market imperfections, and to transact efficiently at a lower cost. According to Dunning and Lundan (2008), Internalization advantages help firms to:

1) Minimize the expense of broken contracts and ensuing litigation.
2) Reduce the effect of government intervention (quotas, tariffs, price controls, tax differences, etc.).
3) Control supplies and conditions of sale for inputs (including technology).

Despite the previous explanation, the approach is criticized as being too general and has limited power to explain only specific modes of international production (Dunning,1988). Wren (2006) argued that the model is not dynamic and not able to explain the change in the process of international production, Table 3.1 summarizes the differences between licensing, export, FDI according the eclectic approach .

Table 3.1: The electic approach

Advantages Entry Form	Ownership Advantages (O)	Internalization Advantage (I)	Location Advantages (L)
Licensing	Yes	No	No
Export	Yes	Yes	No
FDI	Yes	Yes	Yes

(Source: Dunning, 1981)

3.6. Entry Mode Theory

This theory was extended to the eclectic paradigm, where Dunning (1993) in this theory categorizes multinational enterprise activities according to their motives into four types of FDI:

1) **Resource-seeking FDI:** This type of FDI aimed mainly to obtain raw materials from the host countries in order to use them as inputs in the industry. Especially, in countries that have abundant physical natural resources at the lower cost that could not be obtained in their home country. Moreover, the resource -seeker firms expand their activities abroad to take advantage of low labor costs particularly in the sectors that depend on labor-intensive like manufacturing and services sector (Kang and Lui, 2016). Hence, the firms are prompted to invest overseas to enhance its profit and competitive position in the market they served. According to Kalyvas and Webster (2011) the activities of foreign firms that work in developing countries have been determined mainly by this type of FDI, especially when the country is rich in natural resources.

   In this regard, Dunning (1998) argued that location preferences for foreign firms don't rely on the availability of factors of production but rather on the goals of the investment and whether it is a new or sequential project. According to Buckely et al.(2007), Buethner and Ruf (2007) the selection criteria for the location of expanding abroad is concerned with the behavior of the government in the host country towards improving the investment environment through offering investment incentives and strengthen the legal framework.
2) **Market-seeking FDI:** This type of FDI aims to find new markets for foreign companies to sell the surplus of goods and services, especially when they do not find a market that can absorb their production in their home country. Also, it aims to develop their marketing policies through the physical presence of suppliers and customers in the leading markets (Franco et al., 2010). The other motivations that encourage firms to join this type of FDI are the desire to adapt their products to local tastes or needs, to remove the barriers resulting from cultural and religious differences, and to be more familiar with local language, business customs, legal requirements and marketing procedures. Furthermore, this type is a good way to

penetrating markets outside the home country and at the cost of exporting (Wadhwa and Sudhakara, 2011). Besides, trade regulations and barriers represent an important factor that motivates firms to expand outside to reduce the transaction costs (Dunning and Lundan, 2008).

3) **Efficiency-seeking FDI:** The efficiency-seeking FDI is defined as the investments that are carried out by the firms looking for increasing their efficiency by exploiting the benefits of economies of scale and scope. According to Dunning and Lundan (2008) the main motivations behind this type of FDI to take advantage of variation in labor cost, production cost, economic policies, institutional procedures, market size, and market structures across borders. And to exploit the geographical location feature for host country (Kudina and Jakubiak, 2008). For example, the foreign firms take benefits from the ease in investment laws granted by governments in host countries in the attempt to encourage and attract foreign investment; these privileges range between tax concessions, permanent investment opportunities, giving warranties to the investors, and removing restrictions towards trade in intermediate and final products. Finally, to minimize the risks of investment by spreading the investment over many countries.
4) **Strategic Assets -seeking FDI:** This type of investment is motivated by the desire of foreign firms to promote their global competitiveness position by acquiring assets or shares of domestic existing firms for long-term strategic objectives (Wadhwa, 2011). Moreover, the desire of international firms to weaken other competitors by exploiting specific cost or marketing advantages over their competitors. The matter that motivates them to enhance their ownership through purchasing competitor's assets. In the same line, Knickerbocker (1973) argued that expanding investment outside borders is a defensive move in oligopolistic markets, where expanding abroad enables firms to follow their main competitors to avoid any distortions in oligopolistic equilibrium (Hoenen, 2009).

3.7. Investment Development Path Theory

The IDP theory aimed to explain the relationship between country's investment position and its volume of development. This theory assumes that the investment conditions for local and foreign firms are changing resulting of country development. These changes implicitly influence the volume of inward and outward FDI in the country (Buckley and Castro, 1998). According to Dunning and Narula (2010) the investment development path theory is based on two main assumptions. First, there is an organized relationship between economic structure and the type of FDI activities in the host country. Second, there is an interactive relationship between ownership advantages of local firms and multinational firms with locational advantages of countries (Mohapatra and Gopalaswamy, 2016).

According to this theory, the interactive relationship between countries can be classified into five stages of development: The first stage is mainly concerned with developing countries, in this stage the level of inward and outward investments is limited as investors would prefer accessing these countries through trade, and most foreign firms that expand in these countries are resource seeking firms, especially in case of insufficient locational advantage. Thus, the government at this stage should be trying to promote macroeconomic policies, improving basic infrastructure, focusing on the upgrading of human capital and removing some market restrictions. Consequently, due to improvements in locational advantages of these countries, the pattern of FDI inflows increase (Narula and Guimon, 2010). In the second stage, resulting in "fundamental" government economic reforms, some locational advantages are created. Consequently, the volume of FDI starts to grow particularly in the labor-intensive manufacturing sectors, and in the consumption of goods sectors as well as transportation and construction. Regarding outward FDI, at this stage, it is still limited due to the lack ownership advantages of local firms. However, in general, the FDI receiving in these countries raises (Dunning, 1993). The third stage is concerned with newly industrialized countries, where the domestic firms in these countries have good ownership advantages and stronger competitive power within the local market. In this stage the volume of outward FDI is higher than inflows FDI, and foreign firms target these countries as market-seeking FDI.

In the fourth stage, and due to enhancing the ownership advantages for the domestic firms, the competition ability increased, which led to growing outward FDI faster than inward. In this stage, the government policies emphasis is on reducing transaction costs, improving market efficiency and increasing the support for emerged industries. At the last stage, which is related to leading developed countries, they noticed that most advanced countries have high levels of inward and outward FDI. It was the result of the existence of strong economic structure regarding technologic, labor skills, and infrastructure (Narula and Dunning, 2000).

4. REVIEW OF THE LITERATURE FOCUSING ON POLICIES AND VARIABLES AFFECTING FDI

In this chapter, we will try to focus on the main policies and variables that are related to attracting foreign firms and promoting host countries investment environment from theoretical and empirical side. Due to the importance of FDI policies and variables in attracting foreign firms, the governments in host countries adopted several reforms and policies to promote the investment environment and to create suitable conditions for attracting FDI.

In this regard, existing literature has shown that FDI inflows represent an essential channel for economic development across countries, where FDI has classified as a major source of capital flows for domestic investment and promoting capital formation in the host country (Omisakin et al., 2009). Hence, the policy maker's vision towards FDI has dramatically changed, where the attention to study the factors and determinants that might affect FDI flows increased, and the policymakers started to implement a wide range of policies which can create a stable environment for investors. Furthermore, it can support the investors in carrying out their businesses without incurring avoidable risks. Meanwhile, governments started to implement several reforms which aim to improve the financial and monetary incentives and infrastructure environment commensurate with attracting foreign investment.

4.1. THE GENERATIONS OF INVESTMENT PROMOTION POLICIES

According to the World Investment Report (UNCTAD, 2001) there are three generations of policies that encourage FDI, which are called "the generations of investment promotion policies". In the first generation, countries have liberalized their FDI, through reducing entry barriers, facilitated the operations of such investors within the borders of their countries and offered various kinds of incentives. Also, those countries adopted policies that have a long-term focus which is attractive to foreign investors. In the second stage, governments in the host countries relied on proactive measures to attract foreign firms. These pro-active steps include setting up "Notional Investment Promotion Agencies" (IPAs) (Te velde, 2002).

These agencies aimed mainly to attract FDI through reducing the transactions costs and providing information about investment opportunities to potential investors. Furthermore, the IPA provides adequate and sufficient information about FDI regulation, policies, and investment procedures (Morisset and Jonhson, 2004). The third stage of investment promotion policies focused on the micro-level reforms, through the emphasis on marketing policies of location to potential investors for specific activities.

According to Dunning (2002) developing countries need to attract FDI from more developed industrialized nations which seek complementary knowledge, intensive resource, and capabilities. As a result of this, the developing countries need to build supportive transparent commercial and legal communication infrastructure in addition to favorable government policies to streamline globalization and innovation.

Regarding investment policies, there are several classifications of these polices. For example, according to Brewer (1993) who mainly depended on the "eclectic theory" of Dunning 1997. He classified government policies according to its impact on FDI flow's trend into two types. First, the indirect effect policies on FDI, which include Monetary policy (Foreign exchange rate policy, interest rate, money supply), and Fiscal policy (government budget). Second, the policies that affect directly FDI such as capital control policy (which is mainly concerned with the restrictions on international funds, where the capital restriction policies can affect inward FDI by imposing restrictions on money transfer for gained profits).

According to Banga (2003), Asiedu (2004,2006) who depended mainly on Dunning (2002) and Brewer (1993), there are three main types of variables that can affect FDI flows into host country. This study followed this classification regarding investment policies divisions (economic variables, institutional variables, and political variables). Within that, they identified two kinds of government policies that may have effects directly on FDI (domestic FDI policies, and international FDI policies).

4.2. ECONOMIC VARIABLES

The government in the host countries must manage effectively the policies that are related to economic variables to increase locational advance by improving the economic fundamental (Young and Hamill, 2017).

According to Nachum (1998), Jenkins and Thomas (2002), the location theory provided explanations for the reasons behind the choice of the host country for overseas investment and explained why globally successful industries emerge in specific countries. These explanations depended on the variances among nations concerning access to local markets, availability of comparatively cheap factors of production such as natural resource, and labor force. The location theory assumes that FDI exists as a result of the international rigidity of some factors of production such as natural resources and cheap labor forces. According to Buckely et al. (2007), Buethner and Ruf (2007), the location theory of FDI is also concerned with the behavior of the government in the host country towards improving the investment environment through offering investment incentives and strengthen the legal framework.

According to an extensive range of studies including Banga (2003) Asiedu (2006), Udomkerdmongkol et al., (2009), Mottaleb et al., (2010), Grawal (2011) and Abbott et al., (2012) the host country's government must pay attention to the overall economic policies. This includes specific measurements like market size, natural resource, and quality of human capital, infrastructure quality, exchange rate stability, and inflation rate. In terms of variables selection, the study employs the following variables and policies which classifies as main factors that impact on FDI inflows.

4.2.1. Market Size

The market size is considered one of the main factors affecting on FDI inflows. Hence, the larger market size is interpreted as more demand and sales, greater profitability, and achieving gains from economies of scale in production and improved economic conditions. For instance, the decision of horizontal FDI firms riled mainly on the volume on the domestic market in the host country, especially when these businesses invest abroad to serving the local market, thus the size of local demand represents a cornerstone in when they make the investment decision overseas. Within that, from "market-seeking"

investor's perspective, the market size considered as an essential element in the entry decision, where large current and potential market size means that foreign firms can potentially achieve a higher return on their capital (Bayraktar, 2013). Studies by Asiedu (2006), Mottaleb et al., (2010), Hussien and Kimuli (2012), Bayraktar (2013) and Boateng et al.,(2015) were concerned with identifying and explaining the relationship between FDI and market size, and they confirmed that market size affects FDI inflows positively. Moreover, Gast and Herrmann (2008), Mohamed and Sidiropoulos (2010), Uwubanmwen and Ajao (2012) argue that the existence of large and healthy consumption market creates attractive factors for FDI and is indicating for prosperous business climate.

4.2.2. Natural Resources

Despite the fact that the availability of natural resources is seen as an essential locational advantage, many studies including Mina (2007), Van der and Poelhekke (2009) pointed out that in MENA countries with fewer resources may be more successful in attracting FDI than those wealth resources nations. The idea behind this adverse effect is "resource curse" where the abundant natural resource may create opportunities for rent-seeking behavior and reduce the transparency in resource sales and revenue spending. In this regard, the dependency on the natural resource's revenue may create a less diversified economy. Consequently, the increase in revenue from the investments in natural resources will make a country's exchange rate higher compared to that of other nations. Considering the boom that causes the domestic price level to increase, producers of tradable goods face higher production costs, which cause them to reduce their output (Mlachila and Ouedraogo, 2017). This makes exports in tradable sectors expensive (less competitive) in global markets and results in a loss of production and employment in other industries (notably manufacturing).

From another side, the dependence on the revenue the generated from natural resource rent create a case of discouraging to invest in non- oil sectors and a lack of desire to develop and implement reforms. And hence, it leads to reducing the of transparency (which represents a cornerstone in economic development, and its absence eliminates pressure from government accountability through the ability of governments to conceal financial data related to oil revenues). Poelhekke and Ploeg (2013) argue that the revenue from natural resources promotes economic growth in different ways. It may finance

economic diversification or can be used to improve infrastructure or develop human capital, all leading to an increase in the level of output. However, huge natural resource rents may create opportunities for rent-seeking behavior and lack of transparency in resource sales and revenue spending. however, in countries that have low quality institutional and suffer from high corruption, this revenue can be directed away from productive economic activities, causing a downturn in economic growth (Wiens ,2014).
Regarding literature review that is concerned with the effect of the natural resource on FDI, several studies including Asiedu (2003), Onyeiwu and Shrestha (2004), Yilmer (2017) and Yang et al., (2017) evaluated the importance of natural resources and concluded that attracting FDI to the host countries is improved by the availability of natural resources. In contrast, Mina (2007) examines the location determinants of FDI flows to the GCC countries in the framework of the OLI paradigm. The study results indicate that the oil production has a negative effect on the flows of FDI. Similarly, Ploeg and Poelhekke (2009) they examined the influence of natural resources on FDI to in the host country. The findings reveal that the availability of natural resources discourages the foreign investors to expand theirs.

4.2.3. Infrastructure Improvements

Regarding government policies, the availability of good quality infrastructure is a fundamental element in encouraging FDI as it can contribute to reduce the entering cost (such as transportation costs, and electricity costs) and increase the rate of return on private investment and attract more FDI (Ballak et al ,2007). In this regard, many studies indicated that the countries that have a high quality of infrastructure could attract more foreign firms. Thus, the expected impact of infrastructure on FDI inflows is positive. within that, and the improvement the transportations networks lowers the costs of goods and services, as well as it enhances accessibility. A series studies including Fung (2005), Bellak et al.,(2007), Rehman et al., (2011), Khachoo and Khan (2012), Choi and Shoham(2016), Kaur and Yadav (2016) investigated the effect of infrastructure development on boosting FDI flows. The results indicated that FDI inflows associated positively with infrastructure development. Iimi (2011) in this study considers the quality of infrastructure one of the important determinants of FDI attracting. Not only access to but also the quality of infrastructure mainly public utilities (electricity, water supply, and

telecommunications). Khadaroo and Seetanah (2009), they mainly aimed in their study to investigate whether there was a relationship between infrastructure availability and FDI attracting. The results showed that the infrastructure availability affects significantly on investment decision for foreign firms, while Quazi (2007) found that infrastructure has an insignificant effect on FDI.

4.2.4. Human Capital

According to Zhang-Markusen (1999) human capital plays a vital role in attracting FDI to the host country. And, availability of skilled labor in the host country can affect the volume of FDI inflows directly. In this regard, Dorozynski (2014) defined human capital as a set of knowledge, education, qualifications, and skills of a given society. It is enhanced through education and improving professional skills, and exploited this resources and expertise to foster economic growth. In the same context, ZM thoughts assume that there is an inverse U- shaped relationship between human capital and foreign direct investment. Accordingly, low wage nations with weak human capital may fail attract FDI.This means that multinational corporations will not invest, even if the wages of unskilled labor in the host country are meager due to insufficient human capital (Akin and Vlad, 2016).

The study of Feeny et al. (2014) considered human capital as a cornerstone for absorbing foreign knowledge and is an important component to achieve positive FDI spillovers. According to Al-Yousif (2008), Onwuka and Chaiechi (2013) the existence of high level of education with good quality of skilled labor in the host country leads to an enhancement of flows of FDI, where qualified and experienced workers is a vital factor in attracting foreign investment, especially for the resources –seeking and efficiency –seeking FDI.

In this regard, many studies including Khadaroo and Seetanah (2009), Agrwal and Rangon (2011), Hussian and Kimuli (2012) confirmed that lower real wages and availability of skilled labor in the host country is reflected positively on the inward FDI. Similarly, several studies including Borensztein et al. (1998) Li and Liu (2005), Akin and Vlad (2011), Feeny et al. (2014) considered the importance of human capital as the main component required for encouraging FDI and achieving positive FDI spillover, especially

when firms are seeking efficiency. It has been found that the insufficient human capital improvements affect FDI inflows negatively as well.

4.2.5. Macroeconomic Stability Variables

According to dynamic macroeconomic theory the firm's decision timing to invest abroad relies on the stability of variables in the macro-economy environment. These variables include the real exchange rate, inflation rate, gross domestic product, and productivity. According to Asiedu (2005), Jallab et al., (2008), Abbott et al., (2012) mentioned that the desire of foreign firms to invest abroad increases when the macroeconomic variables are stable.

Thus, to attract FDI inflows, the government in the host country should reduce the fluctuations of exchange rates. This may, therefore, attract more FDI, where the foreign firms may not enter if they believe that the real exchange rates will not be stable or it will appreciate after they start in the host country as this would imply that the cost of investment will be high. (Trevino et al., 2002). In the same context, increased the volume of the volatility of exchange rate in the host country increases the uncertainty of foreign firms about the investment environment. (Abbott et al., 2012).

From other side,volatility of prices are taken to be a sign of internal economic instability in the host country, where it indicates that the government has shortcomings to conduct appropriate monetary policy (Jallab et al., 2008).

Many studies including Durbarry et al. (1998) Gemayel (2004), Asiedu (2005), Jallab et al. (2008), Abbott et al., (2012), ahmed and Zlate (2014) were concerned with identifying the effect of macroeconomic policies on the FDI flows. Notably, under the existence of a relationship between macroeconomic stability and FDI flows, the results showed that there is a positive impact of FDI on economic growth, affected by macroeconomic stability. In addition to this, several studies put forward inflation rate and stability of exchange rate as one of the significant factors that affects attracting FDI. Higher inflation leads to a depreciation of the host country's currency against the home currency, which most likely will increase FDI into the host country while acquiring assets in the host country becomes cheap. However, meanwhile, the depreciation of currency affects the foreign investors at the time of repatriation of their profits, where foreign firm's profits

lose out as their purchasing power decreases. Furthermore, the variance of inflation was taken as an indicator of the level of economic stability, as an index for how the government manages the fiscal and monetary policies.

Onyeiwu and Shrestha (2004), Asiedu (2006), Udoh and Egwaikhide (2008), Hailu (2010) and Heshmati (2017) in these papers, the effect of inflation on FDI was investigated. The results showed that the inflation affects negatively FDI and a low volume of inflation is likely to attract more inward FDI in developing countries. In the same context, Naude and Krugell (2007) concluded that inflation is a significant factor, which impacts the investors who want to invest in African countries.

From another side, the stability of exchange rate is also seen as an important variable in determining FDI flow into the host country. In this context, Kandiero and Chitiga (2006) found that there is a positive relationship between real exchange rate depreciation and FDI inflows. Gorg and Wakelin (2002). In this paper, two specific issues were discussed. First, they investigated the effect of exchange rate volatility on USA inward FDI. Second, they investigated the effect of exchange rate volatility on the USA outward FDI. The study found that there is a positive relationship between US inward FDI and depreciation in the host country currency. Simalirly, Habash (2006), Coleman and Tettey (2008) Abdelkarim and Guesmi (2012) concluded that exchange rate volatility impacts negatively FDI inflows. Abbott et al., (2012) employed a sample of 80 developing countries for the period 1985-2004 to analyze the effect of exchange rate policies on the FDI inflow. The findings indicated that fixed exchange rate affects significantly more than floating exchange rate on FDI.

4.3. DOMESTIC INVESTMENT POLICIES

As result of an extensive growth in FDI flows to developing countries, the level of competition increased notably to attract FDI. Therefore, the governments in host countries offered more investment incentives. Also, more economic reforms were carried out, and many restrictions on operations of foreign firms were removed. In this regard, the governments implemented different policies that can directly affect the foreign firm's decision, where these policies aim to reduce the transaction cost of international companies entering the economy, regulate entry and exit of foreign firms along with the

creation of incentives and restrictions on operations work at the domestic level (Tan and Tang,2016)

Consequently, many studies have sought to identify how effective these government investment policies, economic reforms, and investment agreements encourage FDI. For instance, many studies including Taylor (2000), Banga (2003) were concerned with examining the effect of government policies on FDI inflows, and they came up with a positive relationship between investment incentives and FDI flows. They also concluded that these incentives had caused a rapid and steep increase in FDI and therefore, wage increase and reduced employment. Zhao (2013) in his paper focused on the factors that helped China to become an economic superpower in the last recent decades. The writer discussed the government policies focusing on liberalization and privatization, and the impact of these selective policies on FDI flows. He concluded that the former policies had a significant effect on enhancing FDI. Meanwhile, Veldel (2001) Argued that the host government policies implement the best –practices policies towered FDI. However, the impact of these policies is ambiguous, where FDI can bring positive effect, it can also bring negative effect. She concluded that large quantity of FDI flows alone is not sufficient to measure the effectiveness of these policies**.**

4.3.1. Privatization Policy

Privatization is defined as the process of transferring the ownership from state-owned enterprises to the private sector including foreign MNCs, under specific conditions and rules (Mellahi et al.,2003). According to Norback and Persson (2004), Zhao (2013), the existence of privatization policy in the host country affects significantly encouraging MNCs to expand in that state. Besides, privatization of public property is seen as one of the fundamental factors of economic growth, and reflect the stability of economic and technological environment in the country, and hence privatization policy will enhance foreign direct investment (Omoleke et al.,2011 and Zhao, 2011).

Many studies such as Dunning and Narula (1996), Amerighi and De Feo (2008) concluded that the privatization has removed institutional restrictions that deter FDI. Furthermore, many studies include Perotti and van Oijen (2001), Bortolotti et al., (2007), Boubakri et al., (2013) were concerned to investigate the role of privatization policy in

achieving economic growth through FDI. They concluded that the privatization policy affects positively attracting FDI, which has a prominent role in achieving economic growth. In conclusion, the presence of privatization policy tends to reflect a government's desire to allow the private sector to have a more significant role in the economy, and thus attracting more FDI.

4.3.2. Investment Incentives Policies

The government in the host country play an important role in encouraging FDI, through providing different incentives which aim mainly to attract the foreign firms, and investment incentives would be valuable if used to offset the lack of advantages in the host courtiers. These FDI incentives can be categorized into three main types: first is the financial incentives which represent direct support and contribution to the firm from the government including grants; subsidized loans, loan guarantees, and government insurance at preferential rates. In addition to incentives on exports and other privileges set to encourage investment (Wang et al., 2015).

Second and more preferable is fiscal incentives which identify as a group of policies that aim to reduce taxes on foreign firms, including tax concessions in the form of the reduction in the standard corporate income-tax rate; tax holidays; accelerated depreciation allowances on capital taxes. The third type of incentives (other incentives) which may indirectly contribute to decreasing the cost of projects and increase the possibility of achieving high returns. These incentives include granting of monopoly rights for foreign investors, protecting from import competition, preferential government contracts, easing money and profits transfer, investors, presenting advice on production and marketing, and providing basic infrastructure at competitive prices (UNCTAD WIR, 2012).

According to Dunning (2002), the importance of investment incentives riled on reasons behind expand of foreign firms in the host country. For instance, fiscal incentives typically carry less weight where firms are resource seeking or intend to serve the local market.

According to Bora (2002), the increase of fiscal incentives is considered as the good mover for attracting FDI flows and job creation and other socio-economic benefits.

However, Van Prays and James (2010) found that the results do not strongly support the view that fiscal incentives such as tax holiday can permanently attract FDI. However, the enhancement of the legal environment and reducing business restrictions leads to attract foreign firms. Similarly, Tuomi (2011) concluded that the financial incentives do not play a fundamental role in attracting FDI. Ballak et al., (2007) investigated the influence of labor tax on the location of foreign subsidiaries. The results revealed that there is an inverse relationship between labor income tax and entry decision. Chaves (2012) aimed to examine the effect of taxes mainly capital income tax on FDI. He found that the raising in consumption tax rates has an insignificant impact on FDI. However, an increasing relative tax rates on capital income causes FDI outflows. Conversely, the increase in labor income tax rates has the opposite effect.

4.3.3. The Policies of Removal of Investment Restrictions (Investment Freedom)

Furthermore, the foreign firm's decision is concerned with the government facilitation regarding the investment environment by removing business restrictions and simplifying capital requirements, regulating entry, and existence of FDI along with the creation of incentives and constraints on operations work at the domestic level. The openness investment policies can be defined as the policies that are meant to facilitate the operations of admission and establishment, ownership and control, and other operational activities (Malesky et al., 2015).

These policies aim mainly to eliminate admission and establishment restrictions such as closing specific sectors or activities to foreign firms and minimize the ownership and control restrictions and remove any obstacles that hinder investments after entry such as constraints on employment of foreign labor and competencies (Banga, 20003, Duarte and Xuemei, 2017).

4.4. INTERNATIONAL TRADE AND FDI POLICIES

This type of policies aims to enhance the FDI through signing agreements and treaties with other regions or countries, and these policies have effects on short -run, and medium run. It is classified according to the nature of partner into bilateral investment treaties and regional investment agreements. Within that, several studies put forward investment

treaties as one of important factors that affects attracting FDI, and the adoption of this type of agreements can be considered one of the elements of institutional reforms that have fostered the FDI inflows. In this regard, BITs offer investors additional and higher standards of legal protection and guarantees for foreign investments than those provided under national laws.

4.4.1. Bilateral Investment Treaties

Bilateral investment treaties can be defined as an agreement including the main terms and condition that control the investment activities of private investment firms of one country in another country. This type of treaties considered an important governmental instrument to attract foreign firms, the main goal of BITs is the "promotion and protection" of investments from one contracting party in the territory of the other contracting party (OECD, 2010) also it aims to regulate the investment operations through lay down specific standards for investment protection and transfer of funds, these treaties also Bilateral investment treaties can be defined as an agreement including the main terms and condition that control the investment activities of private investment firms of one country in another country.This kind of treaties is considered as a significant governmental instrument to attract foreign firms (Weyzig, 2013). Within that, these agreements aim to provide promotion and protection of international investors from the exploitation of contracting party, namely the host country (OECD, 2010). Besides, it aims to regulate the investment operations through laying down specific standards for investment protection and transfer of funds, and these treaties also describe the mechanisms for the settlement of disputes both between the treaty partners and between investors and the host country. According to Egger and Merlo (2007), Colen and Guaiso (2016) the rising number of BIT with other nations can attract more FDI through its role to regulate the investment operations and settlement of disputes between investors and the host country.

In this context, some studies, Grosse and Trevino (2005), Medvedev (2012), Buthe and Milner (2014) found a significant and positive relationship between the number of BITs signed and inward FDI. Similarly, Grosse and Trevino (2005), Buss et al., (2010), Berger et al., (2013) investigated the influence of BITs on attracting FDI. They concluded that signing the regional or bilateral agreements leads to reduction of the gaps between

countries and enhancement of domestic reforms as well as helping the removal of obstacles.

4.4.2. Regional Investment Agreements

The government in the host countries sign this type of agreements to organize the investment environment and to make it more conductive to free flows of FDI. According to OECD (2010), the regional investment agreement (RIAs) helps to attract more foreign investment through its contribution in providing a stable, predictable and transparent regulatory framework for international investment, and its role in enhancing the enabling framework for FDI. Also, it strengthens the cooperation between the host country and international investors in the investment fields, and reduce the gaps between national and international investment policies (Martinez and Robles, 2012).

4.4.3. Double Taxation Agreements

The signing of double taxation agreements represents one of the vital instruments that are used by countries to increase the FDI flows. In this regard, double taxation means imposing taxes on the same profit (or capital) of the same taxpayer in the same period across two jurisdictions (Baker, 2014). Thus, governments are signing DTAs to enhance the investor's knowledge about the taxation system in the host country and reduce the uncertainty for the foreign firms about how they can tax their profits (Neumayer, 2007). According to Bellak and Leibrech (2009) singing double taxation treaties acts as an indicator of a commitment to a favorable foreign investment environment. From another hand, Egger et al., (2007), Barthel and Neumayer (2010) examined the relationship between signing the BITs and DTTs and foreign firms attracting. The findings indicated that the signing the DTTs lead to attracting more international firms.

4.4.4. Trade liberalization Policies

This type of policies is concerned with liberalization of trade, or imposing restrictions, and promoting openness in domestic and foreign trade through removing unnecessary constraints such as tariffs, import quotas, and encourage countries to adopt open market

approach by simplifying licensing requirements (Harrison and Jefforson, 2014). Within that, the economic literature indicates that many of foreign firms moved toward FDI to avoid trade barriers such as tariffs and non-tariffs, where trade openness policies influence significantly on international capital flows, and countries with higher levels of trade liberalization have more links to the world economy (Hossain,2015). While on the contrary, some host countries have encouraged FDI by employing the use of tariffs, quotas, and local standards.

The host country's government can attract FDI through adopting the export promotion policy, which aims mainly to develop exports by increasing export market through the exploitation of comparative advantage, particularly in the manufacturing sector. Or the adoption of the import substitution policy, and provide several types of internal incentives such as facilitation of access to raw materials, imposing some restrictions measures to attract foreign producers in the host courtiers.This strategy aims to increase reliance on the domestic product rather than having to import them and encourage firms to establish local manufacturing plants (Moosa, 2002).This policy allows industries to grow to become large and internationally competitive. Another important policy that might affect FDI is liberal trade regime of the host economy (trade liberalization policies).

There has been an extensive literature including Rappaport (2000), Kok And Ersoy (2009), Liargovas And Skandalis (2010) Bill And Mouldi (2011) Guris and Ozgor (2015) asserting that the trade openness affects positively the FDI inflows. These studies examined the effect of trade openness on increasing FDI flows. The findings indicated that there is the positive and significant correlation between FDI and GDP. Similarly, Srinivasan, (2011) Bayrakta (2015), Hossain (2015) approved that the trade liberalization policies play the fundamental role as a channel to achieve economic growth through technological spillover that has been improved by FDI, and countries with higher levels of trade liberalization have more links to the world economy.

According to Sanjaya and Narula (2004), Demirhan and Masca (2008) the relationship between the host country's openness to trade and FDI inflows relied primarily on the reasons behind expand of FDI in the host country. And the achieving benefits from trade policies depends on the factors that impact the country's investment environment. For example, if expanding abroad aims mainly to export-oriented, this encourages firms to

extend in countries with high degree of openness. However, foreign firms that target to serve the local market sometimes set up subsidiaries in the host country to reduce the cost of trade restrictions particularly when the host country imposes high trade constraints. Whereas in the resource-seeking FDI, the primary aim of expansion in the host country is to reduce productions costs. Therefore, this type of FDI is more concerned about trade cost, and as a consequence, states that pursue an open trade policy are more attracted to this kind of investment.

- **Taxation Policies**

Another trade policy is the adopted taxation policies in the host countries where it can impact on attracting FDI through its effect on investment decisions (Guimon et al, 2017). For example, the efficiency-seeking FDI is highly responsive to taxation policies, and this type of investment is made in highly competitive markets with slim margins (Monisset and Prima,2001). Thus, minimizing operating costs, of which taxes can be an important part, is central to the investment decision in this type of investments. According to Demirhan and Masca (2008) the rise of taxes would discourage both foreign and domestic investments, where some empirical studies include Benassy et al., (2005) Nene (2011) concluded that the three is a negative relationship between raising tax and attracting FDI. Buethner and Ruf (2007) argued that government should apply some policies to reduce their taxation to multinational corporations to more competitive level when seriously considering the attraction of inward FDI.

- **Capital Account Liberalization**

Some countries use capital account openness policy to attract FDI through decreasing constraints on capital movement across countries, where the liberalization of capital account creates degree of financial integration of the host country with international economy through enhancing the volume of capital inflows and outflows.

Capital account in the host country's balance of payment covers mainly through FDI. and thus, the government motive to liberalize the capital account represent a sign to foreign firms that they manage economic policies effectively. But the openness of capital account is perceived as a double-edged sword for the host country. Despite the obvious benefits of this policy in terms of long –term growth, and its role to create positive technological

and managerial spillover, it added burdens on the policymakers particularly when the policy environment fluctuates or deteriorates domestic and foreign investors suddenly withdraw their funds from the country and this requires the adoption and maintaining of sound policies (Kosa and Prasad, 2012).

In the same context, and delving into financial liberalization, Bekaert et al. (2005) argued that the financial liberalization facilitates the investment activities through removing the restrictions in the local market, and allows domestic investors to trade globally without constraints. Further, regarding investment, the financial liberalization imposes more procedures that are concerned with accounting transparency, new management, and governance skills. However, Aizenman and Noy (2006) investigated the effect of capital account control on the volume of FDI inflows and the results indicated that there is no significant impact on FDI gross flows, but it has some indirect effect on the inward FDI through an influence on trade. Similarly, Asiedu and Lien (2004) concluded that capital account openness impacts FDI inflows not in all geographical region.

- **Tariffs policies**

According to World Trade Organization (2008) tariff is defined as a duty or tax imposed on goods that transferred from one area to another for revenue generation or protectionism. Governments can use two types of tariff policies (UNCTAD, 2001). Firstly; they can reduce or eliminate tariffs on certain imported commodities to encourage the investment through reducing the cost of investment. On the other side, they can increase tariffs on the final products of the investor in order to protect the local industry and provide protection to new domestic industries against foreign competition (Feentsra, 2008) practically, when government imposes tariffs, the prices of imported goods increase and their competitive ability decrease.

According to the tariff discrimination hypothesis, the Market-seeking FDI increases in countries that have trade difficulties due to the imposition of tariff obstacles on trade (Clegg and Scott ,2016). Concerning tariff policies, many studies including Bagwll and Staiger (2005), Buthe and Milner (2008) Bill And Mouldi (2011) Gueus and Ozgor(2015) investigated the effect of tariffs on FDI attraction and concluded that the tariffs hinder investment attraction and have an adverse impact on attracting FDI. While, Chakrabarti (2001) confirmed that the tariff has a positive effect on trade barriers on FDI.

- **Free Trade Zones Policy**

To attract foreign firms some countries set up specialized trade zones such as Free trade zones (FTZ), Export Processing Zones, and Foreign trade zone. These trade zones grant investors certain privileges such as exemption from some restrictions, freedom of import duties and export taxes, and expedited customs formalities (United States Census Bureau, 2016). Seyoum and Ramirez (2012) mentioned that the free trade zones play a role in attracting FDI, where free trade zones provide the opportunity to reduce transactions costs and gain the competitive advantage which is considered as one of the successful international marketing strategies. Thus, many firm's decisions influenced by the existence of FTZ to gain global resource and cooperate with supply chain networks. Similarly, Lu (2014) concluded that the presence of FTZ plays a vital role in the transfer and influences of FDI. While Malhotra (2008) indicated that there are several factors such as quality of the legal system, and infrastructure which are more crucial than FTZ.

In sum, more open economy attracts more FDI because it reflects the willingness of a country to accept foreign investment. Also, foreign capital, especially efficiency-seeking FDI, usually targets states that are characterized as open to international trade (Ramasamy and Yeung, 2010).

4.5. INSTITUTIONAL VARIABLES AFFECTING FDI

As we mentioned above, the economic (Macro-economic) reforms and government policies are playing an important role to encourage FDI, but these policies and reforms will not be enough without the existence of healthy institutional environment to facilitate the exchange and increase confidence among economic players and reduce transactional cost. The presence of good institutional quality depends on the quality of its rules, what enforcement procedures it has in place to encourage society to observe these regulations, and performance and guidance available for organization (Lu et al., 2004).

Also, providing a robust legal framework to govern the activities of direct investment is one of the essential factors in the success of the foreign investment. The main institutional factors that affect the investment decisions including corruption control, the strength of

legal and organizational framework of investment, protection of intellectual property, and government regulations (Peng and Zhou, 2005).

Furthermore, many studies classified the institutional quality as one of the factors that affects attracting FDI. Haussmann and Fernandez (2000), Mishra and Daly (2007), Tomio et al., (2009) Echeverri et al., (2014) considered an institutional quality and business freedom as vital players in attracting FDI. They investigated that the effect of institutional quality and business freedom on FDI, and the results reveal a significant positive relationship between them. Similarly, Bissoon (2012) studied the role that has been played by the quality of institutions in FDI inflows selection came up with the fact that the level of FDI inflows is significantly related to the quality of institutions in the host country.

Kinda (2010) investigated whether developed economic climate attracts FDI in the region. The results show that the horizontal FDI was more affected by human capital, investment opportunity constraints, while infrastructure and institutional constraints factor are less likely to affect horizontal FDIs than for vertical FDI. In addition to this, several studies put forward the existence of strong legal and organizational framework as a significant factor in attracting FDI. Campos and Kinoshita (2007) Hericourt and Poncet (2009), Faeth (2009) concluded that the host countries with a better legal system could attract more FDI where sound legal system protects investors and affect significantly foreign firms decision. Other studies including Li et al., (2003), Pierpont and Krueger (2007) investigated the effect of property rights on FDI inflows. They concluded that enhancing property rights impacts positively FDI flow.

4.5.1. Corruption Control

Corruption is considered as one of the prominent institutional factors that reflect the quality of the country's institutional environment, and it is defined commonly as the misuse of public office for private gains (Dunning and Lundan, 2008). The harm of corruption lies on raising transactions costs, creation of uncertainties, bearing the investors extra cost (bribes) to get permits and licenses, increasing the cost of operating abroad, and uncertainty and risk involved (Grosse and Trevino, 2005). Thus, the degree of corruption is expected to influence investment decision. Within that, the governmental

corruption is likely to increase the costs associated with setting up business, and it makes the country less attractive to foreign investors.

In terms of examining the effect of corruption on the FDI flow, a wealth of studies including Wei (2000), Habib and Zurawicki (2002), Kwok and Tadesse (2006), Sayan (2009), Hakimi and Hamdi (2017) touched on the way how corruption can impact the FDI in host countries.They concluded that there is a negative relationship between corruption level in the host country and FDI inflows. Besides, foreign investors, generally try to avoid investing in corrupted countries. However, empirical studies on the relationship between corruption and FDI have not reached a firm conclusion that a perceived high level of corruption in the host country deters FDI (Helmy,2013). In contrast, many studies including Egger and Winner (2005), Tosun et al., (2014) argue that corruption acts as a stimulus for FDI, and corruption can have a positive impact on investment.

4.5.2. Legal and Organizational Framework of Investment

The presence of sound legal and organizational framework to control the activities of direct investment is seen as one of the crucial elements in the success of attracting FDI (Pajunen, 2008, Cannizzaro and Weiner, 2018). ECAWA Report UN (2000) summarized the main features that required in the legal framework in the host countries to attract foreign firms to attract foreign investment. First, the legal environment should be stable, without any contradictions with other legislations, transparent, and it should also be relevant to international rules and regulations aimed to protect investments. Second, the framework should be providing enough protection to investors against a specific unexpected threat such as dismantling of ownership and providing formal ways to shifting the profits outside the country, freedom for capital to enter and leave. Third, the host countries should have an effective judicial system able to resolve disputes, which may arise between the investors and the host country.

4.5.3. Private and Intellectual Property Protection

The private protection refers to a government's provided guarantees to protect foreign firms from government expropriation (Tallman, 1988), where enhancing the property

rights protection in the host countries plays a role in attracting FDI inflows, especially in the political instability regions. Thus, the existence of high property rights against the government expropriation is expected to raise FDI inflows and economic growth resulting of confidence in the security of ownership (Du and Tao, 2012).

In terms Intellectual Property Protection, it reduces the risks of imitation and leads to larger demand for protected products, and enable foreign firms to compete effectively with local firms that possess ownership advantages (Javorcik, 2004). While countries with weak intellectual property rights will be less attractive for multinational corporations (Maskus, 2004).

4.6. POLITICAL VARIABLES AFFECTING FDI

Political instability is seen as one of the obstacles that influence attracting FDI in developing countries, and it is often encouraged by the existence of political stability. The political instability stems from unexpected adjustments of the legal system in the host country, or democratic changes in government and heads of the state, as well as the outbreak of revolutions or wars (Miller, 1993). Thus, reducing certainty about investment environment in the host country and making investment climate and economic outcome investment very unpredictable and the likelihood of projects disruption increase (Onyali and Okafor, 2014). For example, when the host government modifies the capital repatriation system, this will be affected adversely by FDI. Added to that, policies relating to acquisitions and local participation in manufacturing operations might also influence FDI location decisions (Moosa, 2002,Demirbag et al., 2007). So, governments in the host countries should apply reforms that enhance the political environment such as a degree of democracyand government stability and others. Regarding the effect of political variables on multinational corporations' decision, Study of Rashid et al., (2017) confirmed that the political stability positively influenced FDI inflows. Similarly. Dupasquier and Osakwe (2006), Hayakawa et al. (2011) examined the impact of political and financial risk components on inward FDI. The findings indicated that political risk component, government stability, internal and external conflicts, and law and order, as well as bureaucratic quality, could affect the flow of FDI. Buss and Hefeker (2007) concluded that the political instability is a prominent reason that has been responsible for

low inward FDI. However, many studies including Asiedu (2002), Onyeiwu and Shrestha (2004), Kandiero and Chitiga (2006) concluded that political instability and absence of political rights in a country is not have a significant in influencing FDI. Similarly, Yang (2007) studies the impact of political regimes on FDI inflows in 134 less developed countries. The findings indicate that regardless of the measures of regime type, democracies are not significantly correlated with FDI inflows, or other words, being a democracy does not attract higher levels of FDI.

5. FDI INFLOWS IN NORTH AFRICA REGION: ANALYSIS OF INVESTMENT ENVIRONMENT

As a result of realizing the importance of attracting FDI and its role to achieve economic growth, governments of North Africa countries (Algeria, Egypt, Libya, Morocco, and Tunisia) deployed a set of extensive economic reforms that aim to restructure their economies through liberalization and moving toward a gradual integration with the global economy. Hence, at the beginning of the 1990s, Egyptian government has made concrete moves to open economy and liberalized the financial system. It has also set off privatization of many public sector enterprises for the sake of establishing a suitable investment niche, and these initiatives have made the country more attractive for foreign investors. In the same line, Morocco also had its agenda fulfilled throughout diverse economic reforms such as privatization and the liberalization to attract more FDI. Similarly, many reform procedures were implemented in Tunisia, Libya, and Algeria. To put it in other words, foreign direct investment in this region knew a boost between the periods 2000 to 2010 (Rady, 2012).

Regarding the determinants of foreign direct investment in MENA countries, there are limited studies that investigated the determinants of FDI in this region. In this part of literature review, we are shedding light on several studies that examined the role of policies and variables on FDI inflows in this region. Yet, we should bear in mind that the effect of FDI and the empirical evidence about their impact on FDI is still ambiguous.

For instance, Onyeiwu (2003), Abdalmoulah and Laabas (2007) studied the FDI determinants to MENA, and they found that infrastructure has an adverse impact on FDI. Furthermore, some studies including Habash (2006), Mina (2007) employ the OLS

methodology for a sample of MENA to determine the effect of policy and non-policy variables on FDI inflows. The findings indicated that the political rights index and human capital level, have a significant influence on FDI inflows, But, contrary to expectations, the stable macroeconomic policies are not enough conditions for attracting FDI in MENA unless they synergize with institutional factors. Mina (2007) also found that the existence of an abundance of natural resources has a negative influence on FDI inflows since rich oil countries have an abundance of financial resources that render them less dependent on foreign finance. However, he found that better institutional quality increases FDI inflows. Other studies done by Mohamed and Sidiropoulos (2010) examined the determinants of FDI inflows in MENA over the period 1975 to 2006. The study revealed that the existence of natural resources and institutional variables are important elements that attract FDI.

Laabas and Abdmoulah (2009) investigated whether market size (GDP) and institutional quality affect inter-Arab investment inflows. Their finding indicates that market size negatively affects FDI bilateral inflows and they also find that countries suffering from high profile risk, corruption, and low regulatory frameworks attract fewer FDI inflows. Moosa (2009) argues that market size, qualified labor and political risk influence FDI inflows, and the results point out that countries which attract FDI have growing economies, take into account the education improvement, and have a low country risk. Wyk and Lal (2010) investigated whether the economic stability variables and institutional location factors have a dominant influence on FDI decisions. The results show that the economic factors, such as economic growth and trade openness, have a significant influence on FDI, and improving the business environment is reflected positively on FDI attracting. Hakro and Omezzine (2011), Mina (2012 investigated the effect of improvements in governance, education, and property right protection (PRP) on FDI inflows to MENA countries. The findings indicate that reducing the risk of investment expropriation and improving government stability have a positive influence on FDI inflows. El- Wassal (2012) investigated the relationship between FDI and economic growth in a sample of 16 Arab countries covered the period from 1970-2008. He concluded that the effect of FDI on economic growth in Arab countries is a minor or have marginal power. The findings also strongly support that not striving on polishing trade openness, human capital and infrastructure improvements represent a constraint to reap growth benefits from FDI.

The present chapter provides a general overview of foreign direct investment in North African countries (with details about each state). This analysis involves type, sources, sectors, investment policies and laws. Additionally, business environment assessment, and main investment constraints in each country.

5.1. OVERVIEW OF NORTH AFRICA ECONOMIC INDICATORS

As Figure 5.1 shows, there are important differences in terms of population size between Egypt and other countries, which gave us an indicator about market size in these countries. Regarding inflation rate, which measured the change in consumer price, Figure 5.2 displays that Egypt has the highest inflation rate of 7.2 % while, the lowest rate was in Morocco. From Figure 5.3, we can note that natural resources represent more than 95 % of Algeria's and Libya's exports. Regarding economy diversification and according to IMF (2011), the structure of exports in the oil – exporting countries such as Algeria and Libya didn't change from 2000- 2010 and they still heavily rely on oil revenue without any export diversification.

In contrast, despite limited natural resources, some countries such as Egypt and Tunisia, their share of manufacturing exports increased and they have no export diversification.

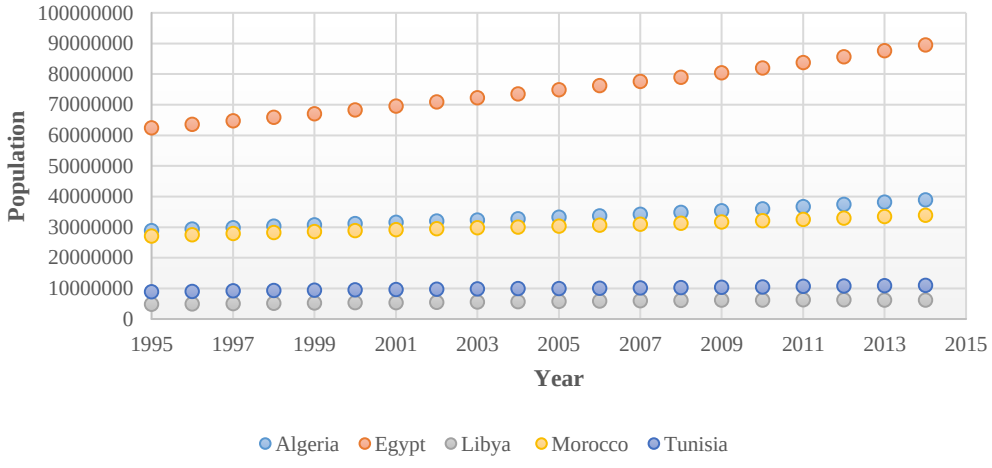


Figure 5.1: Population Trend in North Africa Region (1996-2013), (Source: World Bank, 2014).

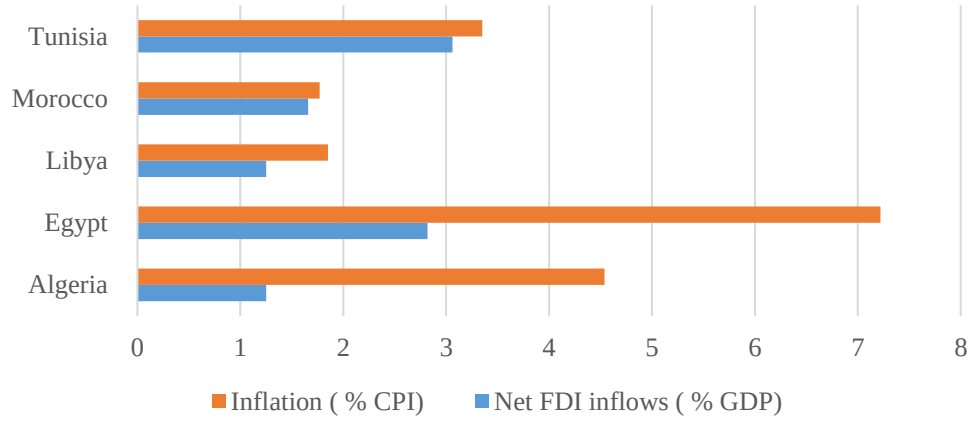


Figure 5.2: Average of Inflation rate and FDI inflows (1996-2013), (Source: World Bank development indicators, 2014).

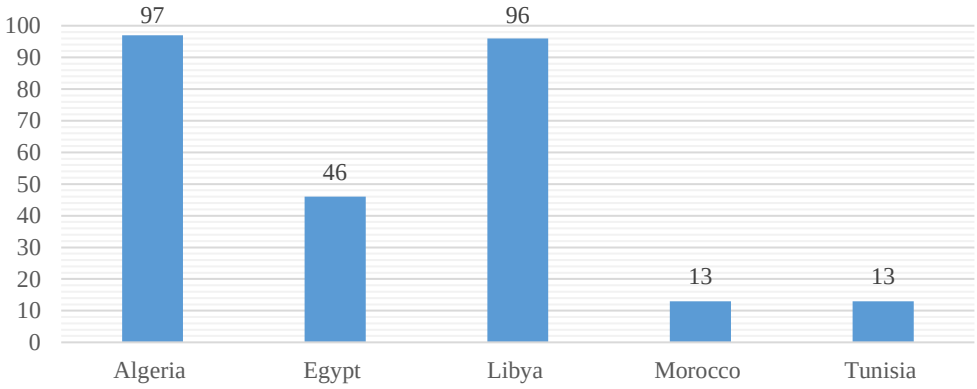


Figure 5.3: Fuels exports (% of total exports) average (1996-2013), (Source: World Bank development indicators, 2014).

5.1.1. FDI Inflows Trend in North Africa (1990-2013)

As we see in Figure 5.4, the amount of FDI flows into North African countries has raised from an annual average of US $ 2.2 billion during the 1990s and US$ 12.5 billion during 2000s and reached its peak in 2007 by the US $ 23.1 billion. However, the level of FDI inflows decreased notably in 2011 by US$7.5 billion due to political disturbances (Arab Spring) to reach an annual average of USD 11.9 billion from 2011 to 2015.

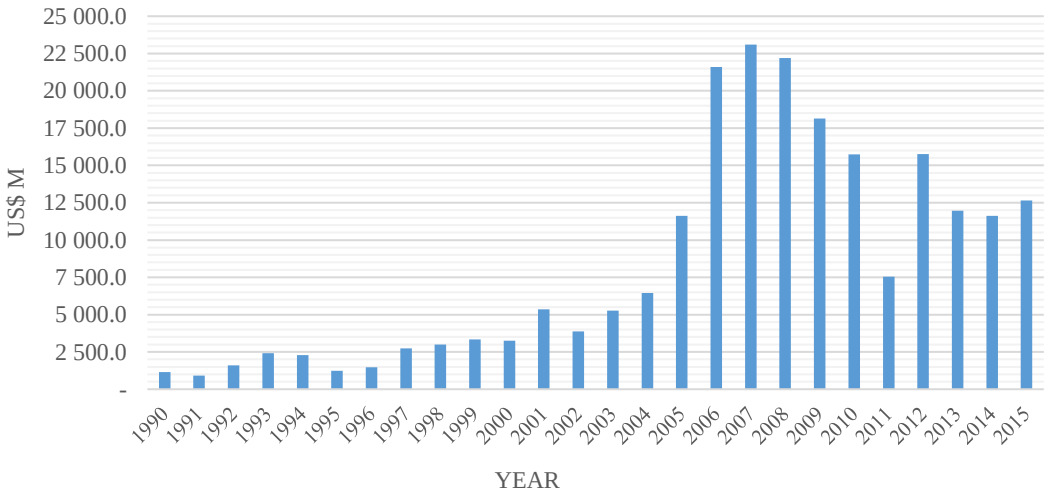


Figure 5.4: Trend of FDI inflows in North Africa region 1990-2015 (US$mill), (Source: World Investment Report, UNCTAD, 2016).

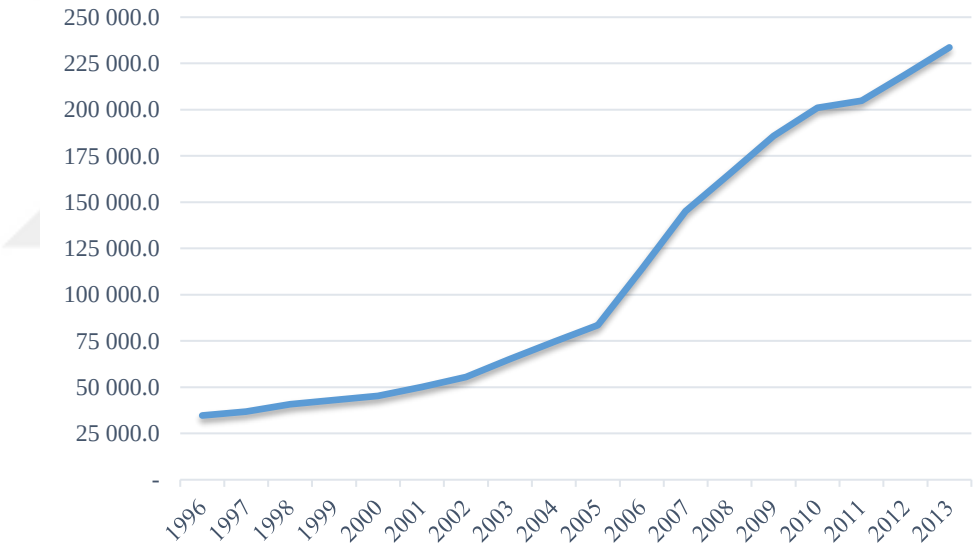


Figure 5.5: Trend of accumulated inward FDI stock in North Africa, 1996-2013, US$ Million), (Source: UNCTAD, World Investment Report, 2016).

According to (UNCTAD, 2016) the number of greenfield inward FDI has raised notably in this region. Figure 5.6 shows the trend of FDI inflows in North Africa region. Hence, the number of greenfield FDI doubled from 100 in 2004 to reach 200 in 2006. Also, it reached its peak in 2008 by 360 and this led the trend to fluctuate up and down for many regional reasons.

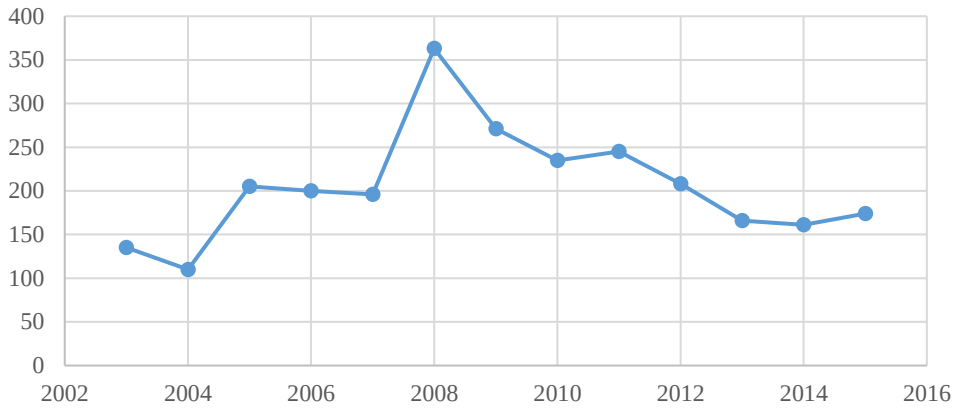


Figure 5.6: Number of Greenfield FDI projects in North Africa region (Source: UNCTAD,World Investment Report, 2016).

Despite the previous indicators, the increasing rate is still emerging compared to what North Africa countries have of natural resource and its geographic location. Interestingly, it is still meager in respect to the percentage of FDI inflows to developing countries. According to the World Bank (2015), the percentage of FDI inflows into North Africa from aggregate FDI inflows in developing countries is 3%, compared to 2% in Turkey, 10% in West Asia, 18 % in South America, and 37% in East Asia.

5.2. FOREIGN DIRECT INVESTMENT IN ALGERIA

5.2.1. Overview of the Algerian Economy

Algeria is one of the North African countries, and it has a population of about 40 million according to 2015 census, with a state surface of 2,381,740 km^2 where more than 80% of this land is covered with desert. Algerian economy is based mainly on oil and hydrocarbon industry, where Algeria ranks one of the largest gas exporter, and it also ranks 14 in oil reserves in the world. Consequently, the hydrocarbons sector contributes to 50% of budget revenues (IMF,2014).

Despite the abundant resource and high per capita GDP, the Algerian economy is still suffering from high unemployment rate, and poverty remains prevalent. Within that, the government has not been able to diversify the economy with oil and gas

dominating 97% of export earnings, and foreign investments being mainly focused on oil sectors (International Trade Center Report,2014).

5.2.2. Investment Promotion Laws and its Development in Algeria

Until 1962, Algeria was a French colony, and it relied on agriculture. In the 1970s and as a result of the vital role of oil revenues, the government started to divert its economic interests to the oil sector. Regarding FDI inflows attraction, the volume of FDI inflows to Algeria is still low and not stable considering its significant natural resources, and favorable demographic factors as shown in Figure 5.3.

When it comes to government procedures aiming to encourage foreign investment, the Algerian government has passed some reforms to enhance the investment atmosphere. The first governmental reforms to promote investment climate was Law NO. 277 of 1963, which mainly focused on encouraging foreign firms to invest in secondary sectors away from strategic industries which were monopolized by the state.

In 1966, the government adopted new investment law that includes giving guarantees regarding the right to transfer money and profits, and some privileges related to tax exemption. However, this act failed to attract notably new foreign investment because it included terms that gave the government the right to nationalize these firms and to settle disputes according to Algerian judicial system. In addition to that, Law No. 13 of 1982, specified that foreign companies cannot own more than 49% of local firm's capital, and mixed businesses can benefit from tax exemption on real estate for periods up to 5 years, and three years on industrial and commercial profits. Until mid-of the 1990s, the investment climate in Algeria was suffering from some drawbacks due to investment constraints; and the existence of economic and investment discrimination between local and foreign investors on one side, public and private on the other side. In addition to civil war and its repercussions on the Algerian economy.

In 1993, The Algerian Promotion Investment Agency was created to encourage FDI through removing some investment barriers and facilitating administrative procedures, granting tax exemptions, and other incentives. Law No. 4 (2001) was considered a turning point for the Algerian economy toward the open economy, through the adoption of the privatization and liberalization policies, and creation the

Agency of promotion, support and follow up- investment (APSI). From 2005 to 2009, the government took a series of reforms to attract foreign investment including issuing 2006 Supplementary Finance Act wherein corporate profit tax is declined from 30% to 25%, and the reinvestment profit tax lowered from 15% to 12.5%. Furthermore, this Act helped the access of foreign investors and declined the registration fees to 0.2%.

From institutional regularity side, the government has shortened the time of response to 75 hours and carried out some modifications on investment law of 2001 such as allowing for foreign investments during the implementation period to benefit from VAT exemption on goods and services directly input in the investment. Also, foreign projects were exempted from taxation on corporate profits. Furthermore, the overseas projects after the official start of working have become eligible to benefit from the exemption for (10) years of effective activity from taxation on corporate profits, and they can take exemption from land tax on real estate, which is directly related to investment.

5.2.3. Regional and Bilateral Investment Agreements

The Algerian government signed some bilateral investment treaties and regional investment agreements as a part of its plan to improve the investment climate. These agreements have been enacted by regulating investment operations and have facilitated cooperation between the host country and foreign investors to reduce the gaps between national and international policies. In that context and according to (UNCTAD, 2016), since 1990 the Algerian government signed more than 71 in force bilateral investment agreements, with four regional investment agreements. And more than 20 double taxation treaties.

5.2.4. The Trend of FDI inflows in Algeria 1990-2013

As the Figure 5.7 shows, the volume of FDI inflows into Algeria has noticeably improved in 1998, mainly after ending the civil war and the adoption of more liberalized policies. Consequently, the level of FDI inflow jumped from less 0.5% in 1997 to 2% as a percent of GDP in 1999.

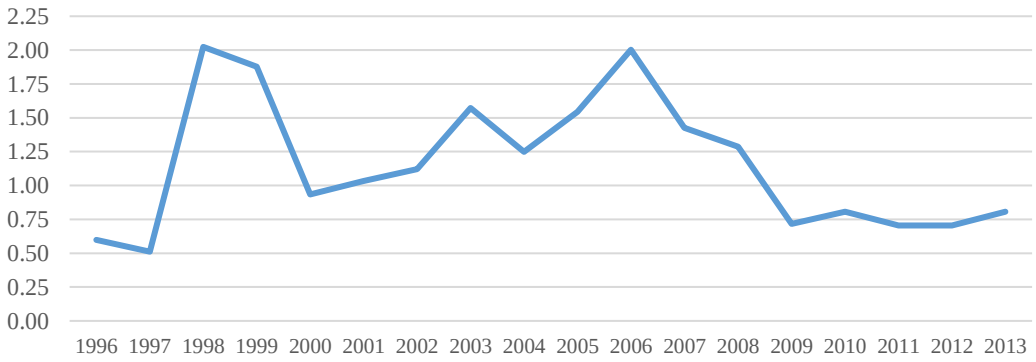


Figure 5.7: Trend of FDI inflow as % of GDP in Algeria 1996-2013 (Source: UNCTAD, World Investment Report, 2014).

Also, the maximum percentage was reached in 2006 and then began to drop due to many reasons such as 2008 financial crisis that had a negative influence on inflow FDI to developing countries generally and hindered the increase of their investments in Africa. Using the following historical path of FDI inflows in Algeria, we can note that the amount of inward FDI slightly increased in 80's where the government allowed for the foreign firms to invest just in the hydrocarbon sector.

At the beginning of 90's, the amount of inward FDI received was extremely small and weak due to civil war and unstable political conditions. Thus, this situation has prevented the flow of foreign investors in all economic sectors OECD (2006). The economic circumstances in Algeria notably changed after 1998 due to economic reforms, relative political stability, and high oil prices. All of these factors have contributed to reduce foreign debts, improvement the Algerian financial situation, and attraction of more FDI.

In 2001, and to attract more FDI inflows, the government issued new investment law by providing a set of incentives and privileges to foreign investors that included lifting some barriers on business registration procedures, and the reduction of tax burden. Therefore, according to Algerian Agency for Investment Promotion, in 2005, the amount of FDI inflows exceeded one billion American dollars, and these investments were distributed to several sectors outside the hydrocarbons sector. Also, most of these new projects were in the services sector including tourism, and construction sector.

Then, the inward FDI has decreased due to persistent problems such as high unemployment, strict labor regulations, and high transaction costs resulting from complicated administrative procedures. Furthermore, the Algerian investment environment suffered from the absence of economic diversification plans with hydrocarbons sector taking the lead, and therefore this did not generate the incentives needed to open up the Algerian economy (African Development Bank Group, 2011). Regarding the main investment partner in Algeria, Figure 5.8 shows the most countries that have investment projects in Algeria during the period of last 15 years, where the total accumulated of greenfield FDI in Algeria was around 68$ billion by employing more than 93,000 workers. The biggest investment partners in Algeria are UAE, Spain, France, Vietnam, and Switzerland, where the total amount of Emirates investments is about $15 billion that create more than 11,500 job (see Figure 5.9) opportunity, and France that carried out more than 80 projects in the last ten years.

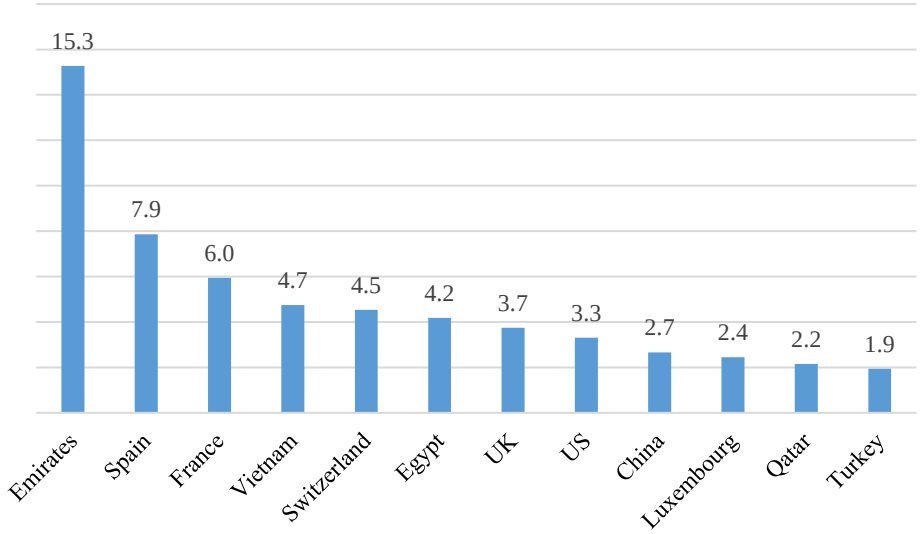


Figure 5.8: The main Greenfield FDI projects in Algeria by origin (US$ billions) (2003-2015), (Source: The Arab investment and export credit guarantee corporation[1], Algeria report, 2016).

[1] The Arab investment and export credit guarantee corporation; its official organization issuing periodic reports about investment environment in Arab countries based on

- World Bank data, reports
- UNCTAD, World Investment Reports
- FDI intelligence data
- Financial Times reports
- IMF, and other official reports

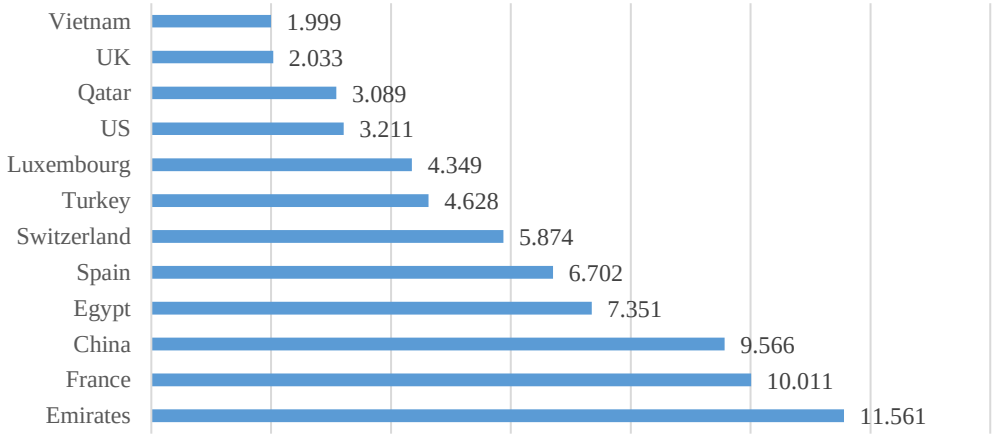


Figure 5.9: Number of job created by main Greenfield projects in Algeria (2003-2015), (Source: The Arab investment and export credit guarantee corporation, Algeria report, 2016).

Table 5.1 summarizes the biggest foreign companies working in Algeria, where the UAE, Spain, and France shared by more than 43% of the total foreign investments active in Algeria. Emirates International Investment Company LLC ranks on top of the list of the ten most important companies investing in Algeria, and this firm implements huge projects with an investment amount around US$ 5 billion.

Table 5.1: The main 10 companies investing in Algeria (2003-2015).

Rank	Company	No. Projects	Job created	Cost (Million $)
1	Emirates International Investment Company	1	3.000	5.000
2	Vietnam Oil and Gas Corporation (Petr Vietnam)	2	1.999	4.743
3	Repsol SA	2	839	3.565
4	Jelmoli Holding AG	5	4.500	3.539
5	Total Co.	3	961	3.465
6	Orascom Group	6	3.541	2.814
7	ArcelorMittal	3	4.349	2.447
8	British Petroleum (BP)	3	485	2.384
9	Grupo Ortiz Construcción y Servicios Del Mediterranean	4	2.434	2.049
10	China National Petroleum (CNPC)	2	291	1.991

Source: The Arab investment and export credit guarantee corporation, Algeria report, 2016.

5.2.5. Sectoral Distribution for Inward FDI in Algeria (2003-2015)

Number of FDI implemented by foreign firms reached 375 FDI projects through 306 international companies. As we can see from the Figure 5.10, the FDI to Algeria is fairly diversified into three main sectors: the main sector is oil and natural gas that occupies about 30% of total foreign investments, the secondary sector is metals that include the mining and quarrying activities representing 20% of total investment. Finally, real estate sector with a share of 20% in foreign investments.

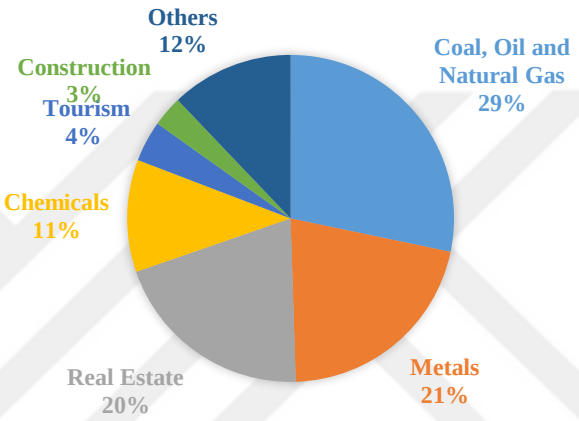


Figure 5.10: Distribution the inward FDI by sector as a percent of total FDI inflows in Algeria (2003-2015), (Source: The Arab investment and export credit guarantee corporation, Algeria report, 2016).

5.2.6. FDI and Foreign Trade Policies

About trade reforms, the Algerian government has made several modifications to trade policies concerning tariff system, export administration, and import controls. For instance, in 2001, to protect local industries, the government imposed additional duty on more than 500 items, but these extra charges decreased gradually just to be removed completely in 2006. In the same year, the government applied three level of basic tariffs according to the type of products; where the 5% rate imposed on all raw materials, pharmaceuticals products, while the 30 % rate on final products and 15 % rate is levied on the semi-finished products. About exports policies, the government performed series of procedures, which aimed mainly to enhance the protection of consumer and business enterprises through the promulgation of the consumption Law, and the customs supervision law. Additionally, the government adopted the export policies that

encouraged the exportation of non-oil products to diversify the economy and decrease the dependence on the hydrocarbon sector (International worldwide Tax Guide, 2013). According to the UNCTAD, in 2014 China was the chief trade partner in the last ten years with Algeria, where the volume of trade exchange increased from 2.09$ billion in 2006 to 8.19$ billion in 2014. China mainly exported machinery and electronic products, vehicles iron and steel products see Figure 5.11.

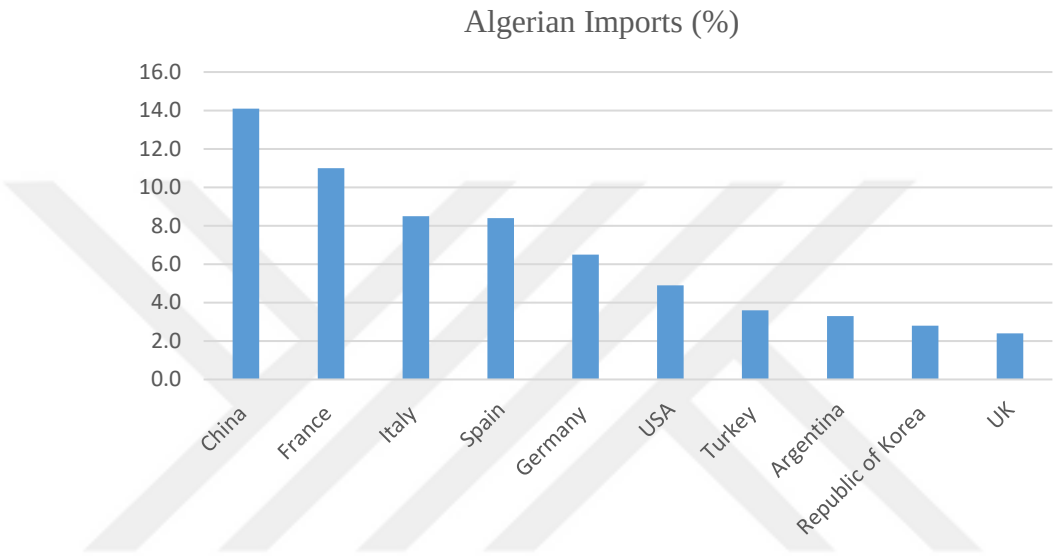


Figure 5.11: The Main Countries Exporting Goods to Algeria 2014, (Source: The Arab investment and export credit guarantee corporation, Algeria report, 2016).

5.2.7. Human Capital Development

According to the Labor Force Survey (LFS, 2014) the shortcoming of the skilled labor force is still one of the central challenges in the labor market, and the skilled labor force is suffering from the inefficient labor market. Based on that, statistics indicate that only 12% of the employed labor force has a higher education degree, and the rate of unemployment has declined for those with a lower education degree. Relating to human development, Algeria is considered as one of the largest labor force with a high level of human development compared to other African countries. However, regarding education system quality as shown in Table 5.2, the Algerian government is suffering from the low quality of the educational system, particularly at the primary level. In this respect, from 2009 to 2015, there was no improvement regarding the quality of Algerian educational system where it ranked in the average of 121 out of 141. Additionally, the labor market

in Algerian is facing several difficulties in terms of staff training, where its ranking declined from 128 in 2009 to reach 142 out 144 in 2013.

Table 5.2: Index of education system performance in Algeria.

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)
Primary education enrollment (net rate, %)	50	58	49	41
Quality of primary education	103	96	129	121
Secondary education enrollment (gross rate, %	78	80	52	46
Tertiary education enrollment (gross rate, %)	80	87	74	78
Quality of the educational system	122	117	131	114
Quality of management schools	117	91	132	115
Extent of staff training	128	103	142	118

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015.

According to HDI 2015 Algeria's HDI, the value of 0.745 is below the average of 0.746 for countries in the high human development group and above the average of 0.687 for countries in the Arab region. It also performs quite well in terms of healthcare indicators, with Algerians having high life expectancy. The human development index (HDI) in Table 5.3 illustrates the trend of HDI in Algeria, where the government performance in human development improved gradually. We can notice that in 2015 Algeria ranked 83 out of 188 countries and the Table 5.3 displays Algeria's HDI performance raising from 0.600 in 1995 to 0.734 in 2013. Also, mean years of schooling increased notably where it improved from 4.7 in 1995 to reach 7.8 in 2013. Furthermore, concerning life expectancy at birth, the value increased from 68.1 in 1995 arrive 74.6 in 2013.

Table 5.3: The value of human development index for Algeria (1995-2013).

Year	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011PPP$)	HDI value
1995	68.1	9.80	4.7	8.2850	0.600
2000	70.2	10.9	5.9	9.7760	0.644
2005	72.2	12.3	6.6	11.779	0.686
2010	73.8	14.1	7.1	12.853	0.724
2011	74.1	14.4	7.3	12.903	0.732
2012	74.3	14.5	7.5	13.060	0.732
2013	74.6	14.5	7.8	13.260	0.734

Source: Human Development Report 2016

5.2.8. Infrastructure Development

The existence of sufficient and efficient infrastructure services is one of the leading elements that determine the transaction costs of business. A certain level of infrastructure development is a necessary condition for a country to draw sizeable FDI. In this context, inadequate basic Infrastructure in Algeria discourages the inflows of FDI and by that, the government aimed to invest US$286 billion to improve the country's infrastructure and human development as well as diversify the country's economy (PWC report, 2014).

The infrastructure projects include improvement of transportation networks, ports, road, logistics Infrastructure, electricity access, and so on. Table 5.4 summarizes the government procedures to improve and enhance infrastructure services in the last 20 years.

Table 5.4: Summarize the main government procedures in field of infrastructure in Algeria.

Field of infrastructure	Government procedures
Transport infrastructure	Due to civil war and the vast desert geography, the Algerian government delayed until 2001 to take real steps to develop the transport infrastructure. Then the government enhanced the work in the main of four modes of regional and international transportation ways. In addition, it focused mainly on improving the ways located along the northern coastal strip. Nowadays, Algeria has tree transcontinental export gas pipeline, which enables Algerian exports to arrive in Spain, Italy and across the Mediterranean.
Electricity access	The government targeted to increase the capacity of electricity line particularly after the increase of electricity consumption, where the electricity consumption increased by the average of 6%, but in 2011 it grew by 10%. In this context, the government adopted a plan to boost the electricity capacity and to reduce the frequent power cuts through the construction of nine power plant.
Maritime Transport	In regard to ports services, there is more than 51 marine infrastructures in Algerian coastline including 2 oil ports, 41 fishing ports, 11 commercial ports, and other plants gave the fact that most of these ports were built during the period of 2000-2012
Air transport	In 2014, the government allocated 160 € million to maintain and enhance the port's works. In Algeria, there are more than 50 airports with paved runways, and Algerian government targets to raise the investments in the air transports through the allocation of US$520 million to be spent on airport infrastructure and technology modernization. The government also allocated 317€ million to build international terminal in 2018 with capacity of 10 million passengers yearly

Road Transport	The road transport in Algeria represents the main mode of transport. Algeria has one of the longest road networks in the Africa that is used to transfer about 85% of goods and passengers. In 2009, the government allocated 11$ billion to enhance the highways and it is expected to alleviate the isolation of the eastern and western regions and make the connections with neighbors more flexible and accessible.

Source: Researcher based on variety official reports

The Algerian infrastructure compared to other African and Arab counties is inefficient and need more efforts. Although the government carried out many infrastructure projects that mainly focused on transportation networks, maritime transport, and communication, the trend of Algerian government performance concerning infrastructure development still weak. As Table 5.5 shows the rank of Algeria regarding the quality of port infrastructure, and air transport infrastructure in 2013 was 131, and 125 respectively out of 144 countries. Similarly, in the last five years, the Algerian government was lagging behind regarding improvement of the quality of overall infrastructure where its rank declined from 85 out 134 countries in 2009 to reach 102 out 144 countries in 2015.

Table 5.5: Infrastructure development index in Algeria.

Indictor	2009 Rank (out of 134)	2011 Rank (out /139)	2013 Rank (out of 144)	2015 Rank (out of 144)
Quality of overall infrastructure	85	86	102	102
Quality of roads	77	66	88	107
Quality of railroad infrastructure	63	65	90	65
Quality of port infrastructure	103	115	131	117
Quality of air transport infrastructure	106	98	125	128
Quality of electricity supply	74	69	80	91

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

5.2.9. Business Environment Indicators

Creating a reliable business environment represents one of the major roles to attract FDI inflows, through the improvement of the business indicators such as legal system, ease of doing business, transparent bureaucracy, control of corruption, and so on down the list. In Algerian case, the business environment challenges still have some

constraints in economic and investment expansion despite the government attempts to enhance the business environment through granting tax exemption to foreign investors. Based on that, there are a lot of regulatory constraints that are imposed on foreign investors and these restrictions include compelling the foreign investor to have a local partner for 51% of their investment in Algeria.

To evaluate the business environment in Algeria, we used the Global Competitiveness Index (GCI) that was developed by Economic Forum in cooperation with global academic institutes of research. Table 5.6 presents data on global competitiveness in Algeria and provides an assessment of the primary business indicators such as institutional quality, infrastructure development, macroeconomic stability, health and primary education; market size, and financial market development. About Algerian performance related to global competitiveness, the indicators point out that the GCI ranging between 3.7 and 4.1 in last seven years, with considerable fluctuation in Algerian ranking from 110 in 2012 to reach 79 in 2014. And the business environment in Algeria still suffers and is lagging behind despite some decent reform efforts. Table 5.6 shows that the government reforms to promote institutional quality, financial market, and infrastructure that represents a cornerstone in attracting investments, yet it is still insufficient and has received a low ranking compared to Tunisia and Egypt. For example, Algeria ranked 141 among the 144 countries in terms of the institutional quality in 2012. It had also low ranking concerning financial development and infrastructure development. In the same line, the report of Heritage Foundation published in 2013, illustrated that regarding Economic Freedom Index, Algeria still takes a low classification compared to most Middle East and North Africa countries. This is likely to be caused by continual government behavior in imposing constraints on foreign ownership, trade with inefficient business regulation, and widespread corruption that exacerbates the situation. All these indicators prove that if the Algerian government targeted to attract more FDI and adopt the economic diversification plans, the policymakers need to devote their efforts and attention to activities and innovative approaches that will substantially improve the country's ability to attract foreign investments. Interestingly, the dominant hydrocarbons sector does not generate the incentives needed to open up the Algerian economy. Thus, it is critical to point out that the abundance of natural resources is often associated with weak institutional

quality, but it encourages FDI inflows because large MNCs also engaged in rent-seeking behavior (Subasat and Bellos, 2013).

Table 5.6: Global Competitiveness Index with Main Business Climate Indicators for Algeria.

Indicator	2008-2009		2010-2011		2012-13		2014-2015	
	Rank (out of 134)	Score (1-7)	Rank (out of 139)	Score (1-7)	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Global Competitiveness Index[2]	99	3.7	86	4.0	110	3.7	79	4.1
Institutional quality[3]	102	3.4	98	3.5	141	2.7	101	3.4
Infrastructure development[4]	84	3.0	87	3.5	100	3.2	106	3.1
Macroeconomic stability[5]	5	6.1	57	4.8	23	5.7	11	6.4
Health and primary education[6]	76	5.3	77	5.6	93	5.4	81	5.6
Market size[7]	51	4.2	50	4.3	49	4.3	47	4.4
Financial market development [8]	132	2.9	135	2.8	142	2.4	137	2.7

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

[2] A yearly report published by the World Economic Forum. Therefore, the Global Competitiveness Index measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity."

[3] Institutional quality: its indicator reflects the performance of government in terms of enhancing the Property rights, intellectual property protection, Diversion of public funds, Public trust in politicians, Judicial independence, Efficiency of legal framework in settling disputes, Transparency of government policymaking, Strength of investor protection, and other related factors.

[4] Infrastructure development: this indicator reflected through making overall assessment for group of factors such as quality of roads, Quality of railroad infrastructure, Quality of port infrastructure, and Quality of electricity supply, Mobile telephone subscriptions, and others.

[5] Macroeconomic stability: its indicator reflects the degree of the government success in conducting the macroeconomic policies such as inflation, government budget balance, government debt.

[6] Health and primary education: by this indictor, we can evaluate the performance of government toward enhancing the health and education conditions, this indicator include infant mortality, Life expectancy, Quality of primary education, Primary education enrollment rate, Malaria incidence, and other.

[7] Market size: this indicator measures by calculated the average of domestic market size index and foreign market size index.

[8] Financial market development: by this indicator, we can evaluate the efficiency of financial market, using the index such as Availability of financial services, Financing through local equity market, ease of access to loan, restriction on capital flows, Soundness of banks, and others.

5.2.10. Main Constraints of FDI in Algeria

According to the World Economic Forum's Executive Opinion Survey 2009 and 2011[9], the following Table 5.7 presents the main constraints that face investing and doing business in Algeria in the period of four years (2009-2012). The survey results indicated that inefficient government bureaucracy, financing restrictions, weak infrastructure, and corruption, are the most significant obstacles that affect investment operations.

Table 5.7: The Main Investment Constraint in Algeria.

The most problematic factors for doing business 2009-2010		The most problematic factors for doing business (2011-2012)	
Obstacles	Percent of responses	Obstacles	Percent of responses
Inefficient government bureaucracy	21.1	Inefficient government bureaucracy	20.5
Access to financing	16.4	Access to financing	15.7
Corruption	13.8	Corruption	14.0
Inadequately educated workforce	10.7	Inadequate supply of infrastructure	8.10
Policy instability	8.8	Inadequately educated workforce	8.10
Restrictive labor regulations	6.2	Tax regulations	6.30
Inadequate supply of infrastructure	6.1	Policy instability	4.90
Poor work ethic in national labor force	5.5	Inflation	4.50
Foreign currency regulations	4.3	Restrictive labor regulations	4.30
Tax rates	3.7	Poor work ethic in national labor force	3.50
Tax regulations	2.9	Foreign currency regulations.	3.00
Crime and theft	2.0	Crime and theft	2.40
Inflation	1.5	Tax rates	2.40
Government instability/coups	1.5	Insufficient capacity to innovate	1.40
Poor public health	1.1	Poor public health	0.80

Source: The Africa competitiveness report, 2011and 2013

[9] It summarized the most problematic factors affecting the operations of the firms seen by business executives, through form a list of 15 factors, respondents were asked to select the 5 most problematic, and to rank those from 1 (most problematic) to 5.

To shed the light on the main investment constraints, the study classified the investment obstacles according to their nature into administrative, legal, Logistical, trade, financial, and political barriers.

- **Administrative obstacles:** This type of constraints represents one of the biggest restrictions that hinders the attraction of FDI to Algeria. To cite few, inefficient government bureaucracy, mismanagement, slow registrations process, and issuing the permits are considered to be the most important obstacles for private investors and foreign investments in Algeria. The excessive demand for many documents for the investment file and the slow process scare away investors and lead them to give up on the idea of investing in Algeria.
- **Legal obstacles:** Regarding legal perspectives, the Algerian business environment is suffering from ambiguity and complexity of commercial law, which created a case of confusion between foreign investors in which they can only rely on local lawyers or agents to ensure that all procedures and rules are followed. Moreover, the government imposes some constraints on granting the residence permits for foreign nationals.
- **Investment obstacles:** Beside of legal and administrative constraints, the government imposes restrictions on starting business procedures, and on capital payment and transfers. In this context, the foreign investors are not allowed to remit their profits easily, where the government requires them to bring some identification and repatriation procedures. Furthermore, acquiring the permission of profit remitting needs a long time to do. Thus, foreign firms have to have a stronger cash flow capacity, and this has increased burdens on required capital for investment. Additionally, international investors working in Algeria are required to pay different types of fees such as social security, which amounts to 48% of the total salary (Ministry of Commerce, Algeria Report, 2007).
- **Logistic obstacles:** Many reports indicated that the business environment in Algeria is struggling regarding the mismanagement in some facilities, which hinders the speed and effectiveness of some activities. For example, the mismanagement in Algerian ports and lack of necessary equipment represents one of the investment limitations in Algeria.

5.3. FOREIGN DIRECT INVESTMENT IN EGYPT

5.3.1. Overview of the Egyptian Economy

The Egyptian economy is one of the most noticeable economies in the Middle East and North African countries. according to 2015 census, the population size was about 90 million along with a strategic geographical location. Regarding economic indicators, the Egyptian GDP reached US$286 billion in 2014, with US$3300 for GDP per capita. As for the labor market, the unemployment rate reached 13.5% in 2014 (IMF, 2014).

The form of the Egyptian economy is different from the Algerian one, where Egypt's economic structure relies on different sectors, such as manufacturing, oil, and gas, agriculture, tourism, etc. Figure 5.12 illustrates the structure of Egyptian economy that is extremely balanced, where the participation of manufacturing industries in Egyptian GDP reaches 32% as a second – largest economic sector, about 13% of the total labor force is hired in industrial activities. The service sector including trade, banking and shipping services occupied 33% of Egyptian GDP and 13 % for the agriculture sector.

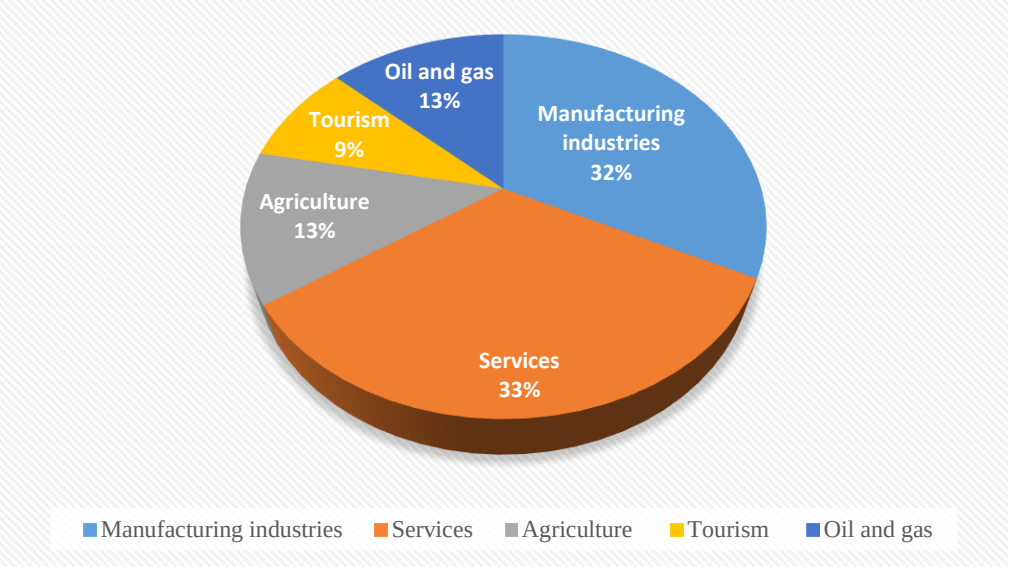


Figure 5.12: GDP contribution by sector in Egypt 2013, (Source: Central Bank of Egypt Report, 2012).

5.3.2. Investment Promotion Laws and its Development in Egypt

The Egyptian government is aware the importance of foreign investments to attain the desired economic growth. And for that reason, it launched a set of regulatory changes aiming at enhancing the stability of macroeconomic environment, developing the financial market, and improving investment conditions through transparent regulations. Until 1952, the economy of Egypt was primarily oriented towards a free market, and the private sector had a vital role in the Egyptian economy with a contribution that reached up to 80% of GDP. Based on that, we can see that foreign investments in Egypt were extremely focused on agriculture especially cotton cultivation. However, and due of two world wars, the inward FDI in Egypt notably declined. In the period between 1952-1973, many dramatic changes occurred in the Egyptian political and economic life where the new government (after 1952 revolution) adopted new policies based on the nationalization policy and relied on the public sector as the major driver of economic growth. The economic figures in that period indicated that the public sector contributed to about 95% of GDP, and the government raised its spending to enhance the public infrastructure including the basic services for electricity and railway transportation.

Then, in the period from 1973-1980, the Egyptian government applied a new liberal economic policy, which mainly aimed to encourage the contribution of foreign capital in Egypt and attract more FDI through enhancing the local business environment. This new economic vision started by implementing new investment policies, namely investment law No.65, which allowed foreign investors to establish their projects in free trade zones. Additionally, investment law No.43 of 1974, which declared a group of incentives to encourage foreign investments including facilities on the transfer of foreign capital, providing tax holiday and exemption from income tax. For example, the government offered 10- years' income tax exemption for foreign investors in agriculture and industrial sector.

During the 1980s, the government signed a group of bilateral agreements with the USA, and it provided more facilities for American investors. Furthermore, it allowed foreign investors to invest in some strategic infrastructure projects. In other words, the Egyptian government removed some investments constraints through minimizing

licensing procedures and requirements. In 1990s many changes in the structure of Egyptian economy occurred, starting by launching the Economic Reform and Structural Adjustment Program (ERSAP), which essentially endeavored to achieve the stability at the macroeconomic level, and enhance the performance of the financial system. These procedures created a stable business environment, which were meant to attract foreign direct investment. During that, the government introduced Law No. 1 of 1996 that highlighted the importance of providing more facilitations through allowing foreign firms to establish private ports. Added to that, Law No.72 which expands the incentives and exemptions to international companies that are working in the tourism sector. Moreover, law No. 8 of 1998, which gave foreign investors more incentives and benefits with clear procedures to solve problems facing foreign investors (African Development Bank Report, 2000).

In the same context, the government adopted the privatization policy through launching an extensive privatization program, which led to the privatization of one-third of state-owned firm's assets. And the Egyptian investment law provided multiple types of fiscal incentives to foreign investors such as tax exemption on industrial and commercial activities, reducing the requirements of the permit. In 2003, to attract more FDI into Egypt, the government introduced the banking Law No.88, which guarantees the right to remit income earned in Egypt and to repatriate capital. In 2004, the government created the Ministry of Investment (MOI) to promote the investment environment and coordinate between Capital Market Authority and the Egyptian Insurance Supervisory Authority.

The Egyptian Ministry of Investment has made several efforts used to enhance the main sectors that it's trying to promote FDI inflow. Afterward, The Ministry of Investment created the Investment Promotion Agency (IPA) to facilitate foreign investment activities. Until 2005, the government established about 40 industrial zones in different areas as well as more than ten free zones with 12 new cities set up in various cities. Thus, enterprises that are located in these zones can benefit from different privileges such as exemptions on income tax, industrial tax and ten years income tax holiday. Moreover, in April 2006, the government reduced the tax rate on land from 14% to 10 %. In 2007, the government applied a group of modifications on investment zones system wherein the new zones system increased the scope of sectors

and enhanced private sector involvement in zone development and management. (Egyptian Real Estate Taxation Authority)

5.3.3. Regional and Bilateral Investment Agreements

According to (UNCTAD, 2016) since 1990, the Egyptian government signed more than 110 in force bilateral investment agreements and the majority of them allow for a free transfer of capital related to investments without delay in a freely convertible currency. About 20 % of its BITs signed with MENA countries and More than 23% of its BITs with OECD countries. In addition to that, the government approved several trade agreements such as Trade and Investment Framework Agreement (TIFA) in 1999 and signed another one with the European Union (EU) in 2004. This provided immediate duty-free access of Egyptian products into EU markets. Additionally, Egypt has double taxation treaties with more than 60 countries. About trade agreements, the government aimed to facilitate international trading through having memberships in different trade blocs including the African Economic Community (AEC), and Common Market for Eastern and Southern Africa (COMESA) and others.

5.3.4. The Trend of FDI Inflows in Egypt (1990-2013)

As the Figure 5.13 shows, the volume of FDI inflows into Egypt has increased gradually from 1995 to 2000, especially after the adoption of privatization policy and more liberalized policies to jump from less than 640$ million in 1996 to 1.2$ billion in 2000. Then, the amount of FDI inflows to Egypt started to decline reaching $509 million in 2001. The FDI amount in 2003 was the least amounting to $ 237 million. In the period between 2004-2007 and as a result of economic reforms and global economic growth, Egypt became one of the most heavily concentrated countries with foreign firms in MENA region. In this context, in 2006 FDI inflows to Egypt maximized to reach 10$ billion. In 2011, due to political instability following the overthrow of the Mubarak regime, the volume of FDI flowed into Egypt declined dramatically, which had naturally a negative inflow FDI to arrive US$-480 million. However, the trend of FDI inflows increased notably as a result of some political support.

From a global perspective, Table 5.8 shows that the Egyptian economy share of global FDI inflows also increased. For example, the percentage of FDI inflows into Egypt from aggregate FDI inflows in developing countries increased from 0.66% in the 1990s to reach 1.04% in 2000s.

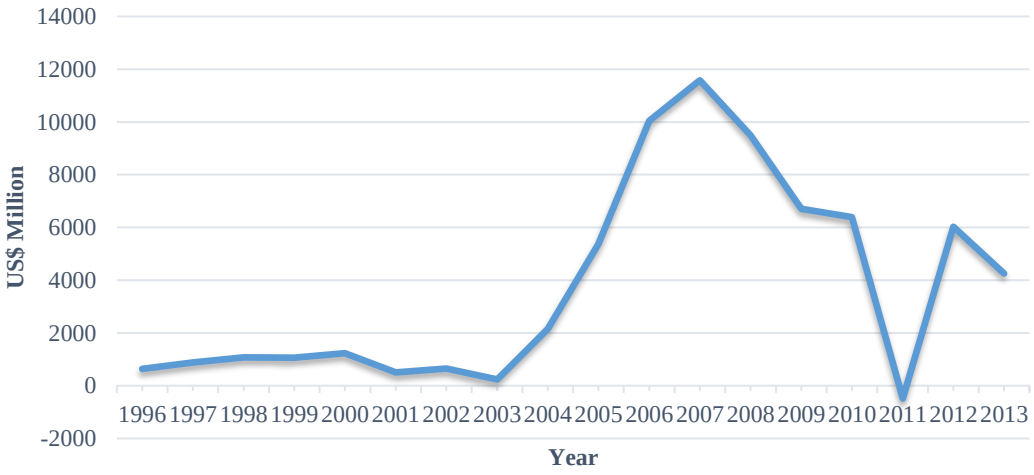


Figure 5.13: Trend of FDI inflow in Egypt 1996-2013 (US$ Mill), (Source World Bank report, 2014).

Table 5.8: Inward FDI in Egypt relative to developing countries.

Indicator	Egypt
% FDI inflows in Egypt compared to developing countries FDI inflows (1990-2000)	0.66%
% FDI inflows in Egypt compared to developing countries FDI inflows (2001-2015)	1.04%

Source: calculated by researcher based on the UNCTAD Data.

Concerning to the main investment partner in Egypt during the period of last 15 years, the Figure 5.14 shows the total accumulated for greenfield FDI in Egypt is around $ 121 billion resulted in employing more than 205,000 workers. The biggest investment partners in Egypt are UAE, Qatar, Greece, and the UK, where the total amount of Emirates investments is about $32 billion that created more than 44.500 job opportunity, and the USA that carried out more than 102 projects in the last ten years. Table 5.9 summarizes the most significant foreign companies working in Egypt. The UAE, Qatar, and Greece shared more than 48% of the total foreign investments, Barwa Real Estate Company classified on top of the list of 10 most essential companies investing in Egypt

where it implements huge projects with an investment cost estimated to be around U$10 billion .

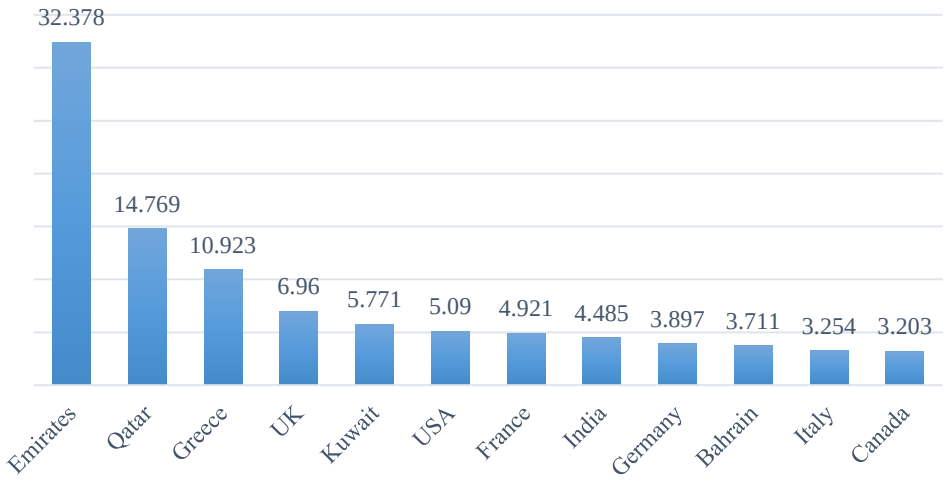


Figure 5.14: The main Greenfield FDI projects in Egypt by origin (US$mill) (2003-2015), (Source: The Arab Investment and Export Credit Guarantee Corporation, Egypt report, 2016).

Table 5.9: The biggest 10 companies investing in Egypt accumulated (2003-2015).

Rank	Company	Projects	Job created	Cost (Million $)
1	Barwa Real Estate	2	6,000	10,000
2	Al-Futtaim Group	6	8,689	5,782
3	DAMAC Holding	2	3,018	5,428
4	Dana Gas	7	1,231	5,319
5	British Gas Group (BG)	3	1,356	3,550
6	Emaar Properties	5	7,112	2,979
7	Majid Al Futtaim Group (MAF Group)	9	10,645	2,609
8	RWE	3	574	2,559
9	Crescent Petroleum	4	1,517	1,827
10	Emirates Telecommunications (Etisalat)	2	1,056	1,550

Source: The Arab investment and export credit guarantee corporation (Egypt report, 2016)

5.3.5. Sectoral Distribution for Inward FDI in Egypt 2003-2015

Until the first half of 2015, the total of FDI projects in Egypt reached 740 projects implemented through 550 foreign firms and generated more than 200 thousand job opportunity. Regarding the structure of FDI inflow in Egypt, according to FDI Market report, 2012 the Egyptian FDI has been distributed and diversified in various sectors. In this regard, for the period between 2007 and 2012, the contribution of oil and natural gas

in total FDI inflows reached 60%, whereas financial services sector participated approximately with 8%, communication reached an average of 5.7 %, manufacturing sector 7%, construction with average 1.6%.

The majority of these foreign firms concentrated on real estate sector with a percentage of 32.4%, while 30% are in oil and gas sector, and about 10% in the chemicals sector. see Figure 5.15.

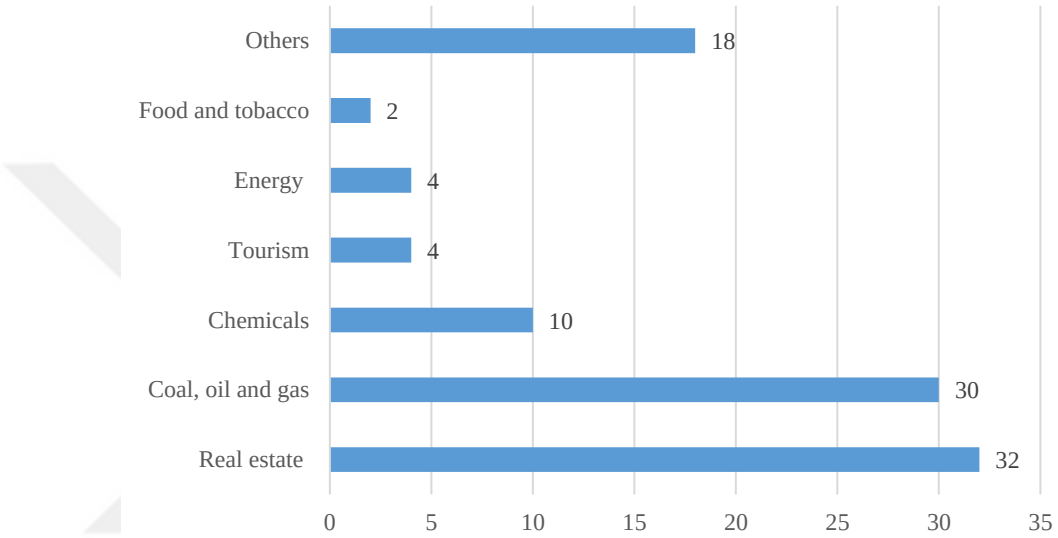


Figure 5.15: Distribution the inward FDI by sector as a percent of total FDI inflows in Egypt (2003-2015), (Source: The Arab investment and export credit guarantee corporation, Egypt report, 2016).

5.3.6. FDI and Foreign Trade Policies

Regarding trade reforms, the government has made some modifications to trade policies regarding tariff system, export administration, and import controls. These reforms aimed mainly to enhance the trade's transactions. For instance, in 2002, and to encourage the foreign investment, the government approved the legal framework for establishing export-oriented specific economic zones, where these zones allow the international operating firms to import their need of raw material duty-free, and are exempt from sales and indirect taxes. (US Bureau of Economic and Business Affairs, 2013).

Furthermore, to enhance trade liberalization, the Egyptian government has made some changes to its tariff system and reduced the weighted average tariff rate of commodities from 14.5% to 9.5%. Additionally, the government provided a tariff reduction between

10%-90% when the importing parts and components based on varying proportion of local contents. The Egyptian government applied three level of basic tariff rate according to the kind of products: 4.8% rate imposed on all raw materials, 28.2 % rate on final products and 10.6 % rate is levied on semi-finished products. However, the government imposed high tariffs that reached 40% on some products like tobacco and alcoholic drinks (COMESA Tax Guide, 2009).

Regarding exports policies, the government adopted the export policies that encouraged the exportation of industrial products manufactured, and by imposing some restrictions on exporting handicraft products. According to the UNCTAD, in 2014 China was the main trade partner in the last ten years for Egypt, where the volume of trade exchange increased from 3.19 $ billion in 2006 to 8.05 $ billion in 2014. China mainly exported to Egypt garments, plastics and products thereof, organic chemical products, mechanical apparatus and parts, motive power machines, vehicles spare parts see Figure 5.16.

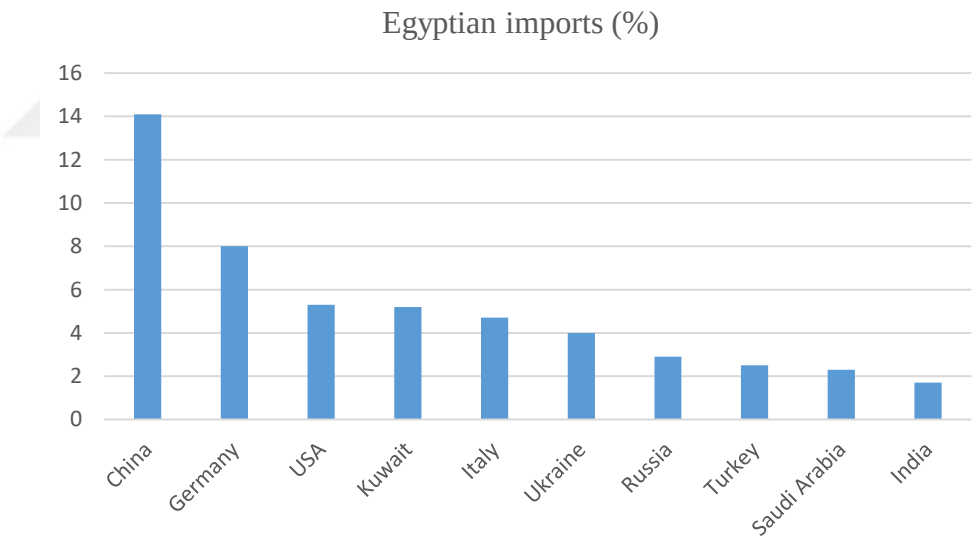


Figure 5.16: The Main Countries Exporting Goods to Egypt 2014, (Source: The Arab Investment and Export Credit Guarantee Corporation, Egypt report, 2016).

5.3.7. Human Capital Development

According to the CAPMAS, (2016) the rate of unemployment among Egyptian youth reached 26.5% in 2016. Egypt has labor force about 27million, with an annual increase by 700,000 new labor. In terms of labor force challenges, the major issues that affect labor force market are the rigidity of labor regulations, restriction on the hiring workers,

inefficient labor markets, and low quality of education in addition to the existence of a gap between labor skills and work needs (Binzel and Assaad,2007).Within that, the international labor organization's survey (2014) showed that about 48% of Egyptian labor force are working in positions that do not match their education. In addition to that, around 9% of them are overqualified and earn less than deserved (Barsoum et al., 2014). In terms of human development, Egypt is considered to be one of the largest labor forces among Middle East and North Africa countries.

According to HDI 2015 Egypt's HDI value was 0.691 which puts it in the medium human development classifications. Table 5.10 illustrates the trend of HDI in Egypt where the government performance in terms of human development improved slowly, in 2015 Egypt ranked 111 out of 188 countries. It also displays that the Egypt's HDI performance raised from 0.577 in 1995 to 0.686 in 2013, which means that years of schooling increased notably, where it improved from 4.1 in 1995 to reach 7.0 in 2013. Furthermore, regarding life expectancy at birth, the value increased from 66.8.1 in 1995 to reach 70.9 in 2013.

Table 5.10: The value of human development index for Egypt (1995-2013).

Year	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011PPP$)	HDI value
1995	66.8	10.4	4.1	6,437	0.577
2000	68.6	11.1	4.8	7,629	0.612
2005	69.4	11.5	5.6	8,175	0.636
2010	70.4	12.4	6.6	9,906	0.671
2011	70.5	12.4	6.7	9,813	0.673
2012	70.7	12.8	6.8	9,834	0.681
2013	70.7	13.1	6.9	9,791	0.681

Source: Human Development Report 2016

This poor investment in human capital resulted in a mismatch between the skills acquired by youth and the requirements of the job. Given the structural nature of unemployment in Egypt, increasing labor demand alone will not solve the problem unless the quality of labor supply is addressed. In the Egyptian Youth Survey,(2012) 70 percent of unemployed youth said that they were jobless because there was simply no work available, and more than 40 percent thought personal connections were more important than personal skills in securing a job.

5.3.8. Infrastructure Development

Inadequate basic infrastructure expansion in Egypt still represents a significant challenge regarding attracting FDI into Egypt bearing in mind that infrastructure investment has notably declined in the last 15 years. Indeed, improving infrastructure in Egypt would require a combination of more substantial infrastructure expenditures and more efficient investment. Consequently, the development of infrastructure requires enhancing projects like transport networks, ports, road, logistics Infrastructure, electricity access, and so on. The following Table 5.11 summarizes the government procedures to improve and enhance the infrastructure services during the last 15 years. In 2014, to improve the investment environment, the government announced about 28 new investment projects in the transportation sector. These projects include the establishment of 5 new metro and tram lines, three road projects, three railway projects and more than 15 maritime transport projects.

Table 5.11: Summary of the main government procedures in field of infrastructure in Egypt.

Field of infrastructure	Government procedures
Transport infrastructure	The Egyptian transport infrastructure compared to other African and Arab counties is relatively good. Within that, the government in last two decades carried out many transport projects, where it mainly focused on Cairo and frontier of Nile. In 2014, to improve the investment environment, the government announced about 28 new investment projects in the transportation sector. These projects include the establishment of 5 new metro and tram lines, three road projects, three railway projects and more than 15 maritime transport projects. Concerning the transportation projects challenges, the fuel shortage and rising of public debt are the main problems that are facing this sector. About rail infrastructure, Egypt has Semi-developed rail network. The Egyptian rail network connects the central cities together and with main towns. But, Egypt remains to suffer from the low of safety procedures and high rate of accidents.
Maritime Transport	Concerning ports services, Egypt owns a vast port infrastructure, where it has about forty-sea port, these ports classified according to their function into six fishing ports, five marinas, 12 commercial ports, and ten oil shipping ports. Despite this extensive port networks, the Alexandria port and the Suez Canal are still the most important maritime transports. Also, the location of the Suez Canal in the one of the most important trade route between Europe and Asia. make it become to be the main channel for the world's oil passing
Air transport	Egypt has more than five international airports. Among the most critical airport is Cairo Airport, being the second-busiest airport in Africa. It's a station for the most significant African, Asian, North American and European cities.
Road Transport	The road transport in Egypt represents the main mode of transportation where the road network is concentrated in the coast and along the Nile river. In the same context, the government targeted to invest 3$ billion in constructing a bridge connecting between Egypt and Saudi Arabia across the Red Sea.
Electricity access	The Egyptian government targeted to invest about 110$ billion in the energy sector, and this project is expected to cover 15 years 2012-2027. In the first stage 2012-2017, it will add 1.2 million new connection, with increasing the power capacity that would reach 12 GW; however, according to the infrastructure indicators with current economic and political circumstances it is unlikely that they can be met.

Source: the researcher based on variety of official reports

5.3.9. Business Environment Indicators

In Egypt, the business environment challenges still consist a barrier to the economic and investment expansion despite the government attempts to enhance the business environment by applying some reforms. Table 5.12 presents data on global competitiveness in Egypt and provides an assessment of the main business indicators. Egyptian performance indicators point out that Egypt is rated as weak on the Global competitiveness index. Between 2008 and 2015, the Egyptian rank dramatically dropped 81 in 2008 to arrive at 119 in 2015. Indeed, this is another indicator that business environment in Egypt still suffers and is lagging behind despite some reform efforts. In terms of Global Competitiveness Index, Table 5.12 illustrates that the reforms that are related to macroeconomic stability and financial market development are still insufficient and received a low ranking compared to other Arab and African countries.

For example, concerning the macroeconomic stability, in 2012 Egypt ranked 138 among the 144 countries. It had also low ranking regarding financial development, health, and primary education.

Table 5.12: Global Competitiveness Index with Main Business Climate Indictors for Egypt.

Indicator	2008-2009		2010-2011		2012-13		2014-2015	
	Rank (out of 134)	Score (1-7)	Rank (out of 139)	Score (1-7)	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Global Competitiveness Index	81	4.0	81	4.0	107	3.7	119	3.6
Institutional quality	52	4.2	57	4.0	96	3.6	100	3.4
Infrastructure development	60	3.7	64	4.0	83	3.6	100	3.2
Macroeconomic stability	125	3.6	129	3.4	138	3.1	141	3.0
Health and primary education	88	5.2	91	5.4	94	5.3	97	5.4
Market size	27	4.7	26	4.8	29	4.8	29	4.8
Financial market development	106	3.7	82	4.0	102	3.7	125	3.2

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

In 2013, in a report published by Heritage Foundation, in terms of economic freedom indexes, Egypt still takes a low classification compared to most Middle East and North Africa countries. Where Egypt is ranked 12 among 17 countries in MENA region, and its overall score is below global and regional average. This low rate was mainly due to the poor judicial system, protection of property rights, and insufficient eradication of corruption. All these indicators prove that the policymakers still need to devote their efforts and attention to activities and innovative approaches that will substantially improve the country's ability to attract more investment from outside the country.

5.3.10. Main Constraints of FDI to Egypt

Tables 5.13 and 5.14 present the main constraints that stand against investing and doing business in Egypt in five years (2009-2013). The survey results indicated that the central investment obstacles in Egypt for the period 2009-2011 were mainly related to corruption, inefficient government bureaucracy, inflation, and difficulties to access to financing. However, the results of 2013 survey's the political risk was the main investment hindrance in Egypt. To shed light on the main investment constraints, the study segmented investment barriers based on their nature into administrative, legal, logistical, economic, financial, and political barriers.

Table 5.13: The main investment constraints in Egypt 2009.2011.

The most problematic factors for doing business 2009		The most problematic factors for doing business 2011	
Obstacles	Percent of responses	Obstacles	Percent of responses
Corruption	14.3	Corruption	19.0
Inefficient government bureaucracy	13.8	Inflation	14.8
Inflation	13.5	inadequately educated workforce	10.1
Access to financing	12.3	Tax regulations	9.2
Inadequate supply of infrastructure	9.5	Access to financing	8.2
Poor work ethic in national labor force	6.8	Inefficient government bureaucracy	6.1
Foreign currency regulations	6.0	Restrictive labor regulations	5.9
Tax rates	5.7	Poor work ethic in national labor force	5.6
Policy instability	5.6	Tax rates	4.5
Tax regulations	5.6	Policy instability	4.5
Inadequately educated workforce	3.6	Inadequate supply of infrastructure	3.8
Government instability/coups	1.3	Crime and theft	3.5
Restrictive labor regulations	1.0	Poor public health	3.2
Government instability/coups	0.4	Foreign currency regulations	0.9
Crime and theft.	0.4	Government instability/coups	0.6

Source: The Africa competitiveness report, 2009and 2011

Table 5.14: The main investment constraints in Egypt 2013.

The most problematic factors for doing business 2013	
Obstacles	Percent of responses
Government instability/coups	17.4
Policy instability	17.0
Crime and theft	9.7
Restrictive labor regulation	6.5
Corruption	6.3
Access to Finance	5.6
Tax regulation	5.4
Inadequately educated workforce	5.3
Inefficient government bureaucracy	5.3
Tax rates	4.6
Poor work ethic in national labor force.	4.3
Foreign currency regulations	3.8
Inflation	3.0
Inadequate supply of infrastructure	2.5
Insufficient capacity to innovate	2.4

Source: The Africa competitiveness report, 2013

- **Administrative obstacles:** This type of constraints represents one of the most bugbears that hinders the attraction of FDI in Egypt. To cite few, excessive government bureaucracy, which involves some complications related to requirements of government regulation, slow in obtaining the opening licenses and customs procedures. Additionally, the investment environment is still suffering from a mismatch between job skills and labor market demand. Regarding corruption control, according to the World Economic Forum's Global Competitiveness Report (2009 and 2011), the corruption was the most problematic factor in doing business in Egypt, before inflation, and access to financing. Within that, the tax evasion remains one of the problems that reflect corruption. All of these obstacles increase the ambiguity and uncertainty to Egyptian private sector.
- **Legal obstacles:** About legal perspectives, The Egyptian business environment is struggling with the absence of a unified legal framework for the reforms and frequent amendment of the laws. which leads to reducing the credibility and creates confusion. For instance, foreign investors only depend on local lawyers to avoid any

misunderstanding and confusion and to ensure that all procedures are met. Furthermore, the Egyptian commercial legal system is known for its slow and complicated procedures and reaction. For example, the average time to dispute resolution ranges between 3 to 5 years.

- **Macroeconomic instability obstacles:** From another side, the instability and deterioration of macroeconomic indicators in the last five years represents one of the black holes that affect attraction of FDI to Egypt. This includes high inflation rate, raising domestic debt, as well as a widening balance of payments deficit, and budget deficit. Additionally, the erosion of the foreign exchange reserves, and depreciated local currency value. Moreover, most of the surveys have indicated that the difficulties to access finance in Egypt is one of the factors that hold off investment and FDI.
- **Political instability obstacles:** Concerning attracting FDI, the political instability is certainly one of the main factors that led to a deterioration of FDI, and indeed, the trust of foreign investor would be at stake, with high uncertainty. Additionally, raising political disturbances hinder the potential economic growth particularly in developing countries and emerging markets such as Egypt. Regarding Egyptian political stability indicators, the World Bank's report points out that after 25th of January Revolution and anti-government protests in 2011. The political stability variables dropped dramatically. For example, the Egyptian political stability and absence of violence index ranked 189 among 203 countries in 2013, falling from 146th in 2008 ranking (Euromonitor international, 2014). Thus, in January 25th, 2011 Revolution caused a sharp decline in the trend of FDI inflows to Egypt, which had a negative inflow that reached $ -482.7 million.

5.4. FOREIGN DIRECT INVESTMENT IN LIBYA

5.4.1. Overview of the Libyan Economy

Libya is one of the North African countries with a population of 6.4 million according to 2015 census and total land surface about 1,759,540 km^2. Also, it is ranked as the fourth largest country in Africa, and desert covers most of its land surface. Regarding Libyan economy size, the Libyan economy is relatively small, and it has an ample of natural resources that include oil and gas. The economy in Libya is mainly based on the revenues that are generated from selling oil and gas. Hence, Libya is classified as one of the highest per capita GDP 10.700$ in Africa because of oil resources. Concerning to the value of Libyan oil exports, it accounts for 96% of the total value of Libyan commodity exports, and it creates revenues reaching 88.6% of overall state's revenues and therefore contributes 55% to the Libyan GDP.

At the global level, Libya is ranked 8th largest oil reserve globally, and approximately 4.4 % oil reserves in the world. However, despite the abundant resource and relatively high per capita GDP, the Libyan economy is still in agony due poverty and a high unemployment rate that reached 15%. Besides, the government has not been able to diversify the economy with oil and gas dominating 96% of export earnings (Word Bank, 2012)

5.4.2. Investment Promotion Laws and its Development in Libya

Until the late of the 1950s, Libya was economically underdeveloped, and there was nothing to indicate any economic progress (Abdulla,2010). By 1960's, the oil was discovered, then the oil revenues became the backbone of the Libyan economy. In this regard, due to the vital role of oil revenues, the government started to convert its economic interests to the oil sector. About FDI inflows attraction, its volume to Libya is still low and not stable considering its considerable natural resources, and favorable demographic factors.

When it comes to government procedures aiming to encourage foreign investment, the Libyan government has passed some reforms to attract more foreign firms. In 1962, the government allowed international companies to invest in oil and gas sector. Thus, during

the period 1962-1968, The Libyan economy has made remarkable progress in terms of a volume of investment projects and job creation, where more than 70% of the labor force has been employed.

In 1969, and due to the revolution and changing the regime, the new government made several changes concerning economic policies and plans. Within that, the new government adopted the policy of nationalization of foreign shares in domestic banks and controlling over international firms. From 1970 to 1980, the government did not allow the private sector to work in Libyan market, where the government considered foreign investment as a synonym of colonial ambition. Consequently, the public sector gradually controlled more than 85% of total investment (Shernanna and El-Fergani, 2007).

At the beginning of the 1980s, from the global side, the main industrialized countries were in the midst of an acute economic recession, and this state created dropping in oil demand, along with oil prices starting to fall. This has led Libya to cut its production to half. As a result, the Libyan economy indicators began to deteriorate. By locally zooming in, the Libyan economy was suffering from the poor performance of the public investment projects, especially after oil prices crisis. Additionally, the public spending based on the borrowing from state-owned banks was high, which led to raising the level of inflation (Abdulla, 2010).

Between 1985 and 1998, and due to the previous circumstances, the government made several reforms and passed a number of laws aiming to encourage foreign investment, and enhance the investment climate, where the government issued Law No.9 of 1985, which allowed the local private enterprises to invest in different sectors. In 1989, the government started to implement privatization policy by issuing Law No. 427, which led to transferring the ownership for about 4,845 firms in different sectors.

From 1990 through 1998, the government made several changes that aim to regulate the ownership of the public utilities such as Law No.300 of 1993 in addition to Law No. 1 of 1993 which is related to recognition of the banking and monetary system. The year of 1998 was a prominent milestone in Libyan investment environment, where the Libya Investment Board (LIB) was created. This latter mainly aimed to encourage FDI into Libyan market, and also to increase the contribution of different sectors in the economy,

and working on diversifying income sources. Furthermore, the government issued Law No. 5 of 1998, which is related to provide some incentives to encourage FDI in Libya.

From 1998 to 2003, the government adopted some reforms that have to with the improvement of the investment environment. These reforms include enacting law No, 21 of 2000, which was focused on enhancing the legislation system. From 2004 to 2010. The business environment changed, along with providing some facilitation and incentives for investors. In this context, the government issued law No.6 of 2004 to organize the working mechanism of trade agencies. However, the prominent government reform was law No.3 and 8. of 2005 that allowed foreign firms to open branches and offices in Libya. In addition to that, Law No. 108 of 2005, which removed some of the investment restrictions, and allowed foreign firms to invest in any sector, and merge with local firms.

With regard to investment encouragement procedures, the Libyan government offered an incentives package to foreign firms such as tariff reduction, five years tax holiday, and income tax exemption up to 5 years. In addition to that, according to Law No, 215 of 2006, the government established the Zuwara Free Trade Zone (ZFTZ), and Misrata Free Trade Zone (MFTZ). The new zones system increased the scope of sectors and enhanced private sector involvement in zone development and management. In 2010, the Libyan government liberalized its economy and allowed foreign firms to exploit the natural resources and serve Libyan economy through opening the doors to foreign investors to invest in all sectors oil and non-oil.

5.4.3. Regional and Bilateral investment agreements

According to (UNCTAD, 2016) since 1990, the Libyan government signed about 39 in force bilateral investment agreements, 25 of them were with non-African countries, and 11 agreements with other African nations. In this regard, the government signed six regional investment agreements, the most important agreement was in 2003 being part of WTO, where this membership required implementing several trade openness reforms such as reducing subsidies and minimizing the number of import bans.

5.4.4. The Trend of FDI inflows in Libya 1990-2013

In terms of FDI attractiveness, Libyan economy is still suffering from fluctuating FDI, compared to other developing countries. In this regard, as Figure 5.17 shows, the trend of FDI inflows into Libya has improved noticeably in 2003, actually after adopting of more liberalized policies and the establishing of Libya Investment Board (LIB). The FDI inflows doubled from US$ -111 million in 1997 to US$143 million in 2003.The maximum amount FDI inflow was in 2007 reaching US$ 3,850 million that was the result of removing some investment restrictions and allowing foreign firms to open branches and offices in Libya and as a result of global economic growth.

The economic circumstances in Libya changed negatively in 2011 after an outbreak of the Libyan Revolution, where a large part of production facilities and infrastructure were vandalized, with a lot of disturbances in the banking system, additionally, the recession of non-oil sectors.

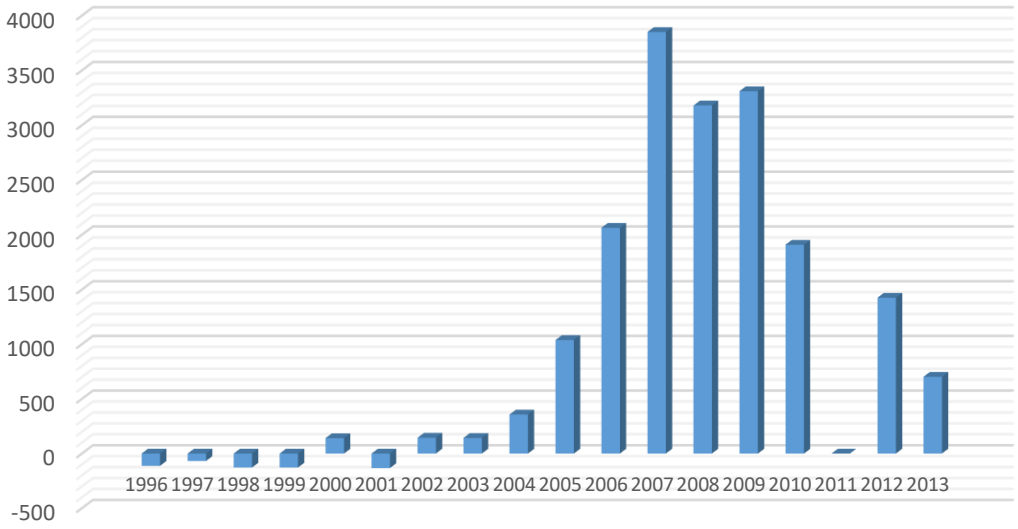


Figure 5.17: Trend of FDI inflow in Libya 1996-2013(US$ Million) (Source UNCTAD, 2014).

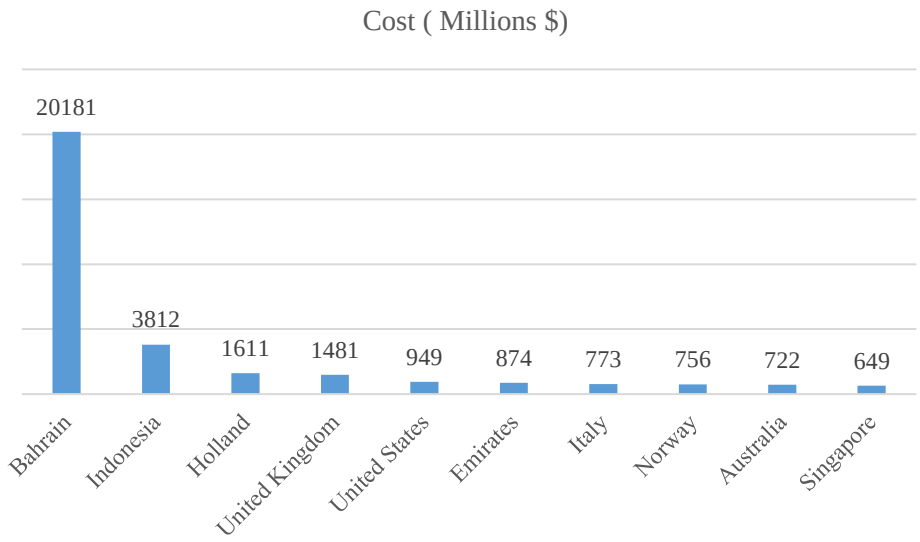


Figure 5.18: The Main Greenfield FDI projects in Libya by origin 2003-2015, (Source: The Arab investment and export credit guarantee corporation, Libya report, 2016).

In terms of the main investment partner in Libya during the last 12 years, Figure 5.18 shows that total accumulated for greenfield FDI in Libya was around US$37,500 billion by employing more than 32,000 workers. The biggest investment partners in Libya were Bahrain, Indonesia, Netherlands, UK, and the USA, where the total amount of Bahraini investments was about $20 billion with creation more than 3,500 job opportunity. Table 5.15 summarizes the most significant international companies working in Libya, where Bahrain, Indonesia, and the Netherlands shared more than 68% of the total foreign investments. Pertamina Indonesian Oil Company is classified on top of the list of ten most essential businesses investing in Libya with cost projects reaching around US$ 3.6 billion.

Table 5.15: The biggest 10 companies investing in Libya (2003-2015).

Rank	Company	Projects	Job created	Cost (Million $)
1	PERTAMINA	2	1,949	3,600
2	British Petroleum (BP)	1	374	900
3	Woodside Petroleum	3	470	722
4	Multi Development (Multi Vetoed)	1	3,000	697
5	Interlacement	1	1,184	650
6	Norse Hydro	2	428	622
7	Royal Dutch Shell Plc	3	313	603
8	Office Chérifien des Phosphates (OCP)	1	444	500
9	RanHill	1	2,953	413
10	Hotel Properties	3	1,954	392
	Other companies	144	20,049	28,406
	Total	162	32,663	37,504

Source: The Arab Investment and Export Credit Guarantee Corporation (Libya report, 2016)

5.4.5. Sectoral Distribution for Inward FDI in Libya 2003-2015

Between 2003 and 2015, number of foreign investment projects reached 162 FDI projects in various fields and were implemented by more than 200 companies. In fact, 60% of international investments incoming to Libya are centered on real estate, while 27% are on coal, oil and natural gas, and 13% are in other sectors such as construction, and tourism sectors see Figure 5.19.

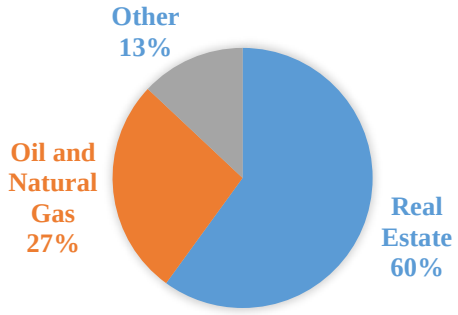


Figure 5.19: Distribution the inward FDI by sector in Libya (2003-2015), (Source: The Arab investment and export credit guarantee corporation, Libya report, 2016).

5.4.6. FDI and Foreign Trade Policies

The Libyan government has made some modifications on trade policies in terms of tariff system, export administration, and import controlling. For instance, in 2003, to enhance the trade exchanges, the government adopted new reforms to simplify the business procedures such as granted 5-year income tax exemption based on the nature of the project, exempting the export- oriented goods from excise tax and duties when exported. In 2004, the Libyan government improved its relation with a number of important trading stakeholders, reduced the subsidies, and minimized the list of goods subject to import licenses, as well as abolished import tariff on specific sectors. According to the UNCTAD, Table 5.16 show that in 2014 Italy was the main trade partner in the last ten years with Libya, where the volume of Libyan imports from Italy reached 18% total imports.

Table 5.16: The Main Countries Exporting Goods to Libya 2014.

Rank	Exporting country	Value (thousand ($)	Libyan imports (%)
1	Italy	2,932,242	18.0
2	China	2,157,697	13.2
3	Turkey	2,060,006	12.6
4	Egypt	990,328	6.1
5	South Korea	893,844	5.5
6	Spain	748,902	4.6
7	Germany	716,151	4.4
8	United States	503,177	3.1
9	Brazil	392,217	2.4
10	France	346,478	2.1
	Others	4,545,225	27.5

Source: The Arab investment and export credit guarantee corporation (Libya report, 2016)

5.4.7. Human Capital Development

Regarding labor market statistics, the average of unemployment rate between 2005-2011 reached 18% of the total working force. Moreover, the Libyan performance related to the quality of the educational system can be described as fragile, where it ranked 138th for higher education, and 128th for primary education out of 139 countries (World Economic Forum Global Competitiveness Report, 2011). According to the Libyan law, at least 20% of workers in foreign companies must be Libyan citizens, and the companies must also provide training to an additional number of Libyan citizens every year. In this regard, The Libya Investment Climate Survey (2011) indicated that about 30% of foreign firms working in Libya face difficulties to find skilled labor.

Concerning to the human development index (HDI), Table 5.17 illustrates the trend of HDI in Libya where the government performance concerning human development improved slowly. In 2015 Libya ranked 102 out of 188 countries, and as the table and Libya's HDI performance raised from 0.709 in 1995 to 0.730 in 2013. Mean years of schooling increased notably. Furthermore, about life expectancy at birth, the value rose from 69.9 in 1995 arrive 71.9 in 2013.

Table 5.17: The value of Human Development Index for Libya (1995-2013).

Year	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011PPP$)	HDI value
1995	69.9	14.8	4.7	22,233	0.709
2000	70.5	15.7	5.6	21,652	0.732
2005	71.4	15.4	6.4	25,776	0.752
2010	71.6	14.0	7.3	29,143	0.756
2011	71.6	13.7	7.3	11,041	0.706
2012	71.6	13.4	7.3	21,688	0.735
2013	71.6	13.4	7.3	19,354	0.730

Source: Human Development Report 2016

5.4.8. Infrastructure Development

In this regard, Libyan government expended its road networks in 2000 to reach around 83,200 kilometers of roads. In terms of airport developments, the state before 2010 was targeting to improve the airports and seaports networks. And widen the rail network project through connecting central cities to the international airport. But these plans have not been fully implemented for various reasons. Libya faces serious challenges of infrastructure development due to political instability and civil wars that took down a great deal Libyan infrastructure, see Table 5.18.

Table 5.18: Infrastructure Development Index for Libya (2009-2015).

Indictor	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)
Quality of overall infrastructure	115	115	128	144
Quality of roads	85	97	102	142
Quality of port infrastructure	110	116	112	131
Quality of air transport infrastructure	126	133	129	139
Quality of electricity supply	71	81	85	116

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

5.4.9. Business Environment Indicators

In Libya, the business environment challenges still consist a barrier in the economic and investment expansion because of its weak performance in terms of political stability, infrastructure development, effective governance, and corruption control.

For example, according to international competitiveness report (2004,2007) Libya's business environment has poor ranking and it is suffering in terms of political freedom, infrastructure development, and financial market development.

The business environment in Libya is still limping despite some reform efforts. Table 5.19 presents data regarding the Libyan performance in the global competitiveness index. The indicators point out that the Libyan GCI ranging between 3.9 – 3.5 in last seven years, with a considerable decline in Libyan rank from 91 in 2009 to 126 in 2015. Concerning the institutional quality, in 2015 Libya ranked 142 among the 144 countries. It had also low ranking in financial development and infrastructure development. In the same line, the report of Heritage Foundation published in 2013, illustrated that in terms of economic freedom indexes, Libya is still under-classified compared to most Middle East and North Africa countries. This is likely to be caused by the internal conflict, inefficient business regulation, and widespread corruption that exacerbates the situation.

Table 5.19: Global Competitiveness Index with Main Business Climate Indicators for Libya.

Indicator	**2008-2009**		**2010-2011**		**2012-13**		**2014-2015**	
	Rank (out of 134)	Score (1-7)	Rank (out of 139)	Score (1-7)	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Global Competitiveness Index	91	3.9	100	3.7	113	3.7	126	3.5
Institutional quality	65	3.9	88	4.2	81	3.7	142	2.6
Infrastructure development	112	2.5	95	3.2	88	3.6	113	2.9
Macroeconomic stability	6	6.0	7	5.7	73	4.6	41	5.4
Health and primary education	103	4.6	115	4.5	121	4.4	119	4.6
Market size	77	3.3	69	3.6	102	2.9	85	3.3
Financial market development	131	3.0	130	3.0	140	2.7	144	1.9

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

All these indicators imply that if the Libyan government set forward attracting more FDI as a target and adopt the economic diversification plans, the policymakers should be willing to devote their efforts and attention to activities and cutting-edge approaches that will substantially improve the country's ability to attract more investment from outside the country. If applied, virtually the dominant oil sector does not generate the incentives needed to open up the Libyan economy. It is necessary to say that the abundance of natural resources is often associated with weak institutional quality, but it encourages FDI inflows because large MNCs also engaged in rent-seeking behavior (Subasat and Bellos, 2013).

5.4.10. Main Constraints of FDI in Libya

Tables 5.20 and 5.21 demonstrate the main constraints that faced investing and doing business in Libya in seven years (2009-2015). The survey results indicate that the main investment obstacles in Libya for the period 2009-2015 were mainly related to corruption, inefficient government bureaucracy, and policy instability.

Table 5.20: The main investment constraint in Libya 2009.2011.

The most problematic factors for doing business 2009		**The most problematic factors for doing business 2011**	
Obstacles	Percent of responses	Obstacles	Percent of responses
Inefficient government bureaucracy	17.1	Corruption	20.9
Policy instability	13.5	Inefficient government bureaucracy	16.4
Corruption	13.5	Policy instability	12.3
Inadequately educated workforce	12.9	Inadequately educated workforce	10.9
Inadequate supply of infrastructure	9.5	Inadequate supply of infrastructure	10.4
Access to financing	9.2	Access to financing	8.8
Restrictive labor regulations	5.9	Restrictive labor regulations.	7.1
Poor work ethic in national labor force	5.5	Poor work ethic in national labor force	4.5
Government instability/coups	5.3	Government instability/coups	3.3
Tax regulations	2.3	Poor public health	3.1
Poor public health	1.8	Tax regulations	1.2
Inflation.	1.5	Foreign currency regulations	0.9
Tax rates	1.1	Tax rates	0.2
Foreign currency regulations	0.9	Crime and theft	0.1
Crime and theft.	0.0	Inflation	0.0

Source: The Africa competitiveness report, 2009and 2011

- **Administrative obstacles**

This type of constraints represents one of the biggest dreads that put off the attraction of FDI in Libya. To cite few, excessive government bureaucracy, which involves some complications related to requirements of government regulation, slow obtaining of opening licenses and customs procedures. Additionally, the investment environment is still suffering from the lack of transparency with conflicts in function and responsibilities in public institutions, where Libya ranked 170th out of 177 countries concerning transparency international.

Table 5.21: The main investment constraint in Libya 2013.

The most problematic factors for doing business 2013	
Obstacles	Percent of responses
Inefficient government bureaucracy	14.1
Corruption.	13.0
Access to financing	9.90
Inadequately educated workforce	9.70
Inadequate supply of infrastructure	9.60
Policy instability	8.80
Government instability/coups	8.30
Restrictive labor regulations	6.20
Foreign currency regulations	5.50
Poor work ethic in national labor force	5.20
Tax regulations	2.20
Tax rates	2.10
Insufficient capacity to innovate.	1.90
Poor public health	1.20
Crime and theft	1.00

Source: The Africa competitiveness report, 2013

Regarding corruption control, according to the World Economic Forum's Global Competitiveness Report (20011 and 2013), the corruption was one of the most problematic factors for doing business in Libya, before infrastructure development, and access to financing. Within that, low transparency is one of the bugbears that reflects corruption, where the government is not giving much attention to implementing the law efficiently. Additionally, the investment environment is still suffering from a mismatch between job skills and labor market demand. Furthermore, the Libyan business environment is suffering from lack of promotional efforts for investment, where the government doesn't provide enough information and reports to attract more FDI into Libya. All of these obstacles increase the ambiguity and uncertainty to Libyan private sector.

- **Political obstacles**

In terms of attracting FDI, the political instability is considered to be one of the main factors that led to deteriorating FDI, and thereby, the trust of foreign investor would be at stake with high uncertainty. Additionally, rising political disturbances hinder the potential of economic growth particularly in developing countries and emerging markets such as Libya. Regarding Libyan political stability indicators, the World Bank's report points out

that after the political instability and Libyan revolution against the government in 2011, the political stability variables dropped dramatically, where the civil disturbances became the dominant feature in the society, and different armed groups are attempting to take over political institutions, economic resources, and geographical regions. Consequently, the foreign firms' willingness to invest in Libya decline (Investment Climate Statement Report, 2014).

- **Logistic obstacles**

Many reports indicated that the business environment in Libya is suffering regarding the mismanagement in some facilities and infrastructure development that hinders the speed and effectiveness of some activities. For example, the mismanagement in Libyan ports and lack of necessary equipment represent one of the investment limitations in Libya.

5.5. FOREIGN DIRECT INVESTMENT IN MOROCCO

5.5.1. Overview of the Moroccan Economy

According to IMF report,2014 Moroccan population reached about 33.5 Million, with total land surface about 710,850 km^2. It also enjoys a vantage geographic location that contains around 3,500 km of coastline. In terms of economic indicators, the Moroccan GDP reached US$109 billion in 2014, with US$3,290 for GDP per capita. Additionally, the unemployment rate reached 9.2 % of total labor force in 2014 (IMF, 2014).

The Moroccan economy has some characteristics that distinguishes it from other North African countries. To Begin with, it is the largest exporter of Phosphates and it possess about two-third of international phosphates reserves. However, it is has a shortage of local energy sources. The structure of the Moroccan economy is different from the Algerian, and Egyptian, where Morocco's economic structure relies on various sectors, such as agriculture, tourism, manufacturing, and communication sector. Thus, the structure of Moroccan economy is balanced in which the participation of industry sector in GDP reaches 29.8 % as a second – largest economic sector. While the services sector including tourism, trade, banking and shipping services occupied 57.2 % of Moroccan GDP and 13.1% for agriculture sector (IMF, Morocco Report , 2014).

5.5.2. Investment Promotion Laws and Its Development in Morocco

In the mid- the 1970s, the Phosphate was discovered, and contributed significantly to the Moroccan economy, and this led government to witness an expansion in the public investments and government expenditures. But the unexpected dropping in phosphate prices and global oil crisis in the late of 1970's aggravated the economic crisis in Morocco. For example, the volume of public debt increased from US$2 billion in 1975 to US$11billion in 1983 along with an extreme decline in the productivity of public investments (World Bank, 1988).

Due to these previous economic circumstances, Morocco recognized the importance of implementing economic reforms to achieve economic growth. Consequently, the government has made several reforms including policies that aimed at enhancing the stability of macroeconomic environment, developing the financial market, as well as improving infrastructure, and promoting investment's conditions.

From 1983 to 1995, the Moroccan government applied a new liberal economic policy, which mainly aimed to encourage the contribution of foreign capital in Morocco and attract more FDI through enhancing the local business environment and reducing the trade restorations. This new economic vision started by adopting new investment policies in 1992 and included allowing foreign firms to start their activities in Morocco without any restrictions. In the same year, the government also launched a privatization policy, which led to selling more than half of state enterprise. In 1993, the government opened the door for privatization in sectors such as tourism, banking, and communication. Added to that, investment law No.15, 16 of 1995, which announced a group of incentives to encourage foreign investments including facilities on the transfer of foreign profits and capital for investors who use foreign currency in their investments. Law No.1 (1995) announced the establishment of the export processing zones, which provide some exemption from customs regulations, foreign trade, and exchange control. In the same year, the government made some modifications regarding investment and trade agencies through merging activities of investment promotion agency with Agency for Investment Development and Export.

Between 1996 and 2005, the government issued a number of regulations that aimed at permitting the establishment of an interbank market to facilitate the foreign exchange operations. Furthermore, the government adopted the competition law No.6 of 1999, which created the competition council to guarantee the fair pricing, improving corporate governance and encouraging for further market openness. In this period also, Morocco enhanced the legal environment through the adoption of laws to protect investor be it foreign investors or Moroccan national. In 2004, the government passed on some amendments to legislation system concerning protection of property. From 2006 through 2014, Moroccan government applied a series of strategic plans that aimed to improve the performance of business environment. For instance, in 2009 the government passed the national plan for industrial development, which focused on promoting the export-oriented economic sectors, and configuring the investment environment to receive international companies.

5.5.3. Regional and Bilateral Investment Agreements

To promote and enhance the protection of investments, Moroccan government signed more than 62 bilateral investment agreements and more than 50 double taxation agreements. Moreover, the government signed four regional investment agreements; the most important agreements were EU and EFTA agreement in 2000 (UNCTAD, 2014).

5.5.4. The Trend of FDI inflows in Morocco (1990-2013)

Since early 2000, the FDI occupied the lion's stake in the Moroccan economy as the Figure 5.20 shows, and the volume of FDI inflows into Morocco has notably fluctuated from 1996 to 2000. However, after the adoption of liberalized policies and regulatory changes, the amount of FDI inflows jumped from less than US$500 million in 2000 to reach US$2.7 billion 2001.Then, the amount of FDI inflows to Morocco fluctuated between US$500 million and US$25 billion. In the period between 2004-2007 and as a result of economic reforms, Morocco became one of the most heavily concentrated countries of foreign firms. In this context, in 2007 FDI inflows to Morocco maximized to reach US$2.8 billion.

After 2011, despite of regional political atrocities and down curve of FDI into North Africa due to political disturbances, the Moroccan government succeeded to make great efforts to polarize more FDI into Morocco. Certainly, it made great strides in attracting foreign direct investment (FDI) to the country, where the amount of FDI inflows reached US$3.2 billion.

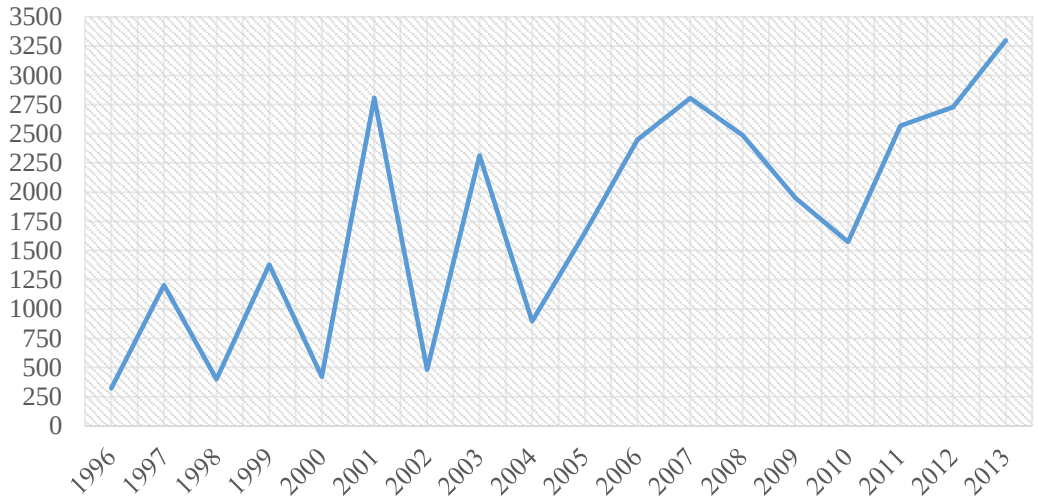


Figure 5.20: Trend of FDI inflow in Morocco 1996-2013 (US$ Million) (Source: UNCTAD, 2014).

From a global perspective, Table 5.22 shows that the Moroccan economy share of global FDI inflows also increased. For example, the percentage of FDI inflows into Morocco from aggregate FDI inflows in developing countries increased from 0.43%% in 1990s to reach 0.51%% in 2000s.

Table 5.22: Inward FDI in Morocco relative to developing countries and North Africa.

Indicator	**Developing countries**	**North Africa**	**Morocco**
2001-2013 annual average	466131	12858.2	23157
% FDI inflows in Morocco compared to developing countries FDI inflow (2001-2013)			0.51%
% FDI inflows in Morocco compared to North Africa FDI inflows (2001-2013)			18.0%

Source: calculated by researcher based on the UNCTAD Data

In terms of the main investment partner and FDI contribution in Morocco during the last 15 years, we can note that Morocco's biggest investment partner are countries which have

a shared history, such as France, Spain and some of the Arab nations (Henkelman,2013). Figure 5.21 shows the total accumulated for greenfield FDI in Morocco is around US$ 55.8 billion created more than 188,000 jobs. The UAE, France, Spain, USA, Ireland, China, Switzerland, Russia, Japan, and UK respectively emerged as major investors in Morocco, where France and Spain accounted for 56% of FDI in Morocco, with total FDI that reached US$20 billion and generating more than 75.500 job opportunity.

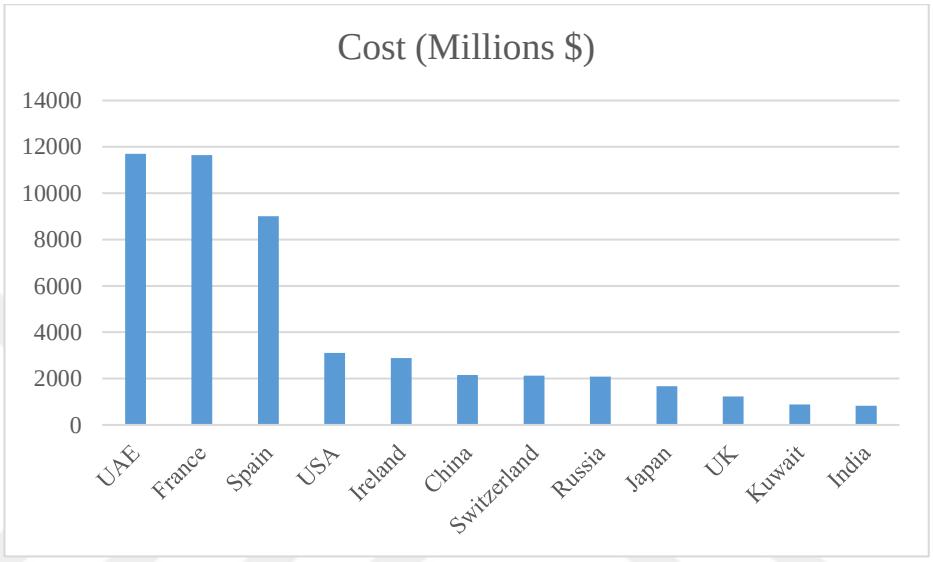


Figure 5.21: Main Greenfield FDI projects in Morocco by origin 2003-2015, (Source: The Arab Investment and Export Credit Guarantee Corporation, Morocco report, 2016).

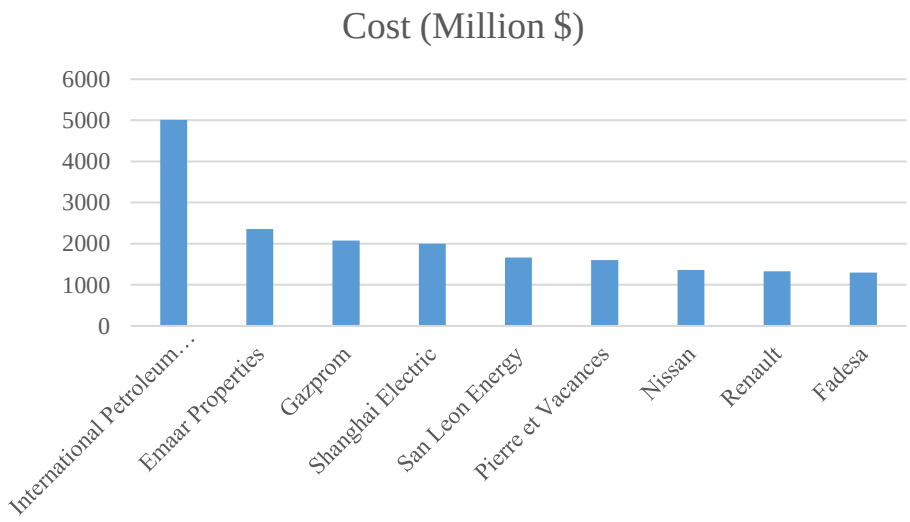


Figure 5.22: The biggest 10 companies investing in Morocco, 2003-2015, (Source: The Arab Investment and Export Credit Guarantee Corporation, Morocco report, 2016).

Figure 5.22 summarizes the largest foreign companies working in Morocco. International Petroleum Investment Companies is classified on top of the list of the 10 most important companies investing in Morocco where it has implemented a huge project with an investment cost estimated around US$5 billion.

5.5.5. Sectoral Distribution for Inward FDI in Morocco 2003-2015

Until first half of 2015, the total of FDI projects in Morocco reached 728 projects implemented through 582 foreign firms created more than 188 thousand job opportunity. In terms of the structure of FDI inflow in Morocco (as shown in Figure 5.23), the Moroccan FDI has been distributed and diversified on various sectors. In this regard, according to UNCTAD 2015, the contribution of Tourism sector in total FDI inflows reached 15%, Real estate sector participated by about 22%, and coal and natural gas sector reached average of 18 %.

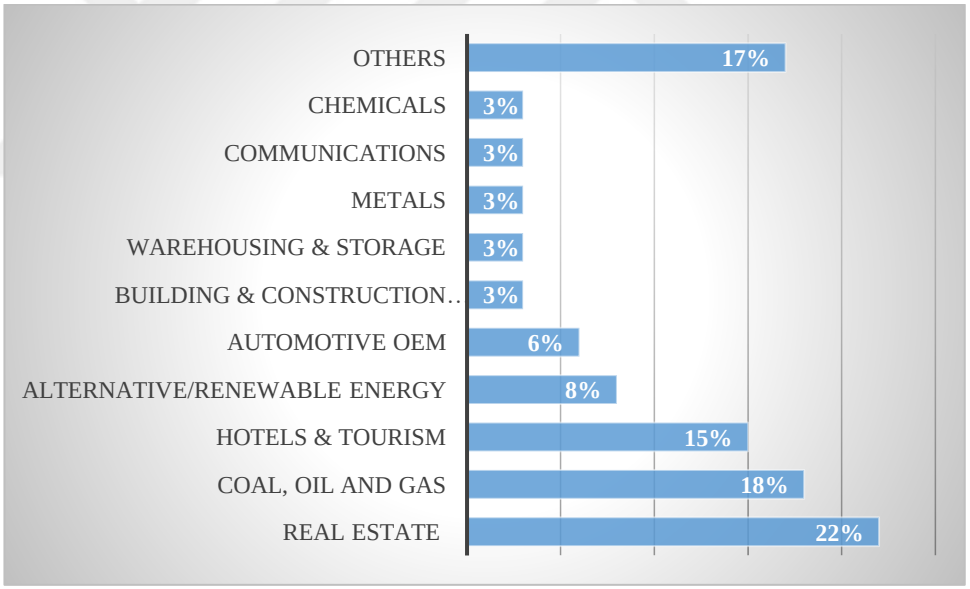


Figure 5.23: Distribution of inward FDI by main industries 2003-2015 (Source: The Arab Investment and Export Credit Guarantee Corporation, Morocco report, 2016).

5.5.6. FDI and Foreign Trade Policies

Regarding trade reforms, the government has made some modifications to trade policies regarding tariff system, export administration, and import controls. These reforms aimed mainly to enhance the trade's transactions. For instance, in 1992, the government made

several steps towards removing trade restrictions and enhancing the legal protection. In 1995 and in order to encourage the foreign investment, the government approved the legal framework for establishing export-oriented special economic zones. Also, it issued several decisions concerning the reduction of the percentage of corporate and individual income tax, with the elimination of VAT on certain goods and equipment and it varies from 0% to 20 % along with granting five years tax holiday. Regarding tariff system, Morocco gradually reduced the tariff to range between 2.5% to 35% based on the nature of the product. Additionally, the government offered import duty exemptions for the investments that commit to investing higher than or equal US$20 million. In 2000, the Moroccan government signed Free- trade agreement with EU, which led to complete elimination of tariffs. In 2004, Morocco signed an FTA with the USA that came into effect in 2006. Figure 5.24 shows that the main exporter countries to Moroccan markets.

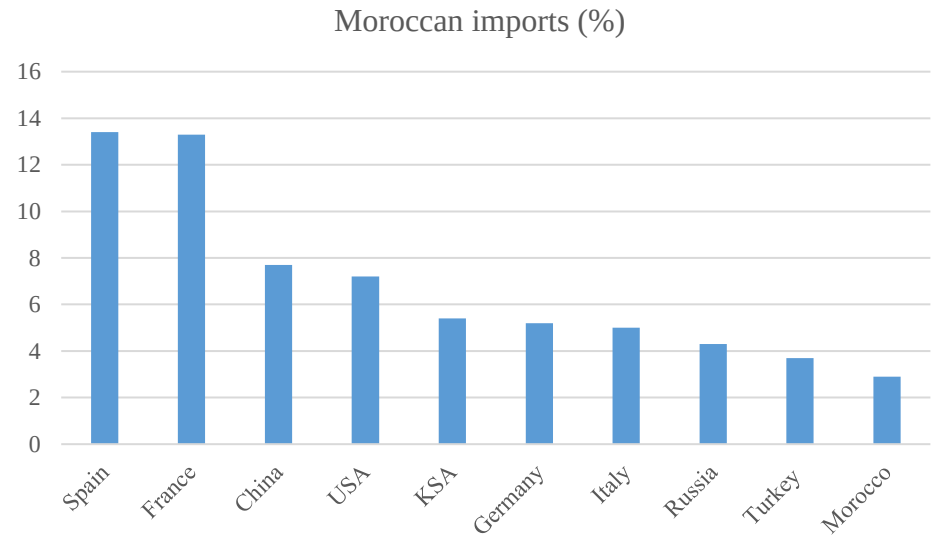


Figure 5.24: The Main Countries Exporting Goods to Morocco 2014, (Source: The Arab Investment and Export Credit Guarantee Corporation, Morocco report,2016).

5.5.7. Human Capital Development

According to the IMF (2014), the rate of unemployment among Moroccan youth reached 9.2% of total labor force. In this regard, the World Bank report of 2012 mentioned that the youth aged between 15 and 29 represent more than 30% of Morocco's total population. However, the paradox is the existence of large numbers of graduates who are

unable to find jobs appropriate to their qualifications while firms complain of skill gap due to the divide between labor skills and work needs. In terms of education quality as shown in Table 5.23, the global competitiveness report indicates that the Moroccan government is suffering from low quality of educational system particularly at the primary level . From 2009 to 2015 there was no improvement in terms of Moroccan quality of educational system by that Morocco ranked in average of 103 out of 144. Additionally, the labor market in morocco is facing several difficulties in terms of staff training. The Moroccan rank in terms of staff training declined from 79 in 2009 to reach 106 out 144 in 2015. With respect to the human development index (HDI), Table 5.24 illustrates the trend of HDI in Morocco where the government performance in terms of human development improved slowly and in which Morocco ranked 123 out of 188 countries in 2015.

Table 5.23: Index of Primary Higher Education and Training in Morocco.

Indicator	**2009 Rank (out of 134)**	**2011 Rank (out of 139)**	**2013 Rank (out of 144)**	**2015 Rank (out of 144)**
Primary education enrollment (net rate, %)	98	99	48	39
Quality of primary education	85	100	108	105
Secondary education enrollment (gross rate, %	107	110	113	105
Tertiary education enrollment (gross rate, %)	99	102	102	100
Quality of the educational system	100	105	105	102
Quality of management schools	63	49	47	54
Extent of staff training	79	87	75	106

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

Table 5.24: The value of Human Development Index for Morocco (1995-2013).

Year	**Life expectancy at birth**	**Expected years of schooling**	**Mean years of schooling**	**GNI per capita (2011PPP$)**	**HDI value**
1995	66.9	7.3	2.8	3,776	0.489
2000	68.6	8.5	3.4	4,380	0.489
2005	70.5	10.0	3.9	4,380	0.530
2010	72.6	11.2	4.2	5,362	0.575
2011	73.0	11.6	4.4	6,406	0.612
2012	73.7	12.1	4.6	6,633	0.623
2013	74.0	12.1	4.8	6,717	0.634

Source: Human Development Report 2016

Table 5.24 displays Morocco's HDI performance raising from 0.489 in 1995 to 0.634 in 2013. In the same context, the expected years of schooling increased notably from 7.3 in 1995 to reach 12.1 in 2013 and life expectancy at birth improved from 66.9 in 1995 to 74.0 in 2013.

5.5.8. Infrastructure Development

The Moroccan infrastructure compared to other African and Arab counties is relatively good. Within that and in the last two decades, the government carried out many infrastructure development projects that mainly revolved around transportation networks, maritime transport, and communication. As Table 5.25 shows, the trend of Moroccan government performance in infrastructure gradually improved. We can notice that the rank of Morocco regarding the quality of overall infrastructure in 2009 was 74 out of 1334, while in 2015 reached 55 out 144 countries. Similarly, in last five years, the Moroccan government achieved great success regarding the improvement of the railroad infrastructure where its rank increased from 111 out 134 countries in 20019 to reach 34 out 144 countries in 2015.

Table 5.25: Infrastructure development index in Morocco.

Indictor	2009 Rank (out of 134)	2011 Rank (out of 139)	2013 Rank (out of 144)	2015 Rank (out of 144)
Quality of overall infrastructure	74	71	52	55
Quality of roads	73	88	70	51
Quality of railroad infrastructure	111	37	36	34
Quality of port infrastructure	86	62	49	43
Quality of air transport infrastructure	91	67	52	51
Quality of electricity supply	103	66	56	48

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

In terms of road transportation development, Morocco has implemented several investments to improve the transportation networks through developing the 60,000 km road network, which linked most Moroccan cities. In 2005, Moroccan government adopted several infrastructural development plans including the implementation of major projects to expand the national highways networks. However, Morocco is still having a

traffic jam and striving on to solve the shortage of parking lots, especially in the main cities. Concerning ports services, Morocco owns a broad port infrastructure reaching 11 port designed by international standards. Regarding air transportation, Morocco has a network of 15 airports at least five of them are international airports, and the most important one is "Mohammed V" that transports about 6.2 million passengers annually. In the same framework, the government targeted to improve the airport infrastructure through the implementation of development strategies that includes promoting international airports such as Marrakech and Casablanca. Similarly, the Moroccan government targets to invest about US$19 billion in energy sector. This project mainly aims to produce more than 40% of total electrical power by renewable energy, and it is expected to be completed in 2020 and to generate more than 50,000 job opportunity. Nowadays, Morocco announced plans to invest about US$4.6 billion as investments in infrastructure projects to increase its use of natural gas for the production of electricity.

5.5.9. Business Environment Indicators

In Morocco, the business environment conditions are notably improving despite some challenges related to procedures starting a business, investor protection, and access to finance (Doing Business Report, 2015). To weigh in the business environment in Morocco, we used the Global Competitiveness Index (GCI) that was developed by Economic Forum in cooperation with global academic research institutes. With regard to the Moroccan performance in terms of global competitiveness, Table 5.25 shows that Morocco is rated relatively good and is stable on according the Global Competitiveness Index. Regarding global competitiveness index, Table 6.26 illustrates that the reforms related to institutional quality, infrastructure development, macroeconomic stability, and financial market development, are relatively successful and received high ranking compared to other Arab and African countries. For example, from a macroeconomic stability eye view, Morocco ranked 84 out of 144 countries in 2012 while it ranked 66 among 144 countries in 2015. It had also high ranking in terms of institutional quality.

In the same line, the report of Heritage Foundation published in 2013, illustrated that in terms of economic freedom indexes, Morocco still dawdles in terms of classification of freedom from corruption, and monetary freedom, compared to most Middle East and North Africa countries. Indeed, Morocco is ranked ten among 17 countries in MENA region, and its overall score is below global and regional average.

Table 5.26: Global Competitiveness Index with Main Business Climate Indictors for Morocco.

Indicator	**2008-2009**		**2010-2011**		**2012-13**		**2014-2015**	
	Rank (out of 134)	Score (1-7)	Rank (out of 139)	Score (1-7)	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Global Competitiveness Index	73	4.1	75	4.1	70	4.1	72	4.2
Institutional quality	67	4.4	66	4.6	54	4.1	49	4.2
Infrastructure development	70	3.5	71	3.8	61	4.1	55	4.4
Macroeconomic stability	84	4.7	31	5.2	70	4.6	66	4.7
Health and primary education	71	54	94	5.4	81	5.5	76	5.7
Market size	57	3.9	57	4.0	57	4.1	56	4.2
Financial market development	93	3.9	74	4.1	61	4.1	69	4.0

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

5.5.10. Main Constraints of FDI to Morocco

Tables 5.27, 5.28 present the main constraints that faced investing and doing business in Morocco in five years (2009-2013). The results of the survey indicated that the main investment obstacles in Morocco for the period 2009-2011 were mainly related to corruption, and difficulties to access financing. According to the results of 2013 survey, inefficient government bureaucracy was the main investment hindrance in Morocco. Furthermore, the inflation, policy instability, and foreign currency regulations in Morocco do not show any effect on FDI. To shed light on the main investment constraints, the study classified the investment obstacles according to their nature into administrative and legal barriers.

- **Administrative obstacles**

This type of constraints constitutes one of the cutbacks that scare away the attraction of FDI in Morocco. Among these we can cite inefficient corruption control where according to the World Economic Forum's Global Competitiveness Report (2009, 20111, and 2013), the corruption was one of the most problematic factors to doing business in Morocco. Additionally, the investment environment is subject to relatively excessive government bureaucracy, which involves some complications related to requirements of government regulation, slow process of obtaining opening licenses and customs procedures. For instance, the business starting takes an average of 12 days with over 100 days to complete licensing requirements (Doing business report, 2012). To add to that, the tax evasion, and bureaucracy remain one of the problems that reflect corruption and increases the probability of bribery. All these obstacles increase the ambiguity and uncertainty to Moroccan private sector.

- **Legal obstacles**

In terms of legal perspectives, the Moroccan business environment despite the efforts made is fighting to find solution to inefficient of the court system where enforcing a contract needs over forty procedures, and the average time to dispute resolution is more than two years (Doing Business Report, 2012) due to the limitation of judges number, and high number pending cases.

Table 5.27: Main investment constraint in Morocco.

The most problematic factors for doing business 2009		**The most problematic factors for doing business 2011**	
Obstacles	Percent of responses	Obstacles	Percent of responses
Corruption	14.7	Access to financing	18.6
Tax regulations	13.9	Corruption	17.7
Access to financing	11.8	Inadequate supply of infrastructure	11.6
Tax rates	9.90	Inefficient government bureaucracy	10.0
Inadequate supply of infrastructure	9.60	Tax rates	9.40
Inefficient government bureaucracy	9.20	Tax regulations	9.30
Inadequately educated workforce	5.90	Inadequately educated workforce	5.70
Poor work ethic in national labor force	5.30	Restrictive labor regulations	4.70
Crime and theft	4.90	Inflation	3.80
Restrictive labor regulations	3.90	Poor work ethic in national labor force	3.50
Inflation	2.90	Crime and theft	1.60
Foreign currency regulations	2.50	Foreign currency regulations	1.30
Government instability/coups	2.10	Poor public health	1.30
Policy instability	1.80	Policy instability	1.00
Poor public health	1.80	Government instability/coups	0.60

Source: The Africa competitiveness report, 2009 and 2011

Table 5.28: Main investment constraint in Morocco.

The most problematic factors for doing business 2013	
Obstacles	Percent of responses
Inefficient government bureaucracy	17.6
Access to financing	14.8
Corruption	12.6
Inadequately educated workforce	11.6
Foreign currency regulations	10.7
Poor work ethic in national labor force	7.10
Insufficient capacity to innovate	6.30
Restrictive labor regulations	6.30
Tax rates	4.50
Inadequate supply of infrastructure.	4.30
Tax regulations.	2.40
Crime and theft ...	1.00
Poor public health	0.60
Policy instability	0.20
Inflation	0.00

Source: The Africa competitiveness report, 2013

5.6. FOREIGN DIRECT INVESTMENT IN TUNISIA

5.6.1. Overview of the Tunisian Economy

Tunisia is the smallest country in the North Africa region, and it is located in the northernmost of Africa; it has total land surface 165,000 km^2. According to IMF report (2014), Tunisian population reached about 11.5 million. Regarding economic indicators, the Tunisian GDP reached US$42 billion in 2016, with US$4,235 for GDP per capita. Additionally, the unemployment rate attained 15.3 % of total labor force in 2016 (IMF, 2014). The structure of the Tunisian economy depends mainly on three main sectors; agriculture, industry, and services. The agriculture sector contributes 11 % of GDP, while the services sector is indulging tourism, trade, and communications occupied 60 % of Tunisian GDP and 28% for industry sector which involve petroleum, textiles and food processing.

5.6.2. Investment Promotion Laws and Its Development in Tunisia

In 1956, Tunisia got independence, and the French intervention in Tunisia has been reduced gradually, and there Tunisia had to face a new challenge which the ability to rebuild government institutions. Until the beginning of the 70s, the Tunisian economy relied mainly on the Agriculture, and food processing with adopted the import substitution policy, then the government started to implement several reforms, which aimed to encourage the export and enhance the contribution of private sector in the economy. In this regard, the government adopted semi-liberalization policy, with creating new laws and institutions that would facilitate the work of private sector. For example, the investment Law No 38 of 1972, which offered special incentives to encourage the manufacturing sector through the provision of a partial tax exemption for the period that reaches 20 years. Furthermore, and provide the full tax exemption on profits and customs duties on imported capital goods and the raw materials.

In 1973, the government established the Industry Promotion Agency (API) to enhance the business environment through providing the administrative and legal assistant to firms worked in the Tunisian markets. In the same period, the Export Promotion Center was created to provide business and investment information to foreign importers. Despite the

previous reforms, the Tunisian economy has a critical gap which it relentlessly to fix, namely mismanagement with political instability. These factors led to inflating the foreign debt, and instability regarding production and employment, thus the economy slowed down, and the unemployment rate increased. In 1985, and in an attempt to recover from these economic atrocities, the government adopted the Economic Recovery and Structural Adjustment Program (ERSAP) which emphasized on providing several privileges to investment and trade sector, through tariffs reduction, easing quantitative constraints on imports, and cutting of personal income taxes.

In 1986, the government decided to move toward privatization and reduce the depending on the public investment. Consequently, the macroeconomic environment restored the stability, where the inflation rate went down, and the government debt fell. In 1987, many political changes occurred, and political environment became more stable which led to improving the investment environment, and business conditions were enhanced.

At the beginning of the 90s, the Tunisian government made several reforms to encourage foreign investors through promoting the judicial framework and giving the priority to the sectors that provide higher employment and export orientation. Then, during the 2000s, the government focused mostly on improving the economic policies, and enhancing its competitiveness and ensuring openness requirements. Meanwhile, the Tunisian authorities made several reforms on taxation system, monetary policies through the implementation of open-market instruments, and adopted a flexible exchange rate policy emphasizing financial liberalization and easing the transactions of national companies. In 2002, the government adopted a policy with a main agenda of the services, and manufacturing sector through providing incentives to investors and firms that work in these sectors. For example, providing the tax exemption for profit in these sectors and establishment of regional investment zones to encourage the investment in particular sectors. After 2006, the Tunisian economy witnessed a high unemployment rate and instability of growth. All of these problems led to the regime to be toppled down in 2011 with the aftermath majority of the economic indicators being deteriorated due to this political and economic instability.

5.6.3. Regional and Bilateral Investment Agreements

The Tunisian government signed more than 35 bilateral investment agreement with more than 48 double taxation agreement. Moreover, the government signed eight regional investment agreements; the most important agreements were EU and EFTA agreement in 2005 (UNCATD, 2015).

5.6.4. The Trend of FDI inflows in Tunisia (1990-2013)

Since early 2000, the FDI played a prominent role in the Tunisian economy as Figure 5.25 shows, the volume of FDI inflows into Tunisia has notably fluctuated from 1996 to 2005. However, after the adoption of liberalized policies and regulatory changes, the amount of FDI inflows jumped from less than US$500 million in 2001 to reach US$ 3.3 billion 2006. Then, the amount of FDI inflows to Tunisia started to decline due to economic problems and political instability. FDI in Tunisia currently creates one-third of exports and generates over 15 % of the total number of jobs.

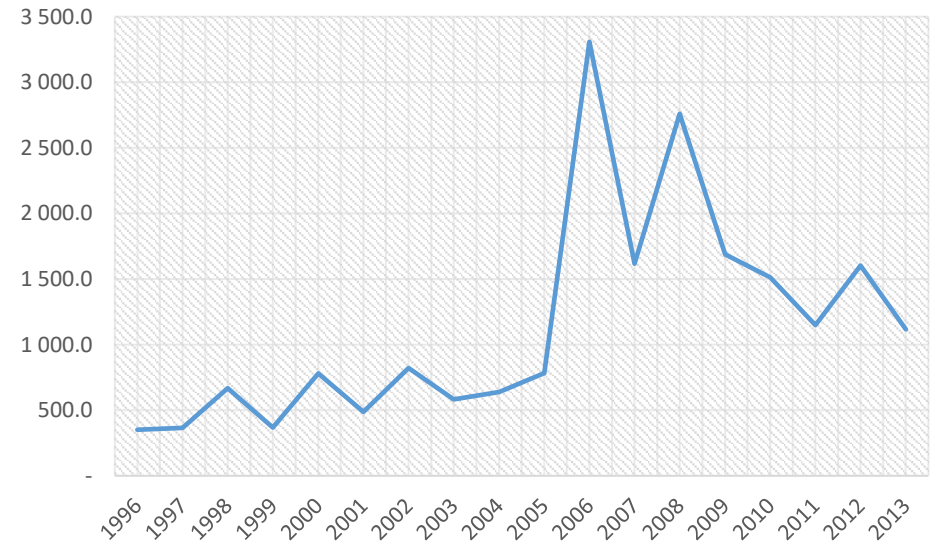


Figure 5.25: Trend of FDI inflow in Tunisia 1996-2013 (US$ Million), (Source UNCATD, 2014).

From a global perspective, Tunisian economy share of global FDI inflows haven't change notably. For example, the percentage of FDI inflows into Tunisia from aggregate FDI inflows in North Africa countries decreased from 21%% in 1990s to reach 10 %% in 2000s see Table 5.29.

Table 5.29: Inward FDI in Tunisia relative to developing countries and North Africa.

Indicator	Developing countries	North Africa	Tunisia
2001-2013 annual average	466131	12 858.2	1342.0
% FDI inflows in Tunisia compared to developing countries FDI inflow (2001-2013)			0.28%
% FDI inflows in Tunisia compared to North Africa FDI inflows (2001-2013)			10.4%

Source: calculated by researcher based on the UNCATD Data.

Regarding the main investment partner and FDI contribution in Tunisia during the last 15 years, Figure 5.26 shows the total accumulated for greenfield FDI in Tunisia is around US$ 40.8 billion created more than 94,000 jobs.

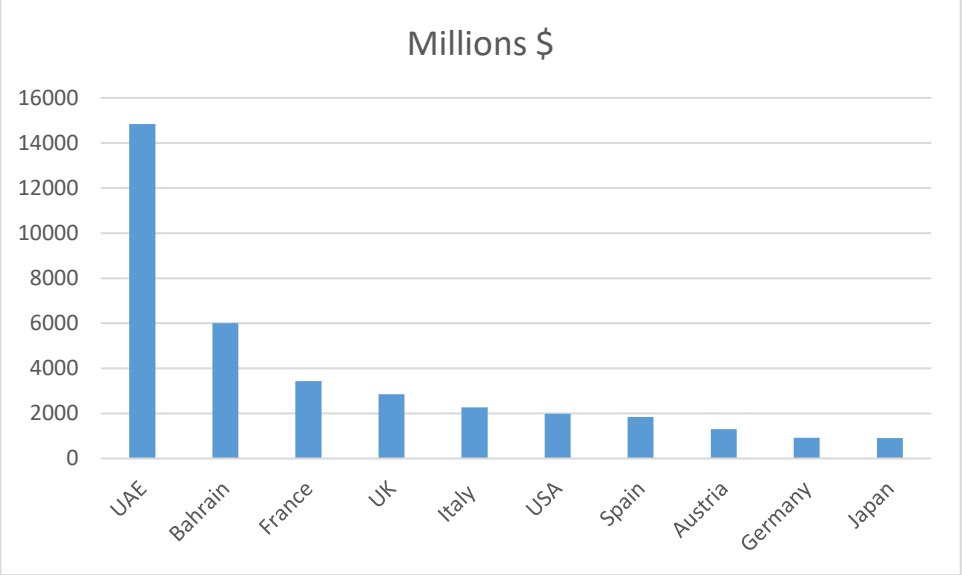


Figure 5.26: Main Greenfield FDI projects in Tunisia by origin (2003-2015) (Source: The Arab investment and export credit guarantee corporation, Tunisia report, 2016).

5.6.5. Sectoral Distribution for Inward FDI in Tunisia 2003-2015

Until the first half of 2015, the total of FDI projects in Tunisia reached 379 projects implemented through 312 foreign firms, and that created more than 95 thousand job opportunity. In terms of the structure of FDI inflow in Tunisia it has been distributed and diversified on various sectors.

In this regard, according to UNCTAD (2015), the real estate sector occupied 50% in total FDI inflows, coal and natural gas sector participated by about 18%, and tourism sector reached an average of 6 %.

5.6.6. FDI and Foreign Trade Policies

In the mid -the 1990s, the Tunisian government made some modifications to trade policies concerning tariff system, export administration, and import controls. These reforms aimed mainly to enhance the trade's transactions. For example, the government established a free trade agreement (FTA) and became a member of the Agreement on Tariffs and Trade (GATT). Furthermore, in 1995 Tunisia became a part of World Trade Organization (1995). In 1997, the government created an Arab Free Trade Zone and signed group of bilateral agreements with different Arab countries such as Egypt and Morocco to reduce the tariffs.

In terms of customs duties, the government applied tariff rate that reached 32% in 2005, and in addition to customs duties, other charges and taxes were applied to imports and significantly increased the cost of consumer goods, which mainly consist of imports, in particular, motor vehicles, alcoholic beverages, and tobacco. Regarding tax system, there are two main taxes: consumption tax, which is imposed on the imports and home made produced commodities, and it varies according to the product type. While, the value added tax (VAT) ranges between 18% and 6%.

To encourage investments, the Tunisian government created a package of tax holiday between 2 year and 20 years. For instance, the tax holiday for Egyptian investors reach 20 years, five years, For Moroccan, and two years for Jordan.

5.6.7. Human Capital Development

According to the IMF (2014), the rate of unemployment among Tunisian youth reached 15.3% of total labor force. In this regard, the World Bank report of 2008 mentioned that the youth aged below 30 years represent more than 30% of Tunisian's total population. Regarding education quality as shown in Table 5.30 the global competitiveness report indicates that the performance of Tunisian government was relatively good. But due to

the political instability in 2011, the rank of quality of educational system went down where it dropped from the 17th out of 134 in 2009 reach 68th out of 144 in 2015. Also, the labor market in Tunisia is facing more difficulties concerning staff training. The Tunisian rank in terms of staff training reaches 99 out 144 in 2015.

Table 5.30: Index of primary higher education and training in Tunisia.

Indicator	2009 Rank (out of 134)	2011 Rank (out of 139)	2015 Rank (out of 144)
Primary education enrollment (net rate, %)	45	33	13
Quality of primary education	21	22	72
Secondary education enrollment (gross rate, %	74	53	67
Tertiary education enrollment (gross rate, %)	67	69	73
Quality of the educational system	17	20	68
Quality of management schools	17	22	61
Extent of staff training	27	18	99

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

5.6.8. Infrastructure Development

Until 2011, The Tunisian infrastructure compared to other African and Arab counties is relatively good, where the government carried out many infrastructure development projects that mainly focused on transportation networks, maritime transport, and communication. As Table 5.31 shows, the trend of Tunisian government performance in infrastructure improved gradually. We can notice that the rank of Tunisia in terms of quality of overall infrastructure in 2009 was 30th out of 134, while in 2015 dropped to 83 out 144 countries. Similarly, before five years, the Tunisian government achieved great success regarding the improvement of the railroad infrastructure where its rank increased from 22 out 134 countries in 2009 to reach 48 out 144 countries in 2015.

Table 5.31: Infrastructure development index in Tunisia.

Indictor	2009 Rank (out of 134)	2011 Rank (out of 139)	2015 Rank (out of 144)
Quality of overall infrastructure	33	30	83
Quality of roads	39	37	83
Quality of railroad infrastructure	22	29	48
Quality of port infrastructure	38	41	83
Quality of air transport infrastructure	29	38	77
Quality of electricity supply	33	35	65

Source: The Africa competitiveness report, 2009, 2011, and 2015

5.6.9. Business Environment Indicators

In Tunisia, the business environment conditions are improving slowly due to political changes, some challenges related to procedures starting a business, investor protection, and access to finance (Doing business report, 2015) see Table 5.32.

Table 5.32: Global Competitiveness Index with Main Business Climate Indictors for Tunisia.

Indicator	**2008-2009**		**2010-2011**		**2014-2015**	
	Rank (out of 134)	Score (1-7)	Rank (out of 139)	Score (1-7)	Rank (out of 144)	Score (1-7)
Global Competitiveness Index	36	4.6	32	4.7	87	.40
Institutional quality	22	5.2	23	5.2	81	3.7
Infrastructure development	37	4.6	46	4.5	79	3.8
Macroeconomic stability	75	4.9	38	5.1	111	4.0
Health and primary education	27	6.1	31	6.2	53	6.0
Market size	62	3.9	67	3.7	64	3.9
Financial market development	77	4.1	58	4.3	117	3.4

Source: The Africa competitiveness report, 2009, 2011, 2013, and 2015

According to the World Bank report "Doing Business 2015" that scans business over 189 economies, Tunisia rank 74th, where the new business can be established within 10 days, with 12 procedure required .In regard to the Tunisian performance in terms of global competitiveness, the indicators show that Tunisia is suffering in terms of macroeconomic stability, and development of financial market, especially after political turmoil that took place in 2011.For example, in regard to the macroeconomic stability, in 2010 Tunisia ranked 38 out of 144 countries while in 2015 it ranked 111 among 144 countries.

5.6.10. Main Constraints of FDI to Tunisia

Tables 5.33 and 5.34 present the main constraints that faced investing and doing business in Tunisia in the period of five years (2009-2013). The results of the survey indicated that the main investment obstacles in Tunisia for the period 2009-2011 were mainly related to corruption, and difficulties to access financing. Yet according to the results of 2013 survey, inefficient government bureaucracy was the main investment hindrance in Tunisia. Interestingly, inflation, policy instability, and foreign currency regulations in Tunisia do not show any effect on FDI.

Table 55.33: The main investment constraint in Tunisia 2009.2011.

The most problematic factors for doing business 2009		**The most problematic factors for doing business 2011**	
Obstacles	Percent of responses	Obstacles	Percent of responses
Access to financing	15.8	Access to financing	17.7
Inefficient government bureaucracy	14.6	Restrictive labor regulations	11.7
Restrictive labor regulations	13.9	Inefficient government bureaucracy	11.0
Poor work ethic in national labor force	9.10	Foreign currency regulations	10.5
Inflation	8.60	Inadequately educated workforce	8.60
Tax regulation	7.70	Poor work ethic in national labor force	8.20
Inadequate supply of infrastructure	7.50	Inadequate supply of infrastructure	8.00
Tax rates	6.90	Tax rates	7.90
Foreign currency regulations	5.80	Tax regulations	7.80
Inadequately educated workforce	5.30	Inflation	4.40
Corruption	2.70	Corruption	3.00
Poor public health	0.80	Political instability	0.90
Policy instability	0.60	Government instability/coups	0.20
Government instability/coups	0.60	Crime and theft	0.20
Crime and theft	0.00	Poor public health	0.00

Source: The Africa competitiveness report, 2009 and 2011

Table 5.34: The main investment constraint in Tunisia 2015.

The most problematic factors for doing business 2015	
Obstacles	Percent of responses
Inefficient government bureaucracy	12.7
Access to financing	12.3
Policy instability	11.8
Restrictive labor regulations	8.30
Inadequate supply of infrastructure	7.60
Corruption	6.70
Poor work ethic in national labor force	6.40
Government instability/coups	5.40
Tax regulations	5.30
Inadequately educated workforce	4.60
Tax rates	4.50
Foreign currency regulations	4.40
Inflation	4.10
Insufficient capacity to innovate	4.00
Crime and theft	1.90
Poor public health	0.20

Source: The Africa competitiveness report, 2015

5.7. SUMMARY of TREND OF FDI INFLOWS IN NORTH AFRICA

This chapter showed that foreign investments in the North Africa region are still weak and it needs further reforms on several aspects. In this regard, we notice that FDI flow to this region is still decent compared to other areas. This has been associated to the absence of real economic reforms, persistent political instability, lack of technological readiness, inadequate regulatory and institutional framework; unattractive FDI policies and incentives as well as financing restrictions with high corruption and bureaucracy.

After this descriptive analysis, we reached that the main investment players in this region are divided into two group: first, are GCC countries, second are the countries that have a colonial or cultural history in this region. In this context, GCC countries (UAE, Bahrain, Qatar, Kuwait, and Saudi Arabia) were the most significant source of Greenfield investment in North Africa region by total investments that reached more than 133US$ billion between 2003-2015. Whereas, the colonial countries (France, Spain, UK, USA, and Italy) came to the second largest source of foreign investment for this region as shown in Table 5.35 and Figure 5.27.

Table 5.35: Main FDI contributors in North Africa by origin (US$ million) (2003-2015).

	Algeria	**Egypt**	**Libya**	**Morocco**	**Tunisia**	**Total North Africa**
UEA	15,280	32,378	874	11,693	14,839	75,064
Bahrain	-	3,711	20,181	197	6,000	30,089
France	5,950	4,921	54	11,639	3,437	26,001
Spain	7,860	1,832	445	9,001	1,851	20,989
Qatar	2,150	14,769	388	-	245	17,552
UK	3,738	6,968	1,481	1,226	2,852	16,265
USA	3,303	5,090	949	3,108	1,989	14,439
Switzerland	4,538	1,835	48	2,121	485	9,027
Italy	219	3,254	773	778	2,274	7,298
Kuwait	-	5,771	139	887	271	7,068
China	2,658	1,029	-	2,157	-	5,844
Saudi Arabia	933	2,180	67	434	61	3,675

Source: The Arab investment and export credit guarantee corporation, 2016

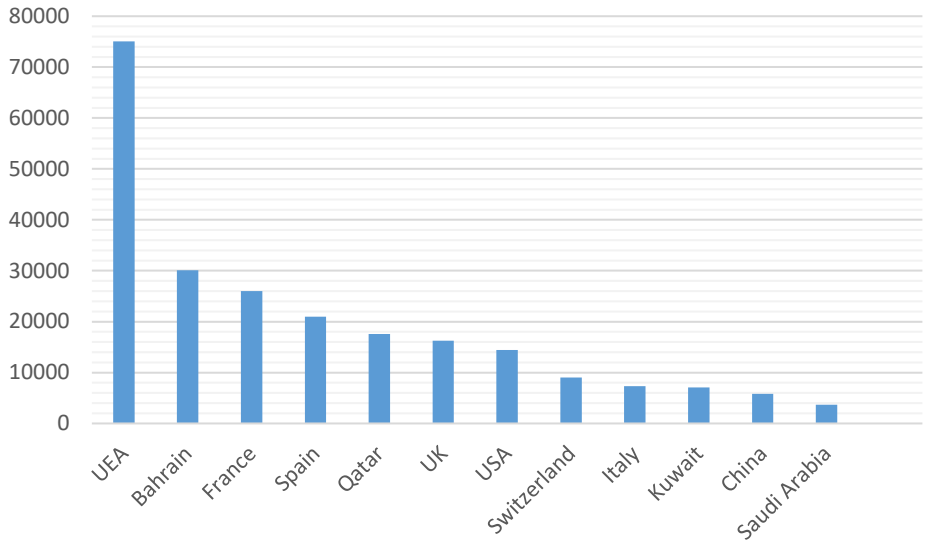


Figure 5.27: Main FDI contributors in North Africa by origin (US$ million) (2003-2015), (Source: The Arab investment and export credit guarantee corporation, 2016).

Regarding the number of FDI projects in the last 15 years, France and USA were the largest countries that carried out projects in this region by more than 760 projects Table 5.36 and Figure 5.28. From another angle, between 2002 and 2015 the number of jobs created by main FDIs reached more than 400 thousand job opportunity, see Table 5.37.

Table 5.36: Main countries implementing FDI project in North Africa (number of projects) (2003-2015).

	Algeria	**Egypt**	**Libya**	**Morocco**	**Tunisia**	**Total North Africa**
France	81	64	5	220	123	493
US	34	102	10	90	32	268
Spain	24	27	3	148	17	219
UEA	26	99	14	46	16	201
UK	24	59	15	29	16	143
Germany	17	25	5	22	35	104
Italy	6	23	10	19	36	94
Saudi Arabia	13	41	4	9	3	70
Switzerland	12	19	1	21	13	66
China	12	17	-	3	-	32
Kuwait	-	22	1	3	3	32

Source: The Arab investment and export credit guarantee corporation, 2016

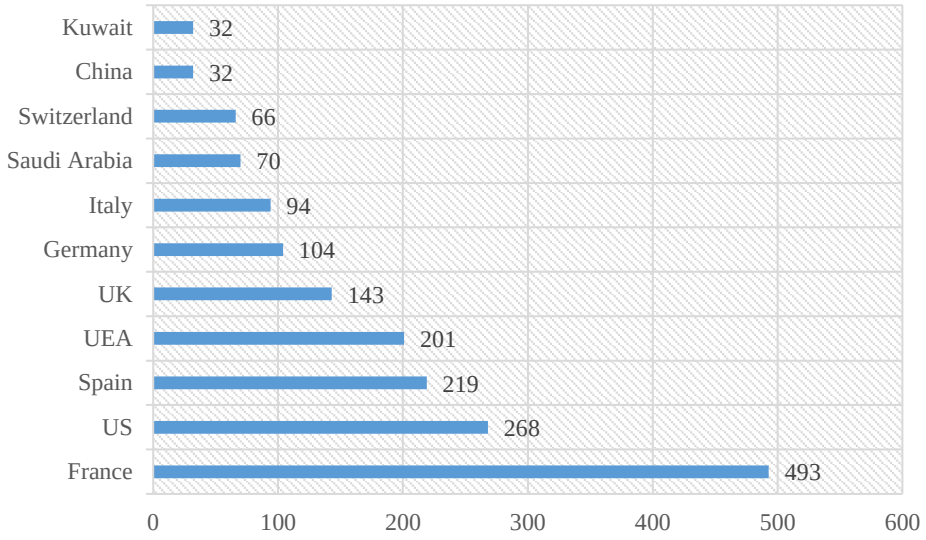


Figure 5.28: Main countries implementing FDI project in North Africa by origin (number of projects) (2003-2015), (Source: The Arab investment and export credit guarantee corporation, 2016).

Table 5.37: Number of job created by main Greenfield projects in North Africa (2003-2015).

	Algeria	Egypt	Libya	Morocco	Tunisia	Total north Africa
UEA	11561	44,827	2,273	21,120	4,295	84073
France	10011	6,433	195	47,997	21,465	77091
Spain	6702	7,101	930	29,432	3,662	47827
USA	3210	15,384	1,165	16,835	5,707	42301
Germany	4922	5,908	300	4,544	7,003	22677
Kuwait	-	17,678	993	3,277	429	22377
UK	2033	9,083	1,730	6,282	2,789	21917
Switzerland	5874	4,910	401	5,865	3,264	20314
Italy	815	5,029	2,117	3,470	8,668	20099
Saudi Arabia	3,464	12,205	230	883	393	17175
China	9566	4,098	-	2,017	-	15681
Qatar	3100	7,964	947	-	303	12314
Bahrain	-	1,058	3,524	122	6,000	10704

Source: The Arab investment and export credit guarantee corporation, 2016

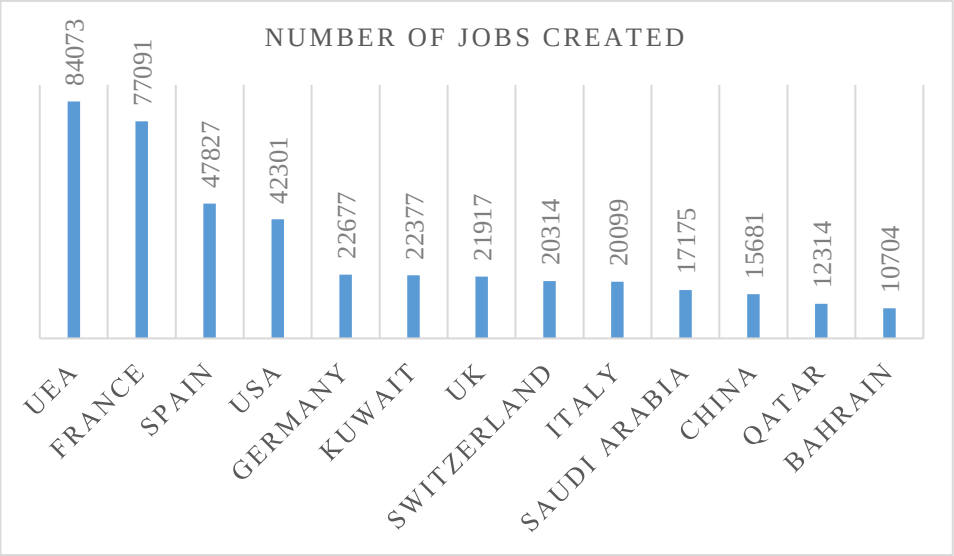


Figure 5.29: Figure Number of jobs created by main Greenfield projects in North Africa (2003-2015), (Source: The Arab investment and export credit guarantee corporation, 2016).

Within this chapter, we also touched on the main features of the investment environment in the North Africa countries as follow:

- **Algeria**

The investment environment in Algeria is still suffering from the absence of real economic reforms, where we can see that there is no economic diversification (oil and gas dominating 97% of export earnings, and foreign investments were mainly focused on oil sectors). Moreover, despite the abundant resource and high per capita GDP, the Algerian economy is facing high unemployment rate, and poverty remains prevalent. The Algerian government also witnesses a low quality of the educational system, particularly in the primary level. Additionally, the labor market in Algeria is facing several difficulties regarding staff training, and employment. Within that, only 12% of the employed labor force has a higher education degree and this rate declines for those with a lower education degree. Regarding infrastructure projects development, the trend of Algerian government performance is still waning.

The business environment still has some constraints in economic and investment expansion despite the government attempts to enhance it through granting tax exemption to foreign investors. In this framework, there are a lot of regulatory constraints that are imposed on foreign investors and these restrictions include compelling the foreign

investor to have a local partner for 51% of their investment and other types of constraints. All these indicators prove that if the Algerian government targeted to attract more FDI and adopt the economic diversification plans, policymakers certainly need to devote their efforts and attention to activities and innovative approaches that will substantially improve the country's ability to polarize foreign investments.

- **Egypt**

In the Egyptian case, the investment circumstances are somehow different from other North African countries, especially in the last years due to the political instability. In this framework, we reached that the main barriers in doing business in Egypt are summarized in corruption, high uncertainty of policies, and slow process in obtaining the opening licenses and customs procedures. Additionally, the investment environment is still facing a mismatch between job skills and labor market demand with the rigidity of labor regulations. Moreover, the instability and deterioration of macroeconomic indicators in the last five years represents one of the black holes that affect attraction of FDI to Egypt (141 out 144 in 2015). The investment environment in Egypt also witnesses an absence of a unified legal framework for the reforms and frequent amendment of the laws. This undervalues the credibility of these latter and creates confusion for foreign investors. We should also point out that a slow legislative system in terms of complicated procedures and reaction is one of the pitfalls Egyptian government is still struggling with.

- **Libya**

The Libyan performance related to investment improvements faces serious difficulties in different aspect. Hence, based on previous descriptive analysis, the quality of the educational system can be described as fragile, and investments are still suffering from poor infrastructure due to political instability and civil wars that took down a great deal of it.

In addition to that, the rigidity of Libyan labor law that can noticed in imposing on foreign firms to hire at least 20% of Libyan workers and the companies, and provide training to an additional number of Libyan citizens every year. In this regard, about 30% of foreign firms working in Libya face difficulties to find skilled labor.

From another perspective, the internal conflict, and widespread corruption led to exacerbation of the investment environment situation, where the civil disturbances became the dominant feature in the society, and different armed groups are attempting to take over political institutions, economic resources, and geographical regions.

- **Morocco**

Regarding investment environment development, Morocco performance is relatively successful compared to other African and Arab countries, where Moroccan government achieved a great success in terms of the improvement of the infrastructure, macroeconomic stability, and financial market development. Meanwhile, Moroccan government is still facing problems regarding the quality of educational system particularly at the primary level, corruption control as well as excessive government bureaucracy. This involves some complications related to requirements of government regulation, slow process of obtaining opening licenses and customs procedures.

- **Tunisia**

Before the outbreak of the Tunisian revolution, the performance of the Tunisian government regarding attracting foreign investment was relatively good compared to other African and Arab counties. For example, Tunisia has achieved a notable success in terms of infrastructure improvement and education quality. However, due to the political turmoils in 2011, the rank of quality of educational system went down, and the government entered a dark stage regarding macroeconomic stability and development of the financial market.

6. AN EMPIRICAL ANALYSIS OF DETERMINANTS OF FDI INFLOWS IN NORTH AFRICA REGION

This chapter used panel data estimation on a sample of Five North Africa countries (Algeria, Egypt, Libya, Morocco, and Tunisia) over the period 1996-2013, and the reason behind choosing this time, because some of the variables used in the model are not available before 1996. This estimation aims to examine the determinants of FDI inflows and impact of FDI-policies that followed by the host countries (North Africa countries) to encourage the inward foreign direct investment.

6.1 LIMITATIONS OF THE STUDY

- Lack of long-term time series data (1996-2013)
- Most data available on North African countries are not comprehensive enough to include many variables in our model such as (human capital, and some of political risk variables)
- No consistent data on FDI inflows by sector or by motivation (or firm level)
- Not enough data and information about the government reforms regarding outward FDI.

6.2 DATA AND VARIABLES

The selection of variables based on the empirical work of most researchers, which is also appropriate for this study. The variables have been categorized into different classifications according to their effect on FDI inflows as follow:

1) Economic variables

2) Investment FDI-policies

3) Institutional quality variables

4) Political variables.

6.2.1. The Measurement of Foreign Direct Investment (FDI)

Empirically, there are several methods used to measure the FDI inflows, and there is no consensus on a particular way. For example, many studies including Alfaro et al., (2004), Büthe and Milner (2008), Azman-Saini et al., (2010), Adhikary (2010), Thangamani and Zhong (2011) Boubakri and Valery (2013) used net FDI inflows as a percentage of GDP. While, Yang (2007), Rogmans and Ebbers (2013) mentioned that using of net FDI inflows as a percentage of GDP is not desirable in transition economies, because of its highly sensitive to changes in a location's characteristics. Furthermore, they concluded that using the FDI relative GDP creates a problem with dependency and accuracy, where small states dominate the top ten FDI recipients and it is hard to distinguish the effect of explanatory variables on FDI.

On the other hand, many studies including Barthel et al. (2010), Goodspeed et al. (2011), Harding and Javorcik (2011), Barassi and Zhou (2012), Estrin and Uvalic (2014) used the total FDI stock as a measurement of FDI within a country. This measurement refers to the value of the share of affiliates' capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of subsidiaries to the parent enterprises. By other way, the stock of FDI includes retained earnings, the market value of the stocks bought by the investor and their total reserves. Also, it contains the debt that the parent owes to the subsidiary or the associate. In case of the branches, the stock of FDI is the total worth of fixed and current assets as well as investments of the parent in the branch (Shah, 2013).

According to Kinoshita and Campos (2003), Estrin and Uvalic (2014) using the FDI stock is desirable because it is always positive, and hence natural log transformation does not cause loss of information in this variable. Moreover, they mentioned that using the FDI stock is more appropriate for the transition and unstable economics. Thus, this study employs the natural logarithm value of total inward FDI stock.

6.2.2. Explanatory Variables

6.2.2.1. Economic Variables and Policies

These variables and policies are related to increasing the location's advantages through enhancing economic stability in the host country, such as market size, availability of natural resources, and quality infrastructure facilities, and so on.

- **Market size**

Many of economic theories confirmed that the market size is seen as one of the vital factors that affect the flows of FDI, where a large current market or increasing expected market size would create more investment opportunities and profits. For instance, the decision of horizontal FDI firms relied mainly on the volume on the domestic market in the host country, especially when these businesses invest abroad to serving the local market, thus the size of local demand represents a cornerstone in when they make the investment decision overseas. Within that, from "market-seeking" investor's perspective, the market size considered as an essential element in the entry decision, where large current and potential market size means that foreign firms can potentially achieve a higher return on their capital.

An extensive number of studies including Moosa (2002), Asiedu (2006), Demirhan and Masca (2008), Mottaleb et al., (2010), Hussien and Kimuli (2012) and Bayraktar (2013) concluded that the foreign firms move to countries with broader markets, with higher purchasing powers. And by that, it enables businesses to receive higher returns on their capital and increased profits from their investment.

Within that framework, different proxies such as real GDP, GDP growth per capita, and population's size measure the market size. In this estimation, the study will use the natural logarithm of real GDP as a core proxy for market size. The theoretical reason behind it is that the increase of real GDP indicates that the demand will increase as well as FDI shars increase with population (Flanagan, 2003). And thus, market size increase. The expected sign of the estimated coefficient of market size is positive.

- **Trade Liberalization**

The second economic variable is the level of trade openness, where the relationship between the host country's openness to trade and FDI inflows are heavily influenced by the goals of these firms from a trade perspective. For example, if the investment aims mainly to be export-oriented policy, this encourages businesses (vertical FDI flows) to expand in countries with high degree of openness. On the other hand, according to the tariff-jumping hypothesis, the foreign firms (horizontal FDI) that aim to serve the local market prefer less open to enhance their marketplace and to be protected from imports of competitors.

While, the resource-seeking FDI, which is the main aim of expansion in the host country, is to reduce production costs. Therefore, this type of FDI is more concerned about trade cost, and consequently; nations that pursue an open trade policy are more attracted to this kind of investment (Dunning, 1993). Based on empirical studies, openness can have either negative or positive association with FDI inflows. Indeed, many studies such as Kok And Ersoy (2009), Liargovas And Skandalis (2010), Oladipo (2010), Bilel And Mouldi (2011), Srinivasan (2011), and Guris and Ozgor (2015) concluded that the countries with more trade liberalization could attract more FDI inflows. This study uses the ratio of export plus import over GDP as proxy for trade openness.The expected result is a positive or negative sign of coefficient concerning FDI.

- **Natural Resources**

Despite the fact that the availability of natural resources is seen as an essential locational advantage, many studies including Mina (2007), Van der and Poelhekke (2009) pointed out that in MENA countries with fewer resources might be more successful in attracting FDI than those wealth resources nations. The idea behind this adverse effect is "resource curse" where the abundant natural resource may create opportunities for rent-seeking behavior and reduce the transparency in resource sales and revenue spending. Moreover, the existence of ample natural resource with weak institutional quality may hold off corruption and cause a downturn in growth (Wiens, 2014). In this regard, the dependency on the natural resource's revenue may create a less diversified economy, and thus, the financial risk increases (Achs and Warner, 1995, De Gregorio, 2003 and Wiens 2014).

This study employs the two proxies to measure the effect of the natural resource on FDI inflows. The first proxy is a dummy variable for the countries that have natural resource rent more than 10 % of GDP (Poelhekke and Ploeg, 2010). The second variable is total oil supply (Aziz and Mishra, 2016). The expected effect of the natural resource on FDI is to be negative/ positive.

- **Infrastructure Development**

Regarding locational advantage, the availability of suitable quality infrastructure is a fundamental element in encouraging FDI as it can contribute to reduce the entering cost (such as transportation costs, and electricity costs) and increase the rate of return on private investment and attract more FDI (Ballak et al., 2007).

Many studies including Khadaroo and Seetanah (2009), Kinda (2010), Rehman (2011) indicated that the countries that have a high quality of infrastructure could attract more foreign firms. Thus, the expected impact of infrastructure on FDI inflows is positive.

This study will use electric power transmission and distribution losses (% of output) to measure the infrastructure quality. This measurement reflects the government reforms regarding electrical power transmission between sources of supply and points of distribution, and the result is expected to be a negative sign of coefficient concerning FDI (Asiedu, 2004 and Benerjee et al., 2006).

- **Domestic Investment**

Several studies including Adhikary (2010), Dash and Sahoo (2010), Vijayakumar et., al (2010), Pradhan and Bagchi (2013), Feeny et., al (2014), Brahim and Rachdi (2014) confirmed that enhancing the domestic investment play vital role in achieving the economic growth. Gross fixed capital formation GFCF (% of GDP) are employed to measure the development of domestic investment (and some studies used it as infrastructure development proxy). This measurement reflects the government reforms in terms of infrastructure improvements such as constructing the roads and railways, building the hospitals and schools as well as houses and industrial buildings. The expected effect of the domestic investment on FDI is to be positive.

- **Macroeconomic Stability Variables**

The stability of macroeconomic variables also plays an essential role in FDI attractiveness, especially when a foreign firm decides to invest abroad. These indicators involve exchange rate stability index and inflation ratio where the stability of these indicators reflects a high degree of certainty.

- Inflation Rate

Regarding inflation rate, the high rate of inflation is taken to be a sign of internal economic instability in the host country, where the inflation rate instability indicates that the government has shortcomings to conduct appropriate monetary policy. In other words, higher inflation causes a depreciation of the host country's currency against the home currency, which will likely increase FDI into the host country and acquiring assets in the host country becomes cheap. However, the depreciation of currency negatively affects the active foreign investors at the time of repatriation of their profits, where international firm’s profits undergo erosion.

Furthermore, the stability of inflation rate was taken as an indicator of the level of economic stability, and as an index for how the government manages the fiscal and monetary policies. From an empirical side, many studies including Asiedu (2002), Onyeiwu and Shrestha (2004), Asiedu (2006), Udoh and Egwaikhide (2008), Hailu (2010) and Boateng et., al. (2015) investigated the effect of inflation on FDI. The results showed that the inflation negatively affects FDI and a low volume of inflation is likely to attract more inward FDI in developing countries. This study employs the annual percentage change in Consumer Price Index (CPI) as the proxy for the inflation rate. The expected sign of the estimated coefficient of inflation is negative.

- Exchange Rate Stability Index

The value of host country’s currency is considered as an essential element that influences the foreign firm’s decision when they expand abroad. Indeed, international companies are more likely to expand overseas when their currency value in the home country is strong, while firms that are hosted by countries with a weak currency avoid investing abroad (Faeth, 2009, Moosa, 2002). Within that, countries that have weak currencies are likely to attract market and efficiency-seeking FDI, where lower (undervalued) exchange rate in the host country reduces the cost of acquiring assets.

Many studies including Asiedu (2005), Jallab et al., (2008), Abbott et al., (2012) mentioned that the desire of foreign firms to invest abroad increase when the exchange rate in the host country is stable. Thus, to attract FDI inflows the government in the host country should reduce the fluctuations of exchange rates. In other words, foreign firms may not enter if they believe that the real exchange rates will not be stable or if it will appreciate after they enter a country. It would imply costs to be high to justify their investments.

Due to data limitation related to the real exchange rate, the study used the Exchange Rate Stability Index as "core variable" which indicates annual standard deviations of the monthly exchange rate between the home country and the base country, with the expectation of positive sign of coefficient concerning FDI.

6.2.2.2. Investment FDI Policies

This type of policies can directly affect the foreign firm's decision, where these policies aim to reduce the transaction cost of foreign companies entering the economy, regulate the flow of FDI. In addition to the creation of incentives and restrictions on operations work at the domestic and international level.

- **International FDI-Policies**

This type of policies targets the enhancement FDI through signing agreements and treaties with other regions or countries, and these agreements include improving the main terms and condition that control the investment activities of between nations. The first type of these agreements is Bilateral Investment Treaties (BIT), where it targets the regulation of the investment operations through lay down specific standards of investment protection and transfer of funds. It is important to mention that these treaties also describe the mechanisms for the settlement of disputes between the treaty partners, investors, and the host country. The second type of the agreements is Regional Investment Agreements (RIA). According to OECD (2010) regional investment agreements (RIAs) help to attract more foreign investment through its participation in providing a stable, predictable and transparent regulatory framework for international investment.

Furthermore, they enhance the enabling framework for FDI, strengthen and facilitate cooperation between the host country and international investors in the investment fields, and reduce the gaps between national and international investment policies.

Finally, Double Taxation Agreements (DTAs), which are defined as an agreement between two countries that reduce the tax bill for a foreign investor. These agreements aim to prevent the taxpayer from paying tax to both countries.

Several studies including Grosse and Trevino (2005), Egger and Merlo (2007), Buss et al., (2010), Berger et al., (2013) and Buthe and Milner (2014) put forward international investment agreements as one significant factor that affects attracting FDI. And the adoption of Bilateral Investment Treaties and double taxation agreements can be considered as one of the elements of institutional reforms that have fostered the FDI inflows. This study uses the accumulated number of the countries that have in force international investment agreements including (Bilateral Investment Treaties, Treaties with Investment Provisions, and Double Taxation Agreement) with host country to measure the international FDI – Policies. The expected sign of the estimated coefficient of investment international agreements with FDI inflows is positive.

- **Domestic Investment Policies (Investment Freedom)**

No doubt that the ease to doing business may affect foreign firm's decision, where more freedom operations of admission and establishment, ownership, control, and other operational activities can enhance foreign investment environment through reducing the restrictions on capital control, illegal expropriation on investment, and land ownership.

Thus, adopting policies that aim to remove any obstacles that hinder investments after entry such as constraints on employment of foreign labor and competencies may negatively effect on international firms. The present study will use two proxies to measure the business openness. First is the Business Freedom Index which measures the host county's investment openness, and this index refers to ease of starting, operating, and closing a business. And the impact of the tax burden imposed by the government as well as the efficiency of the financial system concerning access to finance and credit, payment, and investment services to individuals, the expected sign of Business Freedom Index is a positive sign to FDI. The study also employs the regulatory quality index as another proxy for the institutional quality, which reflects the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector

development, the expected sign of regulatory quality with FDI inflows is positive (Buss and Groizard, 2008, Mina 2009, Lu et al., 2014).

6.2.2.3. Institutional Quality Variables

As mentioned above, the economic (macroeconomic) reforms and FDI policies are essential in terms of encouraging FDI, but these policies and reforms will not be enough without the existence of healthy institutional environment to facilitate the exchange and increase confidence between economic players and reduce transactional cost. The presence of good institutional quality depends on the quality of its rules and providing a clear legal framework to govern the activities of direct investment, which is important factors for the success of the foreign investment (Bevan et al., 2004).

- **Corruption Control**

Corruption is seen as one of the prominent institutional factors that reflect the quality of the country's institutional environment, and it is commonly defined as the misuse of public office for private gains (Dunning and Lundan, 2008). The harmful of corruption lies in raising transactions costs, create uncertainties, bearing the investors extra cost (bribes) to get permits and licenses and increase the cost of operating abroad. Grosse and Trevino, (2005). About examining the effect of corruption on the FDI flow, several studies including Wei (2000), Habib and Zurawicki (2002), Kwok and Tadesse (2006), Sayan (2009) they concluded that there is a negative relationship between corruption level in the host country and FDI inflows. Also, foreign investors, generally try to avoid investing in corrupted countries. However, some empirical studies including Egger and Winner (2005), Tosun et al., (2014), to cite few, argue that corruption is a stimulus for FDI, and corruption can have a positive impact on investment by facilitating transactions in countries with excessive regulation.

This study employs the Corruption Perception Index (CPI) to measure the institutional quality. Corruption perception index (CPI): it ranks the countries on a scale of zero to 10, with zero indicating high levels of corruption and 10 indicating low levels. Interestingly, developed nations typically rank higher than developing ones due to stronger regulations. Thus, in this model, the expected sign of corruption with FDI inflows is either positive or

negative. The study also employs the government effectiveness index as a second proxy for the institutional quality. Within that, this index reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (govindicators.org). In this model, the expected sign of government effectiveness with FDI inflows is positive.

6.2.2.4. Political Instability Variables

Political instability is considered as one of the obstacles that influence attracting FDI in developing countries. Certainly, increase in the political risk would reduce the certainty of the investment environment in the host country and making the investment climate and economic outcome very unpredictable. Studies of Osakwe (2006), Buss and Hefeker (2007), Hayakawa et al., (2011) concluded that the political instability is a prominent reason that has been responsible for the low inward FDI. However, some studies including Asiedu (2002), Onyeiwu and Shrestha (2004), Kandiero and Chitiga (2006) concluded that political instability and absence of political rights in a country is not significant in influencing FDI. This study uses Political Constraints Index (POLCON) which measures the extent of change in political actors and its influence on government policies and reforms. The expected sign of political instability's effect on FDI inflows is negative.

Table 6.1: Data definition and Sources.

Variable	Description	Source
LnFDIstock	The natural logarithm of total inward FDI stocks. "the accumulated value of foreign-owned assets, which include equity, retained earnings, and a share of reserves, etc."	UNCTAD
LnMarket size	Real gmross domestic product in US$ (Natural Log)	UNCTAD
Trade Openness	The ratio of export plus import over GDP	UNCTAD
Natural resources	=1 if the natural resource rents are more than 10% of GDP. "Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents."	World Bank
International Investment Agreements	Accumulated number of the countries that have in force international investment agreements including (Bilateral Investment Treaties, Treaties with Investment Provisions, and Double Taxation Agreement) with host country.	UNCTAD
Investment freedom	Average index of business freedom, finance freedom, tax freedom,	Heritage Foundation
Infrastructure	Electric power transmission and distribution losses (% of output) "its include losses in transmission between sources of supply and points of distribution and in the distribution to consumers, including pilferage".	World Bank
Domestic Investment	Gross fixed capital formation GFCF (% of GDP), this measurement reflects the government investments in terms of infrastructure improvements such as constructing the roads and railways, building the hospitals and schools as well as houses and industrial buildings.	IMF
Exchange rate	Exchange Rate Stability Index. İt indicates annual standard deviations of the monthly exchange rate between the home country and the base country.	The Chinn-Ito Index
Inflation	The annual percentage change in consumer price index (CPI)	IMF
Regulatory quality	Regulatory quality index, reflect the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	PRS Group
Corruption	Corruption Perception Index (CPI)	Transparency International Dataset
Government effectiveness	Government effectiveness index: this index reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	Worldwide Governance Indictors (govindicators. org)
Political	Political Constraints Index (POLCON)	Henisz, Witold J. 2002 Based on Polity IV,
Total oil supply	the total production of crude oil, natural gas plant liquid, and other liquid in thousand barrels per day	US Energy Information Administration

6.3. EMPIRICAL ESTIMATION

This study used a balanced panel of Five North African counties. The data are annual for the period 1996-2013, and the choice of these years was wholly due to data availability, where the study is mainly limited by a shortage of data that are related to Algeria and Libya. The specification of the regression model used in this study can be outlined as follows:

$$\text{Ln}FDI\text{stock}_{it}=\alpha+\beta_1\text{InvstAgrem}_{it}+\beta_2\text{InvstFree}_{it}+\beta_3\text{LnMarket}_{it}+\beta_4\text{TradOpen}_{it}+\beta_5\text{Natural}_{it}+\beta 6\text{GFC}_{it}+\beta_7\text{Infraloss}_{it}+\beta_8\text{Inflation}_{it}+\beta_9\text{Fxstable}_{it}+\beta_{10}\text{Corrup}_{it}+\beta_{10}\text{RequQ}_{it}+\beta_{10}\text{Political}_{it}+\gamma t_i+\varepsilon_{it}$$

Where:

LnFDIstock: is the natural logarithm value of total inward FDI stock.

InvstAgrem: is the accumulated number of the countries that have in force international investment agreements with North African countries

InvstFree: is the average index of business freedom, financial freedom,and tax freedom.

LnMarket: is the natural logarithm value of real GDP.

TradOpen: The ratio of export plus import over GDP

Natural (dummy): 1 if the natural resource rents are more than 10% of GDP.

GFC: Gross Fixed Capital Formation GFCF (% of GDP),

Infraloss: is the electric power transmission and distribution losses (% of output).

Inflation: the annual percentage change in Consumer Price Index (CPI).

Fxstable: the Index of Exchange Rate Stability.

ReguQ: Regulatory Quality Index

Corrup: the Corruption Perception Index (CPI).

Political: Political Constraints Index.

γt_i: present the time-specific effects.

ε_{it} :present is the error term.

6.3.1. Summary Statistics and Correlation

Table 6.2 illustrates the summary statistics for variables. The exchange rate stability variable has the lowest mean of 0.0072016, while the inflation variable has the highest mean of 6.6. regulatory quality variable has lowest standard deviations 0.0944229.

Table 6.2: Summary statistics of the variables.

Variables	Obs.	Mean	Std. Dev.	Min	Max
Δ LnFDIstock	85	0.1276536	0.1747809	-0.33139	0.720479
Δ InvstAgrem	85	3.882352	5.097646	0	29
Δ InvstFree	85	0.240392	3.569789	-13.2	9.9
Δ LnMarket	85	0.02839389	0.1625926	-0.94851	0.80964
Δ TradOpen	85	0.674	10.36629	-65.67	35.71
Δ GCF	85	0.3312969	2.242916	-4.612379	9004018
Δ Infraloss	85	0.1409462	2.847568	-11.25314	12.54046
Inflation(ΔCPI)	90	6.692847	8.174688	-25.3128	28.56854
Δ Fxstable	85	-0.0072016	0.197682	-0.771945	0.68068
Δ Corrup	85	0.0435294	0.429628	-.8	1.6
Δ Reqgu Q	85	0.0047059	0.0944229	-0.32	0.37
ΔPolitical	85	0.1030366	0.1154358	-0.366052	0.6383901
Natural dum	90	0.455556	0.5008108	0	1

- **Multicollinearity Test:**

One of the expected problems with this data set is the possibility of the existence of the correlation between the explanatory variables. Within that, a high level of correlation among these variables may lead to a serious multicollinearity among the model's independent variables, which consequently inflates standard errors and result in overestimating the effects of some collinear variables and underestimating the effects of others. Based on the above, we need to discover the level correlation between the explanatory variables and to achieve that, we use the Variance Inflation Factor (VIF) test, within that if the values of 1/VIF are greater than or equal to one indicates the presence of multicollinearity. According to this examination, when VIF is higher than 10, which means that there is a high correlation between independent variables. (Dimitrious and Stephen, 2006). In our estimation, Tables 6.3, 6.4 show that none of the variables is high correlates where the mean Variance Inflation Factor (VIF) of 1.24.

Table 6.3: Partial correlation VIF test.

Variable|	VIF	1/VIF
Δ TradOpen	1.50	0.668615
Inflation(ΔCPI)	1.44	0.692557
Δ LnMarket	1.41	0.706782
Natural.D	1.31	0.760468
Δ Reqgu Q	1.29	0.774447
Δ Infraloss	1.21	0.829762
ΔPolitical	1.19	0.842960
Δ Corrup	1.16	0.861560
Δ InvstAgrem	1.15	0.722000
Δ GCF	1.12	0.889518
Δ InvstFree	1.08	0.922233
Δ Fxstable	1.07	0.935123
	Mean VIF 1.24	

Table 6.4: The correlation matrix between variables.

Variable	1	2	3	4	5	6	7	8	9	10	11	12	13
Δ LnFDIstock	1												
Δ InvstAgrem	0.0258	1											
Δ InvstFree	0.2424	-0.1594	1										
Δ LnMarket	0.1553	0.0462	00216	1									
Δ TradOpen	0.2959	0.0569	0.0082	0.5002	1								
Δ GCF	0.4648	-0.0128	0.115	0.0230	0.1311	1							
Δ Infraloss	0.0555	-0.0640	-0.0508	0.0013	-0.1175	0.0068	1						
Inflation(ΔCPI)	0.2571	-0.0777	0.1341	0.1147	0.2122	-0.0954	-0.271	1					
Δ Fxstable	0.0234	0.0389	-0.0629	-0.0053	-0.0158	0.0013	0.0361	-0.0622	1				
Δ Corrup	0.0011	0.0513	0.0249	0.1203	0.1978	0.0569	0.0453	0.0574	0.0285	1			
Δ Reqgu Q	0.1798	0.2440	0.1181	0.2341	0.2120	0.1348	-0.0853	0.0955	-0.2085	0.2009	1		
Δ Political	0.0776	-0.0108	0.0066	-0.0043	0.1135	0.0831	0.2605	-0.0523	-0.0052	0.2574	-0.0038	1	
Natural dum	0.2192	-0.1510	0.0980	-0.0807	0.0216	0.1369	-0.0932	0.4003	0.0095	-0.0883	-0.0009	-0.0898	1

Not. (1) Δ LnFDIstock (2) Δ InvstAgrem (3) Δ InvstFree (4) Δ LnMarket (5) Δ TradOpen (6) Δ GCF (7) Δ Infraloss (8) Inflaion(ΔCPI) (9) Δ Fxstable (10) Δ Corrup (11) Δ Reqgu Q (12) Δ Political (13) Natural dum.

6.3.2. Pre-Estimation Tests

6.3.2.1. Stationarity Test

The stationarity test is seen as the first step in any econometric analysis. Thus, we examine the stationarity of the variables that are used in the model. The primary aim of this test to ensure that the variables are integrated, where non-stationary series could generate spurious regression result. There are numerous unit root tests for panel data.

This study uses the Levin-Lin-Chu test (LLC), Breitung test, Hadri Lm test , and Pearsan test where it assumes homogeneity in the dynamics of the autoregressive coefficients for all cross-section data (series) (Aziz, 2015).Tables 6.5, 6.6 shows that the series are stationary at first differences.

Table 6.5: Panel Unit Root Tests (Levels).

Variable	**LLC Test** H_o: Panels contain unit roots	**Breitung Test** H_o: Panels contain unit roots	**Hadri LM test** H_o: All panels are stationary	**Pearsan test** (xtcips) H_o: non-stationary ($T_{cips} < T_{critical}$)	
				T cips	T critical 1%
LnFDIstock	(0.0425)	(0.6060)	(0.0000)	-3.268	-3.46
InvstAgrem	(0.0078)	(0.6005)	(0.0000)	-3.124	-3.20
InvstFree	(0.0377)	(0.0435)	(0.0000)	-2.638	-3.46
LnMarket	(0.9994)	(0.4657)	(0.0003)	-3.950	-3.46
TradOpen	(0.9026)	(0.9841)	(0.0000)	-3.432	-3.46
GCF	(0.0029)	(0.4127)	(0.0000)	-2.754	-3.46
Infraloss	(0.0442)	(0.0710)	(0.0000)	-2.767	-3.46
Inflation	(0.0001)	(0.0367)	(0.2314)	-2.586	-3.46
Fxstable	(0.0003)	(0.0025)	(0.0676)	-3.021	-3.46
Corrup	(0.0000)	(0.2107)	(0.0000)	-3.746	-3.46
Reqgu Q	(0.0001)	(0.3506)	(0.0000)	-2.220	-3.20
Political	(0.0000)	(0.6959)	(0.0000)	-3.027	-3.20
LnOilq	(0.1908)	(0.0709)	(0.0000)	-1.465	-3.46
Goveff	(0.0004)	(0.0001)	(0.7076)	-0.756	-3.20

Notes : -

- all tests in constant with the time trend
- In LLC test (demean is used) to control the effect of cross-sectional means.
- For Breitung and Hadri LM test (controlled the effect of cross-sectional means and allowed cross-sectional dependence).
- For Parson (xtcips) test (controlled the effect of cross-sectional dependence)

Table 6.6: Panel Unit Root Tests (1st differences).

Variable	**LLC Test** H_o: Panels contain unit roots	**Breitung Test** H_o: Panels contain unit roots	**Hadri LM test** H_o: All panels are stationary	**Pearsan test (xtcips)** H_o: non-stationary ($T_{cips} > T_{critical}$)	
				T cips	T critical 1%
LnFDIstock	(0.0319)	(0.0468)	(0.1047)	-4.248	-3.46
InvstAgrem	(0.0000)	(0.0000)	(0.4328)	-4.346	-3.20
InvstFree	(0.0000)	(0.0000)	(0.8649)	-5.046	-3.46
LnMarket	(0.5065)	(0.0284)	(0.9541)	-4.663	-3.20
TradOpen	(0.0030)	(0.0434)	(0.5799)	-4.305	-3.46
GCF	(0.0000)	(0.0001)	(0.4110)	-4.398	-3.46
Infraloss	(0.0154)	(0.0000)	(0.9109)	-5.506	-3.20
Inflation	(0.0000)	(0.0027)	(0.9764)	-4.893	-3.20
Fxstable	(0.0000)	(0.0000)	(0.9348)	-4.362	-3.20
Corrup	(0.0000)	(0.0000)	(0.7282)	-4.725	-3.20
Reqgu Q	(0.0000)	(0.0000)	(0.4644)	-4.640	-3.20
Political	(0.0001)	(0.0551)	(0.7306)	-3.027	-3.20
LnOilq	(0.0027)	(0.0001)	(0.7160)	-3.976	-3.46
Goveff	(0.0000)	(0.0000)	(0.9888)	-2.669	-3.20

6.3.2.2. Hausman Test

The Hausman test used in panel analysis to distinguish between the random effect model and fixed effect model. By this examination, we can determine which model is appropriate. According to this test, the null hypothesis states that the all countries have common mean variables "Random –Effect model". Meanwhile, alternative hypothesis states that the mean of country intercept differ, but time-invariant, and with this hypothesis, the Fixed Effect model is appropriate. In this context, the higher value of Hausman Test translates as failure to reject the validity of random effect model. According to the Hausman test result, the value of p-value is high (Prob>chi2 = 0.9899). Therefore, we fail to reject null hypothesis, which means that the Random – Effect model is an appropriate model to explain the outcomes.

6.3.2.3. Heteroscedasticity Test

Heteroscedasticity means that the variance in error term is not constant throughout the sample, and the existence of heteroscedasticity causes the standard error values to be biased, and lead to unreliable hypothesis testing. Furthermore, when the error term is heteroskedastic, this renders F-test invalid. Within that, to test the heteroscedasticity, there are different tests used, where heteroscedasticity takes some various forms, and its precise manifestation in a given equation is almost never known. Breusch-Pagan / Cook-Weisberg test is performed to detect heteroscedasticity. It tests the null hypothesis of constant variance or homoscedasticity, against the alternative hypothesis that variances are not constant or heteroscedastic. The test results for the dependent variable shows the none existence of heteroscedasticity with Chi2 (1) = 1.382 and P- value = 0.240

Table 6.7: Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity
Ho: Constant variance
Variables: fitted values of LnFDIstock
chi2(1) =: 1.382
p-value: 0.240

6.3.2.4. Test for Serial Correlation

This type of tests aims to ensure that there is no serial correlation in the residuals. Where if there is a serial correlation in the models, it needs specific intervention to deal with it. That is because the existence of autocorrelation the models can lead to creating bias in the residuals and causes the results to be less efficient.

According to Wooldridge test for autocorrelation, the null hypothesis states that there is no serial correlation, and another alternative hypothesis says that there is a serial correlation. Thus, and based on the result of Wooldridge test for autocorrelation, which indicated that the Prob > F = 0.1165 Hence, our model is not affected by the first-orer autocorrelation.

6.3.2.5. Cross- Sectional Dependence Test

This test is used to check whether the residuals are correlated across entities, where the existence of cross-sectional dependence can generate bias in the results. According to this analysis, the null hypothesis puts forward that the residuals are not correlated, while the alternative hypothesis states that the residuals are correlated. Within that, if the p-value is higher than 0.05, we cannot reject the null hypothesis (Reyna, 2007).

According to Friedman test, the p-value is 0.0020, and this amount is smaller than 0.05. Therefore, we reject a null hypothesis, which means that there is cross-sectional dependence. Based on Hoechle (2007), if there is cross-sectional dependence,he suggested to use the command Xtscc, and this command produced Driscoll and Kraay (1998) standard errors for coefficients estimated by pooled OLS and fixed-effects (within) regression.

Table 6.8: Random Effects Estimate with Driscoll and Kraay Standard Errors (time trend)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
VARIABLES											
Δ InvstAgrem	0.00319	0.00311	0.00316	0.00316	0.00381	0.00380	0.00326	0.00331*	0.00329*	0.00323*	0.00341*
	(0.00229)	(0.00228)	(0.00203)	(0.00206)	(0.00252)	(0.00243)	(0.00191)	(0.00164)	(0.00166)	(0.00172)	(0.00167)
Δ InvstFree	0.0123**	0.0121**	0.0120**	0.0120**	0.0113**	0.0114**	0.00948**	0.00962***	0.00958***	0.00966**	0.00987***
	(0.00449)	(0.00444)	(0.00419)	(0.00420)	(0.00387)	(0.00402)	(0.00328	(0.00328)	(0.00325	(0.00340)	(0.00322)
Δ LnMarket		0.166*		0.00581	0.0306	0.0331	0.158*		0.0326	0.0324	0.0246
		(0.0928)		(0.0888	(0.105)	(0.108)	(0.0821)		(0.0879)	(0.0893)	(0.0917)
Δ TradOpen			0.00518**	0.00513**	0.00480**	0.00504**		0.00429***	0.00404**	0.00404**	0.00425**
			(0.00192)	(0.00188)	(0.00184)	(0.00191)		(0.00136)	(0.00148)	(0.00150)	(0.00168)
Δ GCF							0.0345***	0.0322**	0.0323**	0.0323**	0.0321**
							(0.0117)	(0.0110)	(0.0112	(0.0111)	(0.0114)
Δ Infraloss											0.00529
											(0.00384)
Δ Fxstable										0.0254	
										(0.0513)	
Inflation(ΔCPI)						-0.00125					
						(0.000831)					
Δ Corrup											
Δ Reqgu Q											
Δ Political											
Natural dum					0.0680	0.0672					
					(0.0457)	(0.0462)					
Year	0.00258	0.00311	0.00426	0.00427	0.00350	0.00349	0.00377	0.00462	0.00464	0.00456	0.00439
	(0.00603)	(0.00600)	(0.00543)	(0.00547)	(0.00564)	(0.00565)	(0.00484)	(0.00423)	(0.00429)	(0.00439)	(0.00427)
Constant	-5.066	-6.121	-8.441	-8.449	-6.944	-6.916	-7.454	-9.155	-9.200	-9.037	-8.706
	(12.09)	(12.03)	(10.87)	(10.96)	(11.31)	(11.32)	(9.715)	(8.491)	(8.610)	(8.804)	(8.578)
R-squared	0.091	0.133	0.160	0.160	0.196	0.201	0.284	0.325	0.326	0.327	0.333
Observations	85	85	85	85	85	85	85	85	85	85	85
Number of groups	5	5	5	5	5	5	5	5	5	5	5

Table 6.9: Random Effects Estimate with Driscoll and Kraay Standard Errors (Continued)

	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
VARIABLES										
Δ InvstAgrem	0.00343*	0.00335*	0.00335*	0.00377*	0.00269	0.00273	0.00370*	0.00388*	0.00332	0.00333
	(0.00168)	(0.00175)	(0.00191)	(0.00194)	(0.00195)	(0.00202)	(0.00209)	(0.00210)	(0.00224)	(0.00229)
Δ InvstFree	0.00987***	0.00994***	0.0101***	0.00917***	0.00948**	0.00944**	0.00941**	0.00915***	0.00908**	0.00904**
	(0.00324)	(0.00332)	(0.00331)	(0.00307)	(0.00344)	(0.00345)	(0.00322)	(0.00306)	(0.00320)	(0.00319)
Δ LnMarket		0.0244	0.0259	0.0500	0.00872	0.0121		0.0546	0.0307	0.0298
		(0.0932)	(0.0952)	(0.0996)	(0.0917)	(0.0942)		(0.100)	(0.104)	(0.103)
Δ TradOpen	0.00440**	0.00426**	0.00448**	0.00386**	0.00440**	0.00433**	0.00440***	0.00374**	0.00411**	0.00405*
	(0.00158)	(0.00171)	(0.00188)	(0.00149)	(0.00188)	(0.00195)	(0.00132)	(0.00153)	(0.00193)	(0.00196)
Δ GCF		0.0321**	0.0322**	0.0308**	0.0314**	0.0313**	0.0309**	0.0306**	0.0298**	0.0301**
		(0.0113)	(0.0115)	(0.0112)	(0.0113)	(0.0114)	(0.0113)	(0.0114)	(0.0115)	(0.0113)
Δ Infraloss	0.00560	0.00524	0.00561		0.00588	0.00535			0.00605	0.00637
	(0.00396)	(0.00393)	(0.00468)		(0.00503)	(0.00444)			(0.00406)	(0.00433)
Δ Fxstable		0.0233	0.0259		0.0432	0.0439	0.0262		0.0402	0.0420
		(0.0503)	(0.0513)		(0.0432)	(0.0442)	(0.0522)		(0.0500)	(0.0528)
Inflation(ΔCPI)	0.000245			-0.000117				-7.75e-05		0.000345
	(0.000843)			(0.000671)				(0.000674)		(0.000779)
Δ Corrup			-0.0307		-0.0362	-0.0391	-0.0227		-0.0349	-0.0349
			(0.0288)		(0.0303)	(0.0338)	(0.0208)		(0.0333)	(0.0334)
Δ Reqgu Q					0.180*	0.184*			0.169**	0.168**
					(0.0944)	(0.0902)			(0.0761)	(0.0739)
Δ Political						0.0484		0.0708	0.0622	0.0615
						(0.0830)		(0.0772)	(0.0893)	(0.0899)
Natural dum				0.0505			0.0474	0.0523	0.0517	0.0520
				(0.0328)			(0.0323)	(0.0318)	(0.0332)	(0.0330)
Year	0.00437	0.00432	0.00394	0.00405	0.00446	0.00460	0.00371	0.00423	0.00401	0.00399
	(0.00426)	(0.00437)	(0.00401)	(0.00456)	(0.00412)	(0.00428)	(0.00437)	(0.00477)	(0.00463)	(0.00465)
Constant	-8.658	-8.560	-7.793	-8.042	-8.832	-9.116	-7.355	-8.405	-7.956	-7.920
	(8.543)	(8.767)	(8.040)	(9.133)	(8.277)	(8.597)	(8.764)	(9.560)	(9.274)	(9.328)
R-squared	0.333	0.334	0.339	0.345	0.346	0.347	0.348	0.350	0.367	0.368
Observations	85	85	85	85	85	85	85	85	85	85
	5	5	5	5	5	5	5	5	5	5

P-values in brackets.*, **, *** denote significance at the 1, 5 and 10 per cent levels respectively for p-values.

Table 6.10: Random Effects Estimate with Driscoll and Kraay Standard Errors (Time Dummies).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Δ InvstAgrem	0.00227	0.00201	0.00167	0.00167	0.00183	0.00146	0.00146	0.00156
	(0.00214)	(0.00214)	(0.00179)	(0.00124)	(0.00123)	(0.00144)	(0.00142)	(0.00182)
Δ InvstFree	0.0124**	0.0122**	0.0121**	0.00974**	0.00977**	0.00950**	0.00949**	0.00975*
	(0.00427)	(0.00419)	(0.00395)	(0.00305)	(0.00298)	(0.00307)	(0.00306)	(0.00468)
Δ LnMarket		0.158	0.00304	0.0294	0.0331	0.0254	0.0264	0.0872
		(0.0760)	(0.0769)	(0.0748)	(0.0729)	(0.0713)	(0.0710)	(0.111)
Δ TradOpen			0.00488**	0.00377**	0.00368**	0.00364**	0.00360**	0.000241
			(0.00160)	(0.00126)	(0.00117)	(0.00118)	(0.00122)	(0.00229)
Δ GCF				0.0321**	0.0323**	0.0319**	0.0318**	0.0279*
				(0.0108)	(0.0108)	(0.0108)	(0.0109)	(0.0130)
Δ Infraloss					-0.0210	-0.0165	-0.0153	-0.0284
					(0.0618)	(0.0647)	(0.0645)	(0.0644)
Δ Reqgu Q						0.0714	0.0726	0.337**
						(0.145)	(0.141)	(0.0813)
Δ Political							0.0261	0.225
							(0.0605)	(0.111)
1997								-0.00977
								(0.0173)
1998								-0.139**
								(0.0353)
1999								-0.0807***
								(0.0143)
2001								-0.0117
								(0.0216)
2002								0.108**
								(0.0268)
2003								0.144***
								(0.0192)
2004								0.0829**
								(0.0226)
2005								0.149***
								(0.0133)
2006								0.244***
								(0.0341)
2007								0.120
								(0.0575)
2008								0.00670
								(0.0781)
2009								0.0468
								(0.0329)
2010								0.0219
								(0.0264)
2011								0.0640
								(0.0380)
2012								0.00289
								(0.0295)
2013								0.00122
								(0.0245)
Constant	0.116**	0.112**	0.115**	0.105***	0.114**	0.114**	0.113**	0.0728
	(0.0384)	(0.0359)	(0.0332)	(0.0213)	(0.0314)	(0.0308)	(0.0315)	(0.0481)
Observations	85	85	85	85	85	85	85	85
R-squared	0.063	0.085	0.147	0.311	0.312	0.313	0.315	0.520
Number of groups	5	5	5	5	5	5	5	5

Table 6.6.11: Random Effects Estimates with Driscoll and Kraay Standard Errors (country-specific time trend)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Δ InvstAgrem	0.00490*	0.00504**	0.00497**	0.00466**	0.00460**	0.00465**	0.00466**	0.00463**
	(0.00233)	(0.00227)	(0.00199)	(0.00178)	(0.00172)	(0.00178)	(0.00178)	(0.00204)
Δ InvstFree	0.0116**	0.0113**	0.0111***	0.00917***	0.00913***	0.00919***	0.00917***	0.00930***
	(0.00424)	(0.00406)	(0.00376)	(0.00285)	(0.00294)	(0.00287)	(0.00285)	(0.00283)
Δ LnMarket		0.203	0.0456	0.0573	0.0586	0.0576	0.0573	0.0581
		(0.124)	(0.133)	(0.126)	(0.125)	(0.127)	(0.126)	(0.128)
Δ TradOpen			0.00500**	0.00413**	0.00407***	0.00416**	0.00413**	0.00431**
			(0.00176)	(0.00153)	(0.00136)	(0.00155)	(0.00153)	(0.00169)
Δ GCF				0.0297**	0.0297**	0.0296**	0.0297**	0.0298**
				(0.0108)	(0.0107)	(0.0108)	(0.0108)	(0.0111)
Δ Infraloss								
Inflation(ΔCPI)						-0.000139		-0.000147
						(0.000675)		(0.000694)
Δ Fxstable								
Δ Corrup								-0.0206
								(0.0192)
Δ Political								
Natural dum				-0.00994		-0.00990	-0.00994	-0.0112
				(0.0493)		(0.0500)	(0.0493)	(0.0493)
Alg_trend	0.00329	0.00403	0.00511	0.00542	0.00524	0.00542	0.00542	0.00519
	(0.00618)	(0.00610)	(0.00554)	(0.00518)	(0.00442)	(0.00522)	(0.00518)	(0.00503)
Egypt_trend	0.00326	0.00400	0.00508	0.00540	0.00522	0.00540	0.00540	0.00517
	(0.00617)	(0.00609)	(0.00553)	(0.00517)	(0.00442)	(0.00521)	(0.00517)	(0.00502)
Libya_trend	0.00331	0.00406	0.00514	0.00544	0.00526	0.00544	0.00544	0.00521
	(0.00617)	(0.00609)	(0.00553)	(0.00517)	(0.00441)	(0.00521)	(0.00517)	(0.00502)
Morroc_trend	0.00328	0.00401	0.00509	0.00540	0.00522	0.00540	0.00540	0.00517
	(0.00618)	(0.00610)	(0.00554)	(0.00516)	(0.00442)	(0.00520)	(0.00516)	(0.00501)
Tunus_trend	0.00326	0.00399	0.00507	0.00539	0.00521	0.00539	0.00539	0.00516
	(0.00617)	(0.00609)	(0.00553)	(0.00516)	(0.00442)	(0.00520)	(0.00516)	(0.00501)
Constant	-6.471	-7.954	-10.13	-10.75	-10.39	-10.75	-10.75	-10.29
	(12.38)	(12.22)	(11.09)	(10.35)	(8.864)	(10.43)	(10.35)	(10.05)
Observations	85	85	85	85	85	85	85	85
R-squared	0.128	0.163	0.227	0.362	0.362	0.362	0.363	0.364
Number of groups	5	5	5	5	5	5	5	5

Table 6.12: Random Effects Estimates with Driscoll and Kraay Standard Errors (country-specific time trend) (Continued)

	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
Δ InvstAgrem	0.00463**	0.00490***	0.00489***	0.00485***	0.00482**	0.00449*	0.00436**	0.00394*
	(0.00204)	(0.00154)	(0.00151)	(0.00148)	(0.00175)	(0.00242)	(0.00162)	(0.00238)
Δ InvstFree	0.00930***	0.00947***	0.00950***	0.00952***	0.00965***	0.00809**	0.00795***	0.00834**
	(0.00283)	(0.00274)	(0.00276)	(0.00285)	(0.00280)	(0.00285)	(0.00266)	(0.00346)
Δ LnMarket	0.0581	0.0492	0.0502	0.0488	0.0492	0.0542		0.0529
	(0.128)	(0.127)	(0.127)	(0.128)	(0.130)	(0.125)		(0.109)
Δ TradOpen	0.00431**	0.00429**	0.00435**	0.00429**	0.00446**	0.00324*	0.00365**	0.00308**
	(0.00169)	(0.00153)	(0.00151)	(0.00155)	(0.00176)	(0.00154)	(0.00164)	(0.00137)
Δ GCF	0.0298**	0.0295**	0.0293**	0.0296**	0.0298**	0.0328**	0.0323**	0.0228**
	(0.0111)	(0.0107)	(0.0108)	(0.0106)	(0.0109)	(0.0119)	(0.0113)	(0.00999)
Δ Infraloss		0.00696*	0.00666*	0.00695*	0.00723		0.0105***	0.0206**
		(0.00359)	(0.00333)	(0.00365)	(0.00425)		(0.00287)	(0.00842)
Inflation(ΔCPI)	-0.000147	0.000323		0.000357	0.000371	0.00492	0.00564**	0.00160
	(0.000694)	(0.000797)		(0.000842)	(0.000888)	(0.00291)	(0.00251)	(0.00316)
Δ Fxstable				0.0169	0.0191	0.0302	0.0358	
				(0.0491)	(0.0509)	(0.0544)	(0.0540)	
Δ Corrup	-0.0206				-0.0242	-0.0332		-0.0291
	(0.0192)				(0.0262)	(0.0212)		(0.0227)
Δ Reqgu Q							0.112	0.0465
							(0.0885)	(0.181)
Δ Political						0.0923	-0.0193	0.201*
						(0.0832)	(0.0992)	(0.104)
Natural dum	-0.0112					-0.0183	-0.0357	-0.00199
	(0.0493)					(0.0490)	(0.0527)	(0.0606)
Alg_trend	0.00519	0.00498	0.00499	0.00493	0.00461	0.00448	0.00468	0.00683*
	(0.00503)	(0.00451)	(0.00447)	(0.00458)	(0.00423)	(0.00500)	(0.00511)	(0.00386)
Egypt_trend	0.00517	0.00496	0.00497	0.00491	0.00459	0.00445	0.00466	0.00673
	(0.00502)	(0.00450)	(0.00446)	(0.00457)	(0.00422)	(0.00499)	(0.00510)	(0.00386)
Libya_trend	0.00521	0.00500	0.00501	0.00495	0.00463	0.00449	0.00470	0.00684*
	(0.00502)	(0.00449)	(0.00445)	(0.00456)	(0.00422)	(0.00499)	(0.00510)	(0.00385)
Morroc_trend	0.00517	0.00496	0.00497	0.00491	0.00459	0.00447	0.00467	0.00673*
	(0.00501)	(0.00450)	(0.00446)	(0.00457)	(0.00423)	(0.00498)	(0.00509)	(0.00385)
Tunus_trend	0.00516	0.00495	0.00495	0.00490	0.00458	0.00445	0.00465	0.00675*
	(0.00501)	(0.00450)	(0.00446)	(0.00457)	(0.00423)	(0.00498)	(0.00509)	(0.00385)
Constant	-10.29	-9.880	-9.885	-9.764	-9.135	-8.887	-9.293	-13.22
	(10.05)	(9.028)	(8.946)	(9.168)	(8.476)	(9.996)	(10.22)	(7.768)
Observations	85	85	85	85	85	85	85	85
R-squared	0.364	0.373	0.373	0.374	0.377	0.403	0.423	0.499

6.3.3. Post-Estimation Tests

6.3.3.1. Unit Root Test For Error Terms (Level)

Table 6.13: Unit Root Test for Residual

Variable	**LLC Test** Ho: Panels contain unit roots	**Breitung Test** Ho: Panels contain unit roots	**Hadri LM Test** Ho: All panels are stationary	**Pearsan test (xtcips)** Ho: non-stationary ($T_{cips} > T_{critical}$)	
				T cips	T critical 1%
Residual	0.0083	0.0028	0.0290	-4.236	-3.2

6.3.3.2. Normlity Tests for Error Term

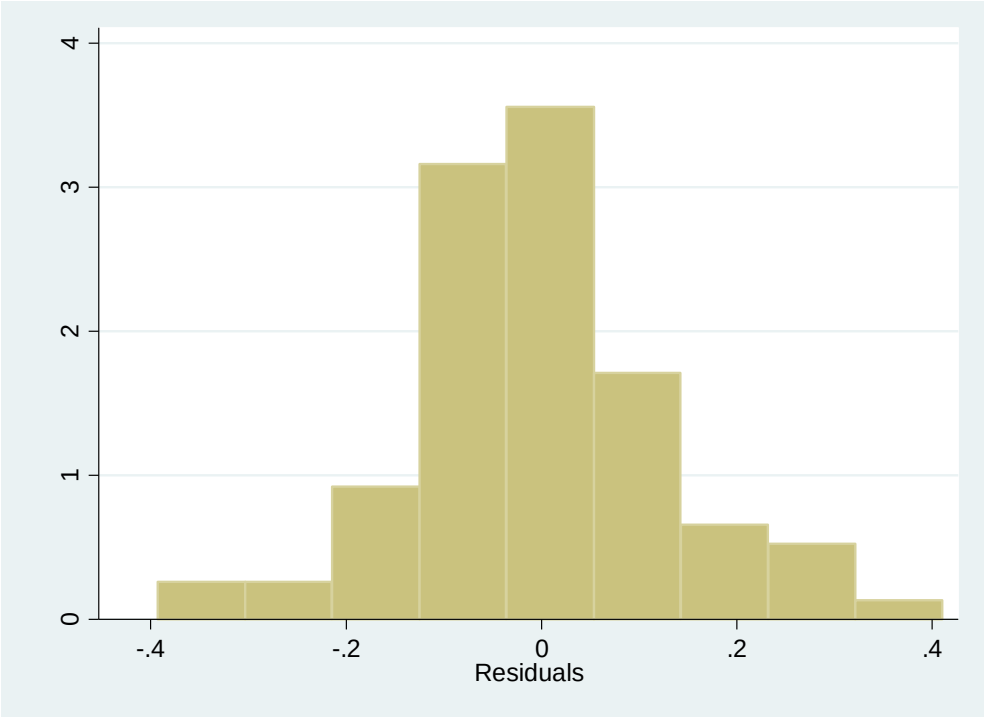


Figure 6.1: Histogram normality test for residual.

- Shapiro-Wilk W normality test for residuals : P- value =0.023
- Test for multivariate normality

Table 6.14: Result of Multivariate Normality for Residual.

Maria skewness	P-value = 0.5877
Maria kurtosis	P- value = 0.5696
Henze-Zirkler	P- value = 0.5345
Doornik-Hansen	P- value = 0.4530

6.3.3.3. Robustness Test

The primary aim of this check to examine how specific "core" regression coefficient estimates behave when the regression specification is modified in some way. Typically, by adding or removing regressors. The robustness check is necessary for valid causal inference, and in that the coefficients of the critical core variables should be insensitive to adding or dropping variables under appropriate conditions White and Lu, (2010). The decision rule states that if the signs and magnitude of coefficient do not change much (it is taken to be evidence that these coefficients are robust). And if the sign and magnitude of the estimated regression coefficient are also plausible. This is commonly taken as evidence that the estimated regression coefficients can be reliably interpreted as the true causal effects of the associated regressors, and with all that this may imply for policy analysis and economic insight. In our estimation after checking the robustness of the model, and through replacing the variables, with their alternatives, the signs and magnitude of the coefficient for core variables do not change.

Table 6.15: Robustness check (I) with Oil supply as alternative measure of Natural Resources.

	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Δ InvstAgrem	0.00327	0.00463*	0.00486**	0.00439**	0.00410*	0.00404	0.00386	0.00362
	(0.00281)	(0.00249)	(0.00208)	(0.00185)	(0.00222)	(0.00253)	(0.00278)	(0.00264)
Δ InvstFree		0.0105**	0.0108**	0.00840**	0.00692**	0.00698**	0.00666*	0.00668*
		(0.00431)	(0.00399)	(0.00303)	(0.00300)	(0.00294)	(0.00315)	(0.00337)
Δ LnMarket			0.0300	0.0280	0.0133	0.0130	0.0108	0.00655
			(0.142)	(0.137)	(0.133)	(0.136)	(0.137)	(0.139)
Δ TradOpen			0.00504**	0.00415***	0.00320**	0.00335**	0.00318**	0.00318**
			(0.00180)	(0.00139)	(0.00130)	(0.00135)	(0.00134)	(0.00137)
Δ GCF				0.0300**	0.0330**	0.0333**	0.0326**	0.0325**
				(0.0110)	(0.0119)	(0.0123)	(0.0122)	(0.0120)
Inflation(ΔCPI)					0.00463	0.00475	0.00477	0.00482
					(0.00296)	(0.00294)	(0.00302)	(0.00295)
Δ Fxstable								0.0446
								(0.0521)
Δ Corrup						-0.0268	-0.0362	-0.0379
						(0.0173)	(0.0218)	(0.0243)
Δ Reqgu Q							0.106	0.130
							(0.0715)	(0.0845)
Δ Political							0.102	0.104
							(0.0985)	(0.102)
Δdlnoilq	0.0561***	0.0359*	0.0128	0.0252	0.0305	0.0313	0.0305	0.0313
	(0.0179)	(0.0203)	(0.0168)	(0.0185)	(0.0185)	(0.0195)	(0.0201)	(0.0204)
Alg_trend	0.00347	0.00334	0.00509	0.00519	0.00435	0.00400	0.00458	0.00448
	(0.00669)	(0.00631)	(0.00560)	(0.00452)	(0.00428)	(0.00412)	(0.00452)	(0.00457)
Egypt_trend	0.00344	0.00331	0.00506	0.00517	0.00433	0.00398	0.00456	0.00447
	(0.00669)	(0.00630)	(0.00560)	(0.00451)	(0.00428)	(0.00411)	(0.00452)	(0.00456)
Libya_trend	0.00349	0.00336	0.00511	0.00521	0.00436	0.00401	0.00459	0.00449
	(0.00668)	(0.00629)	(0.00559)	(0.00450)	(0.00427)	(0.00411)	(0.00451)	(0.00456)
Morroc_trend	0.00346	0.00333	0.00507	0.00517	0.00435	0.00400	0.00458	0.00448
	(0.00669)	(0.00631)	(0.00561)	(0.00451)	(0.00428)	(0.00412)	(0.00452)	(0.00456)
Tunus_trend	0.00343	0.00330	0.00505	0.00516	0.00433	0.00398	0.00456	0.00446
	(0.00668)	(0.00630)	(0.00560)	(0.00451)	(0.00427)	(0.00411)	(0.00451)	(0.00456)
Constant	-6.814	-6.559	-10.07	-10.29	-8.644	-7.943	-9.101	-8.907
	(13.40)	(12.64)	(11.23)	(9.046)	(8.577)	(8.255)	(9.061)	(9.156)
Observations	85	85	85	85	85	85	85	85
R-squared	0.094	0.136	0.228	0.365	0.398	0.402	0.408	0.411
Number of groups	5	5	5	5	5	5	5	5

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 6.16: Robustness check (I) with Government Effectiveness as alternative measure of corruption.

	(1)	**(3)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**
Δ InvstAgrem	0.00515**	0.00530**	0.00505**	0.00469**	0.00462**	0.00474**	0.00475**
	(0.00229)	(0.00223)	(0.00201)	(0.00174)	(0.00163)	(0.00178)	(0.00182)
Δ InvstFree	0.0117**	0.0113**	0.0112***	0.00915***	0.00919***	0.00921***	0.00923***
	(0.00425)	(0.00408)	(0.00379)	(0.00296)	(0.00310)	(0.00308)	(0.00299)
Δ LnMarket		0.204	0.0473	0.0603	0.0597	0.0633	0.0627
		(0.126)	(0.134)	(0.126)	(0.127)	(0.129)	(0.130)
Δ TradOpen			0.00496**	0.00403***	0.00404***	0.00396**	0.00398**
			(0.00176)	(0.00137)	(0.00138)	(0.00143)	(0.00164)
Δ GCF				0.0297**	0.0297**	0.0295**	0.0295**
				(0.0108)	(0.0108)	(0.0109)	(0.0110)
Δ Fxstable					0.0162	0.0157	0.0157
					(0.0456)	(0.0450)	(0.0450)
Δ Political						0.0510	0.0488
						(0.0708)	(0.0703)
Natural dum							-0.00380
							(0.0514)
ΔGoveff	-9.26e-10	-9.82e-10	-3.02e-10	-2.97e-10	-2.46e-10	-2.68e-10	-2.66e-10
	(7.19e-10)	(7.26e-10)	(6.25e-10)	(4.13e-10)	(3.51e-10)	(3.82e-10)	(3.83e-10)
Alg_trend	0.00341	0.00416	0.00514	0.00527	0.00521	0.00537	0.00543
	(0.00623)	(0.00615)	(0.00558)	(0.00446)	(0.00452)	(0.00472)	(0.00544)
Egypt_trend	0.00338	0.00413	0.00511	0.00525	0.00519	0.00535	0.00541
	(0.00623)	(0.00615)	(0.00558)	(0.00445)	(0.00451)	(0.00472)	(0.00542)
Libya_trend	0.00344	0.00419	0.00517	0.00529	0.00523	0.00539	0.00545
	(0.00622)	(0.00614)	(0.00557)	(0.00444)	(0.00450)	(0.00471)	(0.00542)
Morroc_trend	0.00340	0.00414	0.00512	0.00525	0.00519	0.00535	0.00541
	(0.00624)	(0.00616)	(0.00558)	(0.00446)	(0.00452)	(0.00472)	(0.00542)
Tunus_trend	0.00338	0.00412	0.00510	0.00524	0.00518	0.00534	0.00540
	(0.00623)	(0.00615)	(0.00558)	(0.00445)	(0.00451)	(0.00472)	(0.00542)
Constant	-6.715	-8.220	-10.19	-10.45	-10.33	-10.66	-10.78
	(12.49)	(12.33)	(11.18)	(8.928)	(9.056)	(9.467)	(10.86)
Observations	85	85	85	85	85	85	85
R-squared	0.131	0.166	0.228	0.362	0.362	0.363	0.365
Number of groups	5	5	5	5	5	5	5

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 6.17: Robustness check (III) panel model with lagged variables.

	(1)	(2)	(3)	(4)	(4)	(5)	(6)	(7)	(8)	(9)
Δ InvstAgrem	0.00501**	0.00505**	0.00480**	0.00451**	0.00446**	0.00424*	0.00420*	0.00376	0.00383	0.00385
	(0.00226)	(0.00225)	(0.00193)	(0.00171)	(0.00161)	(0.00208)	(0.00234)	(0.00239)	(0.00245)	(0.00243)
Δ InvstFree	0.0110**	0.0109**	0.0109***	0.00881***	0.00886**	0.00763**	0.00773**	0.00726**	0.00707**	0.00693**
	(0.00402)	(0.00398)	(0.00370)	(0.00298)	(0.00313)	(0.00295)	(0.00292)	(0.00317)	(0.00308)	(0.00316)
Δ LnMarket		0.154	0.0745	0.0822	0.0819	0.0800	0.0807	0.0688	0.0717	0.0685
		(0.122)	(0.137)	(0.126)	(0.127)	(0.122)	(0.121)	(0.121)	(0.123)	(0.125)
Δ TradOpen			0.00649**	0.00497*	0.00498*	0.00433*	0.00447*	0.00441*	0.00414*	0.00430*
			(0.00303)	(0.00252)	(0.00256)	(0.00208)	(0.00221)	(0.00221)	(0.00229)	(0.00244)
Δ GCF				0.0310**	0.0310**	0.0336**	0.0338**	0.0334**	0.0328**	0.0329**
				(0.0114)	(0.0114)	(0.0122)	(0.0125)	(0.0125)	(0.0123)	(0.0123)
Inflation(ΔCPI)						0.00454	0.00467	0.00446	0.00458	0.00466
						(0.00288)	(0.00289)	(0.00291)	(0.00296)	(0.00303)
Δ Fxstable					0.0161					
					(0.0479)					
Δ Corrup							-0.0238	-0.0264	-0.0341	-0.0342
							(0.0168)	(0.0177)	(0.0222)	(0.0219)
Δ Reqgu Q									0.118	0.105
									(0.129)	(0.129)
Δ Political								0.117	0.135*	0.145*
								(0.0844)	(0.0767)	(0.0695)
Natural dum										-0.0318
										(0.0482)
Alg_trend	0.00550	0.00554	0.00582	0.00575	0.00568	0.00456	0.00419	0.00475	0.00536	0.00590
	(0.00697)	(0.00681)	(0.00596)	(0.00452)	(0.00461)	(0.00433)	(0.00417)	(0.00415)	(0.00475)	(0.00545)
Egypt_trend	0.00546	0.00551	0.00579	0.00573	0.00565	0.00453	0.00417	0.00473	0.00534	0.00587
	(0.00697)	(0.00681)	(0.00596)	(0.00451)	(0.00460)	(0.00432)	(0.00416)	(0.00415)	(0.00475)	(0.00544)
Libya_trend	0.00552	0.00557	0.00584	0.00576	0.00569	0.00456	0.00419	0.00475	0.00536	0.00590
	(0.00696)	(0.00680)	(0.00596)	(0.00450)	(0.00459)	(0.00432)	(0.00416)	(0.00415)	(0.00475)	(0.00544)
Morroc_trend	0.00548	0.00552	0.00580	0.00573	0.00565	0.00455	0.00419	0.00474	0.00535	0.00588
	(0.00698)	(0.00681)	(0.00597)	(0.00452)	(0.00461)	(0.00433)	(0.00417)	(0.00416)	(0.00476)	(0.00544)
Tunus_trend	0.00546	0.00550	0.00578	0.00572	0.00564	0.00453	0.00417	0.00473	0.00534	0.00586
	(0.00697)	(0.00681)	(0.00596)	(0.00451)	(0.00460)	(0.00432)	(0.00416)	(0.00415)	(0.00475)	(0.00543)
Constant	-10.89	-10.98	-11.55	-11.41	-11.27	-9.058	-8.329	-9.444	-10.67	-11.72
	(13.97)	(13.64)	(11.95)	(9.056)	(9.238)	(8.676)	(8.355)	(8.331)	(9.543)	(10.90)
Observations	80	80	80	80	80	80	80	80	80	80
R-squared	0.143	0.158	0.227	0.368	0.368	0.400	0.403	0.406	0.410	0.412

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

6.4. EMPIRICAL RESULTS

The Purpose of this analysis is to test the effect of investment policies and determinants of FDI inflows in North Africa region. Before the running the model, we tested relevant variables to ensure the validity of the results. According to Variance Inflation Factor (VIF) test, which is used to examine the correlation between variables. Table 6.3 displays that none of the variables are highly correlated where Mean VIF is 1.24 Regarding Unit root test of stationarity of the variables that are used in the model. Table 6.6 shows that based on the LLC test. Breitung, Hadri LM test, and Pearsan test all of the variables are stationarity at first differences. Hausman test favored the random effects (P-value 0.9899) over the fixed effects estimations. To test the validity and reliability of the model, we examined the random effect model of heteroscedasticity, serial autocorrelation, and cross-sectional dependence. Regarding reviewing of heteroscedasticity in the model, the result of Breusch-Pagan test, Table 6.7 displays that the p-value is 0,240 which indicate that there is no heteroscedasticity. Based on the result of Wooldridge test for autocorrelation, which indicated that the Prob > F = 0.1165. Hence, our model is not affected by the first-order autocorrelation. Moreover, According to Freidman test of cross-sectional independence, the p-value is 0.0020, and this amount is smaller than 0.05. Therefore, we reject a null hypothesis, which means that there is cross-sectional dependence. Based on Hoechle (2007), if there is cross-sectional dependence, he suggested to use the command xtscc, and this command produced Driscoll and Kraay (1998) standard errors for coefficients estimated.

The results of Tables from 6.8 to 6.17 show that the coefficient of investment agreements that were signed by the host country is positive and significant with FDI inflows at 10 % level (when included the country-specific time trend effect). This indicates that signing bilateral, regional and double taxation agreements may attract more FDI to North Africa countries, where these agreement provide deep integration of North African nations globally. This finding rhymes with Cardamone and Scoppola (2012), Berger et al., (2013), Buthe and Milner (2014). Regarding investment freedom, the results point out that the business freedom procedures are positive and significant at 1 % levels, which implies that foreign firms prefer to expand their

activities within a less restrictive business environment. Also, enhancement of investment conditions may attract more foreign investors to North Africa region. This result matches with Mina (2007, 2012), Morris and Aziz (2011), Kang and Jiang (2012).

The coefficient of trade openness is positive and significant at 5 % level with a change of FDI inflows. Therefore, promoting integration into global trade, and country liberalization toward international trade leads to more polarization of FDI to that region, and foreign investors prefer investing in countries with sizeable trade volume. We can find that these findings are in line with the empirical results of Bilel And Mouldi(2011), Srinivasan (2011) and Guris and Ozgor (2015) who concluded that the countries with more trade liberalization could attract more FDI inflows.

With regard to natural resources effect, the results showed that natural resources dummy has a negative and insignificant relationship with a change of FDI inflows. This could be the result of state control of the oil sector especially in Algeria and Libya Moreover, the insignificant relationship of natural resources might be a result of considerable variation in North African countries concerning natural resources reserves. However, this should not be necessarily interpreted as evidence the absence of a relationship between this and other measurements and economic outcomes. This result is similar to that of Mina (2007), Van der and Poelhekke (2009) Aziz and Mishra (2016) who pointed out that in the MENA countries the fewer resource countries may have, the more successful in attracting FDI they get compared to those resource-rich nations. Whereas this result contrasts with Rogmans and Ebbers (2013), who found a positive relationship between natural resources and FDI attractiveness.

The domestic investment variables relation is positive and significant, which implies that enhancing the volume of local investment including constructing the roads and railways, building the hospitals and schools as well as houses and industrial buildings reflected positively on the FDI in North Africa countries.T his result comes in with Pradhan and Bagchi (2013), Feeny et al., (2014), Brahim and Rachdi (2014) findings.

Regarding institutional quality, the investment profile variable is positive and significant; this finding proves that the investment conditions attract more foreign firms in this region. These results are in line with the Eicher et al. (2012), Mina (2012).

However, the findings illustrate that corruption in North Africa countries has a negative but insignificant coefficient. This might be due to insufficient variation in the data to detect a statistical relationship. This result is congruent with Wei (2000), Habib and Zurawicki (2002), Kwok and Tadesse (2006), Sayan (2009). However, market size is found to have an insignificant relationship with the growth of FDI. This is likely because this region is weak in terms market size, or it might be the result of insufficient variation in the data to detect a statistical relationship. About macroeconomic stability, the results indicate that the inflation and Exchange Rate stability have an insignificant effect on the growth of inward FDI in this region the result is in accordance with Zhang and Daly (2011).

7. DETERMINANTS OF BILATERAL FDI WITH NORTH AFRICA REGION: AN ANALYSIS WITH GRAVITY MODEL

This chapter employs cross section data, using a 10-years average for net FDI inflows in Five North African countries (host countries) over the period 2001-2010. This estimation aims to examine the determinants of bilateral FDI inflows in North Africa using a sample of 25 partner countries. The gravity model has been used to estimate bilateral FDI, this model was initially developed to investigate the determinants of international trade flow between nations and then improved to examine the determinants of bilateral investments between countries. The use of the gravity model in this study is particularly important since it provides a sufficient understanding of geographical and cultural factors role determining the level of FDI within the region. Furthermore, the study also aims at investigating whether the bilateral trade between home and host countries can increase the FDI inflows between them or not. The gravity model takes in consideration factors originating in the home and host countries to affect bilateral trade or foreign investment flows between countries.

Since 1960s many studies have been carried out using this model including Poyhonen (1963) and Linnemann (1966), these studies concluded that the distance between countries affects negatively on the bilateral trade, while the GDP of trading countries had positively affected exports. Consequently, the flow of bilateral trade can be described by the following specification.

$$Ex_{ij} = \beta_0(GDP_i)\beta_1(GDP_j)\beta_2(D_{ij})\beta_3(A_{ij})\beta_4 u_{ij}.$$

Where, EX_{ij} is the value of trade from country $_i$ to country $_j$, GDP $_i$, GDP_j is the value of GDP for countries $_i$ and $_j$, D_{ij} is the geographical distance between the economic center of countries $_i$ and $_j$, A_{ij} is other factors that aid or resist the trade flow between countries i and $_j$, and u_{ij} is error term.

Theoretically, using the gravity model provides an explanation for different FDI theories. For example, by employing gravity model some justifications can be provided for the Dunning eclectic paradigm (Market -seeking FDI) where most of the previous studies regarding FDI determinants have included GDP for home and host countries as

explanatory factors to investigate the relationship between FDI and size of the market in the host and home countries.

Moreover, the gravity model gives a realistic explanation for the monopolistic competition theory. therefore, identical countries trade differentiated goods as consumers have various preferences Krugman (1980), Bergstrand (1985). Thus, the firms expand theirs activates abroad to satisfy the needs of consumer preferences and to enhance their monopolistic power.

Many studies include Antonucci and Manzocchi (2006), Ravishankar and Stack (2014), Ekanayake et al. (2010) applied gravity model to predict the volume of integration of trade and the geographical pattern of trade between countries. It has been concluded that the GDP and distance between countries have affected bilateral trade significantly.

Meanwhile, several studies such as Grosse and Trevino (1996), De Mello-Sampayo (2009), Petri, (2012), Paniagua and Sapena (2014) used gravity model to analyze factors that influence the pattern of bilateral FDI between countries. Most of these studies indicated that the market size is the main positive significant factor that affects FDI between countries, while distance between home and host countries is the primary negative considerable element which affects FDI flows between countries.

In the economic literature on bilateral FDI determinants, there are only few studies have investigated determinants of bilateral FDI within MENA region, and most of the previous empirical studies were conducted on a sample of MENA countries FDI inflows. Furthermore, none of these studies applied the gravity model mainly in North Africa region. The main reason behind this scarcity in the number of studies on Bilateral FDI in MENA region can be attributed to lack of bilateral FDI data available on this region. However, in recent years, data on MENA countries become available for researchers and reachable through websites. (The Arab Investment and Export Credit Guarantee Corporation, Organization for economic and co-operation and development (OECD), UNCTAD, Bilateral FDI Statistics. And CEPII research and experts on the world economy).

With regard to previous studies in MENA region, several studies including Al-Atrash and Yousef (2000), Bolbol and Fatheldin (2005), Boughanmi (2008) investigated the

determinants of bilateral trade in Arab countries. results revealed that the material Arab transactions are still weak compared to other regions. Furthermore, they confirmed that the distance affects the trade value negatively between Arab countries and the rest of world.

7.1. DATA AND VARIABLES

This study used the bilateral FDI inflows data between Five North African countries, namely (Algeria, Egypt, Libya, Morocco, and Tunisia) with 25 investment partner countries which are (France, Italy, UK, Germany, Spain, France, Switzerland, Turkey, Holland, Belgium, Canada, China, South Korea, Singapore, USA, Egypt, Emirates, Qatar, Libya, Kuwait, Bahrain, Tunisia, Morocco, Algeria, and Saudi Arabia).

The dependent variable used in this study is the logarithm of net FDI inflows bilateral FDI inflows. While the argument selection of independent variables summarized in the following section.

7.1.1. Economic Size

Based on the literature of the gravity model, economic size of host and home countries which measured by the GDP is considered as one of the main variables that affect the volume of FDI between nations. The argument behind it is that GDP of the host country reflect its capacity to absorb the new foreign investment, while the GDP of the home country present the potential of the home country to expand their investment and activities abroad (Petri, 2012, Paniagua and Sapena, 2014). In this estimation, the study will use the natural logarithm of real GDP for host and home countries as proxy for economic size. The expected sign of the economic size of both sender and receiver FDI countries is to be positive.

7.1.2. Geographical and Culture Factors

According to the gravity model, the geographic distance is seen as an important determinant of investment choice activities, where the increase in physical distance between home and host country tend to raise the transportation cost as well as

complicating access to information between them. Therefore, the greater the geographic distance between the partners is, the higher will be the cost of investment activities. Hence, this study used the natural logarithm of bilateral physical distance in KM between home and host country (from CEPII database), and the expected sign of the effect bilaterial distance between them is negative (Aggarwal et al. 2012, Aleksynska and Havrylchyk ,2013, Kahouli and Maktouf, 2015).

Additionally, the study examined the effect of common borders factor using dummy variable equal to one in countries share the same border or zero otherwise. The expected effect of common borders is positive. In other words, the existence of a common culture such as language and religion between home and host country can lead to reduce the information cost and ease communication between them. this study used the dummy variable equal one in both countries that share the same official or second language. Thus, the expected sign of common language is positive.

7.1.3. Bilateral Trade

Several studies including Liu et al., (200), Carstensen and Toubal (2004), Aggarwal et al. (2012) argued that the more bilateral trade relations with investment partners, the higher the bilateral FDI will be between them. Within that, the bilateral trade is measured by a total of bilateral export between home and host country as proportion to their respective sizes, measured by their GDP based on the following equation:

$$BT\ \mathrm{ij} = \frac{(\mathrm{Xi}) + (\mathrm{xj})}{\mathrm{GDPi} + \mathrm{GDPj}}$$

Where the BT_{ij} is the value of bilateral trade from country $_i$ to country $_j$,GDP $_i$, GDP_j is the value of GDP for countries $_i$ and $_j$, X_i is the total of export that flow to $_i$ country from $_j$ country, X_j is the total of export that flow to $_j$ country form i country .

This study used the CEPII database (which based mainly on IMF data) to measure the bilateral export between countries. The expected sign is to be positive, where the greater bilateral trade should enhance FDI between countries.

7.1.4. Inflation Rate

Due to the fact that higher inflation causes a depreciation of the host country's currency against the home currency, which will likely increase FDI into host country and acquiring assets activities becomes cheaper. However, the depreciation of currency negatively affects the active foreign investors at the time of repatriation of their profits, where international firm's profits undergo to erosion. This study employs the annual percentage change in Consumer Price Index (CPI) as the proxy for the inflation rate. The expected sign of the estimated coefficient of inflation is negative.

7.1.5. Financial Development

The development of financial system in the host country also represents another important factor that can affect on the investor's decision, whereas having a well-developed financial system means a higher capacity to increase foreign capital productivity through allocating financial resources to projects with the highest rate of return and providing a comfortable channel to access to finance (Kaur et al., 2013). Furthermore, a well-developed financial market has the potential to ease information flow and reduce transaction costs, thereby attracting FDI inflow easily. (Ezeoha and Cattaneo, 2012). This study employed the domestic credit provided by the financial sector (% of GDP) in the host country as a proxy for financial development with a positive expected sign.

7.1.6. Bilateral Investment Treaties

Several studies put forward investment treaties as one of the important factors that attracting FDI, and the adoption of this type of agreements can be considered one of the elements of institutional reforms that have fostered the FDI inflows.

In this regard, BITs offer investors additional and higher standards of legal protection and guarantees for foreign investments than those provided under national laws. In this context, some studies, Grosse and Trevino (2005), Medvedev (2012), Buthe and Milner (2014) found a significant and positive relationship between the number of BITs signed and inward FDI. Similarly, Buss et al. (2010), Berger et al. (2013) investigated the influence of BITs on FDI attraction. It has been concluded that signing the bilateral

investment agreements leads to a reduction in gaps between countries, and enhancement of domestic reforms. Moreover, it helps to remove trade obstacles between countries, and the majority of these studies confirm the positive effect of bilateral investment treaties and foreign investment attractiveness. and hence the increase of FDI between countries through BITs is a strategic goal for most policymakers in developing countries. This study uses a dummy variable equals to one if both countries have a bilateral in force investment treaty or zero otherwise. The expected sign of the estimated coefficient of investment international agreements with FDI inflows is positive.

7.1.7. Human Capital Development

With regard to FDI attraction factors, the human capital plays a vital role in encouraging FDI into host country, where that the availability of skilled labor in the host country can affect the volume of FDI inflows directly. However, the lower wage nations with a weak human capital may fail to attract FDI. This means that multinational corporations will avoid investing, even if the wages of unskilled labor in the host country are meager due to insufficient human capital (Akin and Vlad, 2016). In the same context, the study of Feeny et al. (2014) considered the human capital as a cornerstone for absorbing foreign knowledge and thus is an important determinant to achieve positive FDI spillovers.

This study employs the human development index for the host countries to measure the human capital development. And the expected sign is positive.

Table 7.1: Data definition and Sources.

Variable	Description	Source
LnFDI	The natural logarithm of Net FDI inflows from country i to country j.	-The Arab Investment and Export Credit Guarantee Corporation -UNCTAD -OCED
LnGDP	Real gross domestic product for home and host country in US$ (Natural Log)	UNCTAD
Bilateral trade	Total of bilateral export between home and host country over the real GDP for both.	CEPII database, IMF UNCTAD
LnDistance	Natural logarithm of bilateral physical distance in KM between home and host country.	CEPII database
Common Language	A dummy variable equal to one if the home and host countries share the same (official or second) language or zero otherwise.	CEPII database
Common Border	A dummy variable equal to one if the home and host countries shar same border or zero otherwise	CEPII database
Colonial history	A dummy variable equal to one if the home and host countries have common colonial history or zero otherwise	CEPII database
BITs	A dummy variable equal to one if the home and host country have bilateral investment treaties or zero otherwise.	UNCTAD
Inflation	The annual percentage change in consumer price index (CPI)	World Bank, UNCTAD
Financial development	Domestic credit provided by financial sector (% GDP)	World Bank
Education	Human development index	HDI data

7.2. EMPIRICAL ESTIMATION

This study used a cross section data employing a 10-years average for net FDI inflows in Five North African countries (host countries) over the period 2001-2010. The specification of the regression model used in this study can be outlined as follows:

$$\text{Ln}FDI_{ij}=\alpha+\beta_1\text{LnGDP}_i+\beta_2\text{LnGDP}_j+\beta_3\text{LnDist}_{ij}+\beta_4\ \text{Bilat\_trade}_{ij}+\beta_5\ \text{Inv\_agr}_{ij}+\beta_6\text{Comlang}_{ij}+\beta_7\text{Combord}_{ij}+\beta_8\text{Colohist}_{ij}+\beta_6\text{Fin\_dev}_j+\beta_7\text{Inflation}_j+\beta_8\text{hdi}_j+\gamma t$$

Where:

LnFDI_{ij}: is the log of FDI flows in millions of US$ from country $_i$ (home) to country $_j$ (host)

LnGDP$_i$: is the log of the real GDP of country$_i$.

LnGDP$_j$: is the log of the real GDP of country$_j$.

$LnDist_{ij}$: is the log of geographical distance in KM between the countries $_i$ and $_j$.

$Bilat\_trade_{ij}$: the sum of bilateral exports country $_i$ and $_j$ over sum of gdp_i and gdp_j.

Inv_agr_{ij}: is a dummy equal to one if countries $_i$ and $_j$ have a bilateral investment treaty agreements entered into force or zero otherwise.

$Comlang_{ij}$: is a dummy equal to one if countries $_i$ and $_j$ share the same official or second language or zero otherwise

$Combord_{ij}$: is a dummy equal to one if countries $_i$ and $_j$ share the same borders or zero otherwise.

$Colohist_{ij}$: is a dummy equal to one if countries $_i$ and $_j$ have a common colonial history or zero otherwise.

Fin_dev_j : the domestic credit provided by financial sector (% GDP) of $country_j$

Inflation $_j$: the annual percentage change in consumer price index (CPI) of $country_j$

HDI_j: the human development index of $country_j$

7.2.1. Summary Statistics, Correlation and Stationarity Tests

Table 7.2 illustrates descriptive statistics of the variables used in this study. The average value of FDI logs is 9.4 percent and its standard deviation is 7.80 percent. GDP of the home country is the variable with highest mean and standard deviation among the independent variables. The average value of GDP of home country is 27.1 percent and its standard deviation is 1.72 percent.

Table 7.2: Summary statistics of the variables.

Variables	Obs.	Mean	Std. Dev.	Min	Max
$LnFDI_{ji}$	108	9.361685	1.331969	5.800598	11.32531
$LnGDP_{i}$	108	27.05685	1.727539	23.7495	30.29225
$LnGDP_{j}$	108	25.16153	0.569536	24.32563	25.86253
$LnDist_{ij}$	108	8.009846	0.8150635	6.26845	9.378292
$Bilat\_trade_{ij}$	108	0.000788	0.0010604	0.000136	0.0065221
Inv_agr_{ij}	108	0.611111	0.4897745	0	1
$Comlang_{ij}$	108	0.5092593	0.5022449	0	1
$Combord_{ij}$	108	0.083333	0.2776739	0	1
$Colohist_{ij}$	108	0.0740741	0.2631225	0	1
$Findev_{j}$	108	38.2	20.5623	10.7	60.8
$Inflation_{j}$	108	6.627315	3.647288	2.15	13.11
HDI_{j}	108	.6653704	0.556965	0.58	0.75

7.2.2. Multicollinearity Test

Table 7.3: Partial correlation VIF test.

Variable|	VIF	1/VIF
$Findev_{j}$	2.61	0.383493
$inflation_{j}$	2.23	0.448763
$LnGDP_{i}$	2.08	0.480127
$LnDist_{ij}$	1.93	0.518946
$Comlang_{ij}$	1.93	0.519331
$Bilat\_trade_{ij}$	1.84	0.542156
$Combord_{ij}$	1.64	0.610921
Inv_agr_{ij}	1.43	0.699383
$Lngdp_{j}$	1.34	0.746253
$Colohist_{ij}$	1.24	0.804537
	Mean VIF 1.83	

Tables 7.3 and 7.4 present that none of the variables correlates highly to each other, where the mean Variance Inflation Factor (VIF) of 1.83. Furthermore, table7.4 displays correlation matrix of the variables used in this study. As can be seen from the table, the correlations between the variables in our sample do not cause any serious multicollinearity problem.

Table 7.4: The correlation matrix between variable.

Variable	$LnFDI_{ji}$	$Lngdp_j$	$Lngdp_i$	$Lndist_{ij}$	$Bilat\_trad_{ij}$	Inv_agr_{ij}	$Combord_{ij}$	$Comlang_{ij}$	$Colohist_{ij}$	$Fin\text{-}dev_j$	$Inflation_j$	HDI_j	$Trad\_open_j$
$LnFDI_{ji}$	1												
$Lngdp_j$	0.2065	1											
$Lngdp_i$	0.3213	0.0126	1										
$Lndist_{ij}$	-0.1635	0.0698	0.2899	1									
$Bilat\_trad_{ij}$	0.1081	-0.0764	-0.1869	-0.5779	1								
Inv_agr_{ij}	0.2850	0.1689	0.1839	-0.1920	-0.0058	1							
$Combord_{ij}$	-0.1990	-0.0478	-0.3656	-0.4425	0.4645	-0.1718	1						
$Comlang_{ij}$	-0.0799	-0.0654	-0.6678	-0.2660	0.1166	-0.01372	0.2960	1					
$Colohist_{ij}$	0.1738	-0.0300	0.116	-0.2189	0.2897	0.1531	-0.0853	-0.0052	1				
$Fin\text{-}dev_j$	0.0538	-0.3789	-0.0153	0.0155	-0.0781	0.2387	-0.0423	-0.0287	-0.0067	1			
$Inflation_j$	-0.0239	0.3107	0.0067	-0.0032	0.0984	-0.1156	0.0162	-0.0425	0.0699	-0.6229	1		
HDI_j	-0.1226	-0.2263	0.0114	-0.0848	0.1476	-0.1901	0.0432	0.0049	0.0683	-0.5883	0.7363	1	
Trad_open	-0.2307	-0.9418	-0.0007	-0.874	0.1186	-0.2370	0.0615	0.0671	0.0488	0.0794	-0.0211	0.529	1

Table 7.5: Cross -section estimation results for (10- years average).

variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
lnGDPhost	0.634**	0.694***	0.732***	0.719***	0.720***	0.737***	0.980***	0.976***	0.941***	0.989**
	(0.274)	(0.260)	(0.257)	(0.256)	(0.256)	(0.257)	(0.313)	(0.313)	(0.312)	(0.461)
lnGDPhom	0.329***	0.417***	0.571***	0.514***	0.508***	0.519***	0.542***	0.546***	0.538***	0.538***
	(0.0932)	(0.0965)	(0.125)	(0.129)	(0.128)	(0.126)	(0.130)	(0.127)	(0.130)	(0.131)
lnDist		-0.658***	-0.620***	-0.813***	-0.791***	-0.656***	-0.637***	-0.640***	-0.608***	-0.606***
		(0.192)	(0.189)	(0.188)	(0.193)	(0.221)	(0.218)	(0.218)	(0.227)	(0.226)
Com_lang			0.819**	0.858**	0.847**	0.918**	1.002**	1.019***	1.018***	1.019**
			(0.411)	(0.402)	(0.400)	(0.403)	(0.387)	(0.387)	(0.387)	(0.389)
Com_bordr				-1.537***	-1.501**	-1.817***	-1.799***	-1.797***	-1.749***	-1.746***
				(0.581)	(0.590)	(0.593)	(0.580)	(0.575)	(0.547)	(0.550)
Col_hist					0.198	-0.0466	-0.0820	-0.101	-0.113	-0.110
					(0.644)	(0.660)	(0.575)	(0.582)	(0.585)	(0.586)
Bilat_trade						257.0*	307.1**	304.6**	308.4**	308.5**
						(139.2)	(126.9)	(126.9)	(128.3)	(129.3)
Fin_dev							0.0171**	0.0195*	0.0182*	0.0189
							(0.00840)	(0.0111)	(0.0108)	(0.0122)
Inflation								0.0191	0.0173	0.00813
								(0.0620)	(0.0620)	(0.0837)
Inv_agr									0.131	0.126
									(0.302)	(0.303)
HDI										0.866
										(5.442)
Constant	-7.724	-6.364	-12.20	-8.689	-8.736	-10.71	-18.35*	-18.56*	-17.74*	-19.51
	(7.103)	(6.956)	(7.688)	(7.847)	(7.810)	(7.946)	(9.530)	(9.553)	(9.560)	(15.43)
Obs.	108	108	108	108	108	108	108	108	108	108
R-squared	0.144	0.224	0.253	0.296	0.296	0.309	0.342	0.342	0.343	0.343

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 7.5 illustrates the regression result for determinants of bilateral FDI in North Africa countries using cross-section effects (an average of 10 years 2001-2010) gravity model. The results from the main model came in line with most of the traditional gravity model variables in terms of significance and expected signs.

In the period between 2001 and 2010, the GDP of both North Africa countries (host countries) and its investment partners (home countries) has a positive and significant impact on the bilateral FDI. this result supports the that idea large GDP in host country reflects its capacity to absorb new foreign investments. This because of larger GDP in host countries current market and the increasing expected market size would create chances for increased profit, and this will raise levels of domestic and foreign investment. Thus it would lead to increase the level of capital inflows. Within that, this expected result regarding GDP of host and home countries agreed with the majority of gravity model studies.

Regarding the geographical and cultural factors, the result revealed that the bilateral distance between host and home countries has a negative impact on FDI. This result comes in line with the location theory, which dictates that the physical distance between home and host country tend to raise the transportation cost as well as complicating access to information between them. Whereas having a common border has a negative and significant impact on bilateral FDI that's due to conflicts on the border between the North African countries. For example, there is border problem between Algeria and Morocco, and there were not good relationships between Egypt and Libya during Gaddafi regime.

Simultaneously, having a common language between host and home countries was indicated to have a significant and positive impact on bilateral FDI between nations. These results agree with the study of Kahouli and Maktouf (2015).

The study also showed that more bilateral trade relationship between host and home countries tends to increase the bilateral FDI where the increase of the volume of bilateral trade between countries shows a degree of harmony in the relations between the states and reflects the level of consistency in the transactions between the parties. In this regard, the results indicated that the bilateral trade between countries has a positive and significant impact on the bilateral FDI. This finding is compatible with Lien and Selmier (2012). From another side, the results indicated that the coefficient of financial development with bilateral FDI is positive and significant, where the development of the

financial system in host country reduces transaction costs and ease information flow, and hence attract more FDI. This result agrees with Ezeoha and Cattaneo(2012).

While the investment treaties that have been signed by the government of host countries, and the inflation rate in the period of 2001to 2010 in average do not have a significant impact on FDI attraction.

Table 7.6: Cross -section estimation results (Fixed effect of home countries).

	(1)		(2)		(3)
	MENA		Europ		Asia
lnGDPhost	0.971***	lnGDPhost	0.895***	lnGDPhost	0.810***
	(0.269)		(0.308)		(0.289)
lnGDPhom	0.659***	lnGDPhom	0.398**	lnGDPhom	0.395***
	(0.190)		(0.170)		(0.148)
LnDist	-0.949***	LnDist	0.00885	LnDist	0.135
	(0.198)		(0.309)		(0.323)
Com_lang	0.360	com_lang	1.275***	Com_lang	-0.0687
	(0.488)		(0.480)		(0.473)
Com_bordr	-0.303	Com_bordr	-1.098**	Com_bordr	-1.346**
	(0.796)		(0.505)		(0.526)
Bilat_trade	334.7**	Bilat_trade	378.8***	Bilat_trade	464.4***
	(145.1)		(132.5)		(138.0)
Fin_dev	0.0236**	Fin_dev	0.0188*	Fin_dev	0.0165
	(0.00982)		(0.0105)		(0.0101)
Inflation	0.0111	Inflation	0.0296	Inflation	0.0111
	(0.0521)		(0.0612)		(0.0559)
Inv_agr	-0.00219	Inv_agr	0.0942	Inv_agr	0.0994
	(0.327)		(0.322)		(0.270)
Bahrain	1.141	Belgium	0.705	Turkey	-1.911***
	(0.998)		(1.019)		(0.424)
Saudi arabia	-0.0894	France	1.359*	Singapore	-3.022***
	(0.603)		(0.687)		(0.659)
Emirates	3.266***	Germany	0.997*	S. Korea	-2.188**
	(0.769)		(0.504)		(0.896)
Algeria	-2.821**	Holland	1.198***	Japan	-2.601***
	(1.080)		(0.320)		(0.671)
Egypt	0.277	Italy	1.103*	China	-2.014***
	(0.881)		(0.642)		(0.616)
Kuwait	2.131***	Spain	1.803***		
	(0.696)		(0.569)		
libya	-0.480	Switzerlad	0.250		
	(0.984)		(0.721)		
Morocco	-1.977	UK	2.415***		
	(1.227)		(0.570)		
Qatar	1.738**				
	(0.740)				
Tunisia	-0.847				
	(1.135)				
Turkey	-1.198**				
	(0.539)				
Constant	-19.11*	Constant	-18.47*	Constant	-15.55
	(9.839)		(9.558)		(9.681)
Obs.	108	Obs.	108	Obs.	108
R-squared	0.609	R-squared	0.474	R-squared	0.412

Table 7.7: Cross -section estimation results (Fixed effect of home countries) continued.

	(4)		(5)
	North America		All regions
lnGDPhost	0.983***	lnGDPhost	0.658**
	(0.303)		(0.259)
lnGDPhom	0.456***	lnGDPhom	0.490***
	(0.129)		(0.138)
LnDist	-0.612***	LnDist	0.301
	(0.225)		(0.322)
Com_lang	1.099***	Com_lang	-0.0957
	(0.371)		(0.416)
Com_bordr	-1.970***	Com_bordr	0.761
	(0.520)		(0.678)
Bilat_trade	336.7***	Bilat_trade	446.7***
	(114.8)		(118.3)
Fin_dev	0.0185*	Fin_dev	0.0132
	(0.0104)		(0.00941)
Inflation	0.00913	Inflation	-0.00794
	(0.0572)		(0.0542)
Inv_agr	0.127	Inv_agr	0.551**
	(0.282)		(0.268)
Canada	-1.350*	col_hist	0.413
	(0.767)		(0.556)
USA	2.051***	Gulf	2.367***
	(0.615)		(0.672)
		Asia	-1.066
			(0.735)
		Europ	1.506***
			(0.538)
		N.America	0.620
Constant	-16.60*	Constant	-17.19*
	(8.993)		(8.863)
Obs.	108	Obs.	108
R-squared	0.417	R-squared	0.563

Table 7.6 presents the fixed effect of home countries, in the Middle East countries, the results shows that Emirates, Kuwait, and Qatar are the most significant in terms of FDI in North Africa region compared to other countries in the sample. While from European partners, the findings reveal that most European countries that have been included in the sample are positively significant compared to other countries. (France, Italy, Germany, UK, Holland).

In terms of the regionally fixed effect, the findings indicated that the Gulf region and Europe region countries are the most significant investment effect in North Africa region compared to other investment partners.

7.3. SUMMARY OF RESULTS

This chapter examined the determinants of bilateral FDI between North Africa countries and a sample of 25 countries has been used from all over the world using a cross-section effects gravity model (average of 10 years). The results from the main gravity model indicate that FDI between North Africa and other countries was positively driven by the economic sizes of both home and host countries and negatively by the physical distance between them.

The results also show that the roles played by common language and bilateral trade are particularly relevant and their effects are shown to be highly positive and significant, suggesting that bilateral FDI flows tend to be larger between North Africa countries and other countries that have already large bilateral trade transactions. The study concluded that compared to other countries France, Emirates, Spain, and Kuwait are the most significant countries in in North Africa region in terms of FDI. In terms of the regionally fixed effect, the findings indicated that the Gulf region and Europe region countries are the most significant investment effect in North Africa region compared to other investment partners.

8. CONCLUSION

8.1. CONCLUDING REMARKS

In this chapter, the main findings of this thesis are summarized along with some investment policy implication and suggestions for future studies. The main objective of this research is to investigate the determinants of FDI inflows and to examine the role of investment policies have been adopted by governments in the North Africa countries to encourage inward FDI to North Africa. The research highlighted investment environment conditions in the last two decades in North Africa region by reviewing FDI inflows trends and main investment reforms and incentives.

Data analysis section of this thesis consists of three main chapters, in chapter five, we provide a general overview of foreign direct investment in North African countries, with detailed information about each state. the analysis includes the type of investment, sources, sectors, investment policies, and laws. In addition to business environment assessment, and main investment constraints in each country.

Based on the theoretical analysis in chapter six, the results revealed that foreign investments in North Africa region are still weak and in need of further reforms in several aspects. In this regard, we notice that FDI flows to this region is still slight compared to other areas. Moreover, this has been associated with an absence of real economic reforms, persistent political instability, lack of technological readiness, inadequate regulatory and institutional framework, unattractive FDI policies and incentives as well as financial restrictions with high corruption and bureaucracy.

After this descriptive analysis, we concluded that the main investment players in this region are divided into two group: first, are GCC countries, second are the countries that have a colonial history and common second language with the state. Within this chapter, main features of the investment environment in North Africa countries have been included as follow:

- Algeria

Investment environment in Algeria is still suffering from the absence of real economic reforms, at the same time absence economic diversification has been clearly noticed (oil and gas dominating 97% of export earnings, and foreign investments were mainly focused on oil sectors). Moreover, despite the abundant resource and high per capita GDP, the Algerian economy suffers from a high unemployment rate and the poverty rate is prevalent. With regard to education, the Algerian government has a low quality of the educational system, particularly at the primary level. The business environment still has some constraints in economic and investment expansion despite government attempts to enhance it by granting tax exemption to foreign investors. All these indicators prove that if Algerian government aims to attract more FDI and adopt the economic diversification plans, policymakers certainly need to devote their efforts and attention to activities and innovative approaches that will substantially improve the country's ability to polarize foreign investments.

- Egypt

In the Egyptian case, the investment circumstances are somehow different from other North African countries, especially in the last years due to political instability. In this framework, we found that the main barriers to doing business in Egypt are summarized in corruption, a high uncertainty of policies, and slow process of obtaining the opening licenses and customs procedures. Moreover, the instability and deterioration of macroeconomic indicators in the last five years is considered as one of the black holes that affect attraction of FDI to Egypt. We should also point out that a slow legislative system concerning complicated procedures and reaction is one of the pitfalls of the Egyptian government which still being struggled with.

- Libya

The Libyan performance related to investment improvements faces serious difficulties in different aspects. Hence, based on a descriptive analysis in chapter six, the quality of the educational system can be described as fragile, and investments are still suffering from poor infrastructure due to political instability and civil wars that took down a great deal of it. In addition to this, the rigidity of Libyan labor law, the internal conflict, and

widespread corruption led to worsening of the investment environment situation, where civil disturbances became the dominant feature in the society, and different armed groups are attempting to take over political institutions, economic resources, and rich geographical regions.

- Morocco

Regarding investment environment development in Morocco, their performance is relatively successful compared to other African and Arab countries, where Moroccan government achieved great success regarding the improvement of infrastructure, macroeconomic stability, and financial market development. Meanwhile, Moroccan government is still facing some struggles regarding the quality of educational system particularly at the primary level, corruption control as well as excessive government bureaucracy.

- Tunisia

Before the outbreak of the Tunisian revolution, the performance of the Tunisian government regarding attracting foreign investment was relatively good compared to other African and Arab counties. For example, Tunisia has achieved notable success regarding infrastructure improvement and education quality. However, due to the political turmoil's in 2011, educational system rank went down, and a result, the government entered a dark tunnel in terms of macroeconomic stability and development of the financial market.

The empirical investigation of this thesis was conducted in the chapter (6) (7). In chapter (6) we examined the role of investment policies, and determinant of FDI flows to North Africa countries using a panel data for the period of 1996-2013. In this context, FDI inwards to North Africa region has notably increased in the last twenty years but it still looks weak compared to other developing countries. The results of our model showed that signing bilateral and regional investments agreement have a positive and significant impact on FDI inflows to North Africa region. Including the ease of investment and business establishment procedures have also a positive impact on FDI attractiveness. Thus, the enhancement of investment conditions may attract more foreign investors to North Africa region. Furthermore, as expected the country liberalization toward

international trade leads to more polarization of FDI to that region. As for examining the effect of corruption on the growth of FDI inflow. the findings also illustrate that corruption in North Africa countries has a negative but insignificant coefficient. This might be attributed to insufficient variation in data used to detect a statistical relationship. Regarding the effect of market size, the findings show that the growth of real GDP doesn't have a strong statistical relationship with the growth of FDI.

The results also showed that the enhancement of the domestic investments could make the investment conditions in North Africa countries more attractive to foreign firms; therefore, policymaker in this region should pay attention for infrastructure investments and any kind of projects which may promote it.

For the purpose of enhancing our results, we applied gravity model to investigate the determinants of bilateral FDI between North Africa countries and other countries. In this framework, chapter (7) used cross-section data for an average of 10 years (2001-2010). The main result of this chapter concluded that in the period between 2001 and 2010, the GDP of both North Africa countries (host countries) and its investment partners (home countries) has a positive and significant impact on bilateral FDI, which comes up with economic literature findings in these concerns.

The study also showed that more bilateral trade relationship between host and home countries tends to increase the bilateral FDI where the increase of bilateral trade volume between countries shows a degree of harmony in relations between the states and reflects the level of consistency in transactions among them. However, it has been found that bilateral trade between countries has a positive and significant impact on the bilateral FDI.

The findings also showed that conflicts on the borders between North African countries hinders the flow of FDI between them, and the bilateral distance between host and home countries has a negative impact on FDI. Simultaneously, having a common language between host and home countries was found to have a significant and positive impact on bilateral FDI between nations. From another side, the results indicated that the coefficient of financial development with bilateral FDI is positive and significant, where the development of the financial system in host country reduces transaction costs and ease information flow and thus attracts more FDI. While the investment treaties signed by the

government of host countries in the period of 2001to 2010 in average were found to have insignificant impact on FDI attraction, this might have attributed to use of dummy variable of BITs that does not reflect the real relationships.

8.2. LIMITATION OF STUDY

Many obstacles faced us while conducting the research. The most serious obstacles are summarized in, the lack of long-term time series data, and hence we had no choice but to cover the period (1996-2013), in addition to, most data available on North African countries are not comprehensive enough to include many variables in our model. For example, data on human capital and political risk in North Africa countries is very scant. Moreover, there is No consistent data on FDI inflows by sector or by motivation (or firm level), meanwhile, lack of sufficient data and information about the government reforms regarding outward FDI. Furthermore, when we used the gravity model for investigating the determinants of bilateral FDI flows in North Africa countries with other countries we faced difficulties to find comprehensive bilateral FDI data without some missing observations in some years. That’s why gravity model for an average of ten years has been employed for the period(2001-2010) to overcome this barrier.

8.3. THESIS CONTRIBUTION AND FUTURE RESEARCH

Despite difficulties and limitations that faced us in this research, we can configure the most important determinants of FDI inflows to North Africa in the light of the few numbers of studies designed to capture FDI flows determinants in this region. Based on the results presented here, and their limitations, a useful area of future research would be to consider the impact of political instability (Arab spring) on FDI flows in this region. In other words, examining how the 'Arab spring' influences of FDI flows to this region will be an added value for global research generally and north Africa specifically.

Furthermore, it is useful to conduct a comparison between this region and another region to examine why some regions and economies are able to attract more FDI inflows than others. This analysis would also be useful to compare the impact of FDI inflows on growth in different regions and economies.

Despite difficulties and limitations that faced us in this research, we can configure the most important determinants of FDI inflows to North Africa in the light of the few numbers of studies designed to capture FDI flows determinants in this region. Based on the results presented here, and their limitations, a useful area of future research would be to consider the impact of political instability (Arab spring) on FDI flows in this region. In other words, examining how the 'Arab spring' influences of FDI flows to this region will be an added value for global research generally and north Africa specifically.

Furthermore, it is useful to conduct a comparison between this region and another region to examine why some regions and economies are able to attract more FDI inflows than others. This analysis would also be useful to compare the impact of FDI inflows on growth in different regions and economies.

REFERENCES

Abbott, A., Cushman, D. O., & De Vita, G. (2012). Exchange rate regimes and foreign direct investment flows to developing countries. *Review of international economics*, *20*(1), 95-107.

Abdelhafidh, S. (2013). Potential financing sources of investment and economic growth in North African countries: A causality analysis. *Journal of Policy Modeling*, *35*(1), 150-169.

Achy, L., & Sekkat, K. (2011). Training, new equipment and job creation: A firm-level analysis using Moroccan data. *The European Journal of Development Research*, *23*(4), 615-629.

Adhikary, B. K. (2010). FDI, trade openness, capital formation, and economic growth in Bangladesh: a linkage analysis. *International Journal of Business and Management*, *6*(1), 16.

Ahmed, A. D., Cheng, E., & Messinis, G. (2011). The role of exports, FDI and imports in development: evidence from Sub-Saharan African countries. *Applied Economics, 43(26), 3719-3731.*

Ahmed, E. M. (2012). Are the FDI inflow spillover effects on Malaysia's economic growth input driven? *Economic Modelling*, *29*(4), 1498-1504.

Ahmed, S., & Zlate, A. (2014). Capital flows to emerging market economies: A brave new world?. *Journal of International Money and Finance*, 48, 221-248

Aggarwal, R., Kearney, C., & Lucey, B. (2012). Gravity and culture in foreign portfolio investment. *Journal of Banking & Finance*, 36(2), 525-538.

Ahn, Y. S., Adji, S. S., & Willett, T. D. (1998). The effects of inflation and exchange rate policies on direct investment to developing countries. *International Economic Journal*, *12*(1), 95-104.

Akin, M. S., & Vlad, V. (2011). The relationship between education and foreign direct investment: testing the inverse U shape. *European Journal of Economic and Political Studies*, *4*(1), 27-46.

Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2004). FDI and economic growth: the role of local financial markets. *Journal of international economics*, *64*(1), 89-112.

Aliber, R. Z. (1971). The multinational enterprise in a multiple currency world. *The multinational enterprise, 49-56.*

Al-Yousif, Y. K. (2008). Education expenditure and economic growth: Some empirical evidence from the GCC countries. *The Journal of Developing Areas*, 42(1), 69-80.

Amerighi, O., & De Feo, G. (2008). Is competition for FDI bad for regional welfare?. In 10th *Annual Conference of the European Trade Study Group* (ETSG2008).

Anyanwu, J. C. (2012). Why does foreign direct investment go where it goes? New evidence from African countries. *Annuals of Economics and Finance*, 13(2), 425-462.

Arab Investment & Export Credit Guarantee Corporation (DHAMAN). (2010). *Investment climate report in Arab countries*. Kuwait.

Arab Investment & Export Credit Guarantee Corporation (DHAMAN). (2011). *Investment climate report in Arab countries*. Kuwait.

Arab Investment & Export Credit Guarantee Corporation (DHAMAN). (2013). *Investment climate report in Arab countries*. Kuwait.

Arab Investment & Export Credit Guarantee Corporation (DHAMAN). (2014). FDI in Arab Countries according to geographical distribution and enterprises, *Quarterly Bulletin*. Kuwait.

Arab Monetary Fund. (2010). Joint Arab Economic Report. Abu Dhabi, United Arab Emirates.

Arab Monetary Fund. (2013). Joint Arab Economic Report. Abu Dhabi, United Arab Emirate

Arnold, J. M. (2011). Arnold, J. M., Javorcik, B. S., & Mattoo, A.. *Journal of International Economics*, pp. 85(1), 136-146.

Ashraf, A., Herzer, D., & Nunnenkamp, P. (2016). The Effects of Greenfield FDI and Cross-border M&As on Total Factor Productivity. *The World Economy*, *39*(11), 1728-1755.

Asiedu, E. (2006). Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions and political instability. *The World Economy*, *29*(1), 63-77.

Asiedu, E., & Lien, D. (2011). Democracy, foreign direct investment and natural resources. *Journal of international economics*, *84*(1), 99-111.

Asiedu. (2004). Policy Reform and Foreign Direct Investment in Africa: Absolute Progress but Relative Decline. *Development Policy Review*, pp. 41-48.

Aleksynska, M., & Havrylchyk, O. (2013). FDI from the south: The role of institutional distance and natural resources. *European Journal of Political Economy*, 29, 38-53.

Antonucci, D., & Manzocchi, S. (2006). Does Turkey have a special trade relation with the EU?: A gravity model approach. *Economic Systems*, 30(2), 157-169.

Al-Atrash, H., & Yousef, T. (2000). Intra-Arab trade: is it too low (No. 00101). IMF Working Paper.

Athanasouli, D. G. (2012). Corruption and firm performance: Evidence from Greek firms. *International Journal of Economic Sciences and Applied Research* , pp. 5 (2): 43-67.

Ayanwale, A. B. (2007). . FDI and Economic Growth: Evidence from Nigeria. *African Economic Research Consortium Research Paper No. 165* .

Aziz, O. G., & Mishra, A. V. (2016). Determinants of FDI inflows to Arab economies. *The Journal of International Trade & Economic Development*, *25*(3), 325-356.

Bagwell, K., & Staiger, R. W. (2005). Erratum to Multilateral trade negotiations, bilateral opportunism and the rules of GATT/WTO. *Journal of International Economics*, *67*(2), 268-294.

Baker, P. L. (2014). An analysis of double taxation treaties and their effect on foreign direct investment. *International Journal of the Economics of Business*, 21(3), 341-377.

Baliga, B. R. (1984). World-Vıews And Multınatıonal-Corporatıons Investments In The Less Developed-Countrıes. *Columbia Journal of World Business*, 19(2), 80-84

Banerjee, S. G., Oetzel, J. M., & Ranganathan, R. (2006). Private provision of infrastructure in emerging markets: do institutions matter?. *Development Policy Review*, *24*(2), 175-202.

Banga, R. (2003). Impact of government policies and investment agreements on FDI inflows. *Indian council for research on international economic relations*, 1-43.

Bannaga, A., Gangi, Y., Abdrazak, R., & Al-Fakhry, B. (2013). The effects of good governance on foreign direct investment inflows in Arab countries. *Journal of Applied Financial Economics*, 23, 1239-1247

Barassi, M. R., & Zhou, Y. (2012). The effect of corruption on FDI: a parametric and non-parametric analysis. *European Journal of Political Economy*, *28*(3), 302-312.

Barro, R. J., & Lee, J. W. (2001). International data on educational attainment: updates and implications. *oxford Economic papers*, *53*(3), 541-563.

Barsoum, G. (2009). The Egypt labor market panel survey 2006: documentation of the data collection process. *The Egyptian labor market revisited*, 259-283.

Barsoum, G., Ramadan, M., & Mostafa, M. (2014). Labour market transitions of young women and men in Egypt. Youth employment program .

Barthel, F., Busse, M., & Neumayer, E. (2010). The impact of double taxation treaties on foreign direct investment: evidence from large dyadic panel data. *Contemporary Economic Policy*, *28*(3), 366-377.

Bayraktar, N. (2013). Foreign direct investment and investment climate. *Journal of Procedia Economics and Finance*, 5, 83-92

Bayraktar, N. (2015). Importance of Investment Climates for Inflows of Foreign Direct Investment in Developing Countries. *Business and Economic Research*, *5*(1), 24-50.

Bellak, C., & Leibrecht, M. (2009). Do low corporate income tax rates attract FDI?–Evidence from Central-and East European countries. *Applied Economics*, 41(21), 2691-2703.

Bellak, C., Leibrecht, M., & Damijan, J. P. (2009). Infrastructure endowment and corporate income taxes as determinants of foreign direct investment in Central and Eastern European countries. *The World Economy*, *32*(2), 267-290.

Bénassy-Quéré, A., Fontagné, L., & Lahrèche-Révil, A. (2005). How does FDI react to corporate taxation?. *International Tax and Public Finance*, 12(5), 583-603.

Berger, A., Busse, M., Nunnenkamp, P., & Roy, M. (2013). Do trade and investment agreements lead to more FDI? Accounting for key provisions inside the black box. *International Economics and Economic Policy*, *10*(2), 247-275.

Bevan, A. A., & Estrin, S. (2004). The determinants of foreign direct investment into European transition economies. *Journal of comparative economics*, *32*(4), 775-787.

Bergstrand, J. H. (1985). The gravity equation in international trade: some microeconomic foundations and empirical evidence. *The review of economics and statistics*, 474-481.

Biesenbender, S., & Tosun, J. (2014). Domestic politics and the diffusion of international policy innovations: How does accommodation happen?. *Global environmental change*, *29*, 424-433.

Bilel, K., & Mouldi, D. (2011). The relationship between financial liberalisation, FDI and economic growth: An empirical test for MENA countries. *Economics and Finance Review*, 1, 20- 26.

Binzel, C., & Assaad, R. (2011). Egyptian men working abroad: Labour supply responses by the women left behind. *Labour Economics*, 18, S98-S114.

Bisson . (2012). Can Better Institutions Attract More Foreign Direct Investment (FDI)? Evidence from Developing Countries. *International Research Journal of Finance & Economics, 82, 59-70.*

Blomstrom, M., & Kokko, A. (2003). The economics of foreign direct investment incentives (No. w9489). *National Bureau of Economic Research*.

Boateng, A., Hua, X., Nisar, S., & Wu, J. (2015). Examining the determinants of inward FDI: Evidence from Norway. *Economic Modelling*, *47*, 118-127.

Boddewyn, J. J. (1985). Theories of foreign direct investment and divestment: A classificatory note. *Management International Review*, 57-65.

Bolling, C., Shane, M., & Roe, T. (2007). Exchange rates and US foreign direct investment in the global processed food industry. *Agricultural and Resource Economics Review*, *36*(2), 230-238.

Bolbol, A. A., & Fatheldin, A. M. (2005). Intra-Arab Exports and Direct Investments: An Empirical Analysis.

Borensztein, E., De Gregorio, J., & Lee, J. W. (1998). How does foreign direct investment affect economic growth?. *Journal of international Economics*, *45*(1), 115-135.

Boubakri, N., Cosset, J. C., Debab, N., & Valéry, P. (2013). Privatization and globalization: An empirical analysis. *Journal of Banking & Finance*, *37*(6), 1898-1914

Boughanmi, H., Al Shidhani, J., Mbaga, M., & Kotagama, H. (2009). The effects of regional trade arrangements on agri-food trade: an application of the gravity modeling approach to the Arab Gulf Cooperation Council (GCC) countries. Review of Middle East economics and finance, 5(3), 46-62..

Brahim, M., & Rachdi, H. (2014). Foreign direct investment, institutions and economic growth: Evidence from the MENA region. *Journal of Reviews on Global Economics*, *3*, 328-339.

Brewer, T. L. (1993). Government policies, market imperfections, and foreign direct investment. *Journal of International Business Studies*, 101-120.

Brewer, T. L., & Young, S. (1997). Investment incentives and the international agenda. *The World Economy*, *20*(2), 175-198.

Buckley, P. J. (2007). Do managers behave the way theory suggests? A choice-theoretic examination of foreign direct investment location decision-making. *Journal of international business studies, 38(7), 1069-1094.*

Buckley, P. J., & Casson, M. (1976). The future of the multinational enterprise. Springer.

Buckley, P. J., & Casson, M. C. (1998). Analyzing foreign market entry strategies: Extending the internalization approach. *Journal of international business studies*, *29*(3), 539-561.

Buckley, P. J., & Casson, M. C. (2009). The internalisation theory of the multinational enterprise: A review of the progress of a research agenda after 30 years. Journal of International Business Studies, 40(9), 1563-1580.

Buckley, P. J., & Castro, F. B. (1998). The investment development path: the case of Portugal. Transnational Corporations, 7, 1-16.

Buettner, T., & Ruf, M. (2007). Tax incentives and the location of FDI: Evidence from a panel of German multinationals. *International Tax and Public Finance*, *14*(2), 151-164.

Busse, M., Königer, J., & Nunnenkamp, P. (2010). FDI promotion through bilateral investment treaties: more than a bit?. *Review of World Economics*, *146*(1), 147-177.

Busse, M., & Groizard, J. L. (2008). Foreign direct investment, regulations and growth. The World Economy, 31(7), 861-886.

Buthe, T., & Milner, H. V. (2008). The politics of foreign direct investment into developing countries: increasing FDI through international trade agreements? *American Journal of Political Science*, *52*(4), 741-762.

Cantwell, J. (2000). 'A survey of theories of international production', in The Nature of the Transnational Firm. In :. Pitelis & Sugden., *Nature of the Transnational Firm* (pp. 13-17; 20-14). London: Routledge.

Cannizzaro, A. P., & Weiner, R. J. (2018). State ownership and transparency in foreign direct investment. *Journal of International Business Studies*, 49(2), 172-195.

Carbone, V., & Stone, M. A. (2005). Growth and relational strategies used by the European logistics service providers: Rationale and outcomes. *Transportation Research Part E: Logistics and Transportation Review*, *41*(6), 495-510.

Cardamone, P., & Scoppola, M. (2012). The impact of EU preferential trade agreements on foreign direct investment. *The World Economy*, *35*(11), 1473-1501.

Carstensen, K., & Toubal, F. (2004). Foreign direct investment in Central and Eastern European countries: a dynamic panel analysis. *Journal of comparative economics*, 32(1), 3-22.

Caves, R. E. (1996). *Multinational enterprise and economic analysis*. Cambridge university press.

Chakrabarti, A. (2001). The Determinants of Foreign Direct Investment: Sensitivity of Cross- Country Regressions. *KYKLOS. 54 (1): 89-114.* .

Chang, S. J. (2011). Rapid FDI expansion and firm performance. *Journal of International Business Studies*, pp. 42(8), 979.

Chaves, A. (2012). The Impacts Of Varıous Taxes On Foreıgn Dırect Investment . *Bureau Of Economıc Analysıs Washıngton, Dc 20230.*

Chen, Z., & Khan, M. M. S. (1997). *Patterns of capital flows to emerging markets: a theoretical perspective*. International Monetary Fund.

Chen, X., Lu, Y., & Zhu, L. (2017). Product cycle, contractibility, and global sourcing. *Journal of Development Economics*, 127, 283-296.

Cheng, I.-H. a. (2005). Controlling for heterogeneity in gravity models of trade and integration. . *Federal Reserve Bank St. Louis Review, 87, ,* pp. 49-63.

Cheng, L. K., & Kwan, Y. K. (2000). What are the determinants of the location of foreign direct investment? The Chinese experience. *Journal of international economics*, 51(2), 379-400.

Choi, J. J. (2007). Financial factors in foreign direct investments: a dynamic analysis of international data. . *Research in International Business and Finance*, pp. 21, 1–18.

Choi, J. J., Lee, S. M., & Shoham, A. (2016). The effects of institutional distance on FDI inflow: General environmental institutions (GEI) versus minority investor protection institutions (MIP). *International Business Review*, 25(1), 114-123.

Clark, D. P., Highfill, J., de Oliveira Campino, J., & Rehman, S. S. (2011). FDI, technology spillovers, growth, and income inequality: a selective survey. *Global economy journal*, *11*(2).

Clegg, J., & Scott-Green, S. (2016). Foreign Direct Investment Capital Flows into Europe: The US and Japan Compared. International Business: *Emerging Issues and Emerging Market*s, 159.

Colen, L., Persyn, D., & Guariso, A. (2016). Bilateral investment treaties and FDI: Does the sector matter?. World Development, 83, 193-206

Coase, R. H. (1937). The nature of the firm. economica, 4(16), 386-405.

Contessi, S., & Weinberger, A. (2009). Foreign direct investment, productivity, and country growth: an overview. *Federal Reserve Bank of St. Louis Review*, *91*(2), 61-78.

Cruijssen, F., Cools, M., & Dullaert, W. (2007). Horizontal cooperation in logistics: opportunities and impediments. *Transportation Research Part E: Logistics and Transportation Review*, *43*(2), 129-142.

Damijan, J. P., Rojec, M., Majcen, B., & Knell, M. (2013). Impact of firm heterogeneity on direct and spillover effects of FDI: Micro-evidence from ten transition countries. *Journal of comparative economics*, *41*(3), 895-922.

Dash, R. K., & Sahoo, P. (2010). Economic growth in India: the role of physical and social infrastructure. *Journal of Economic Policy Reform*, *13*(4), 373-385.

Davies, R. B., Desbordes, R., & Ray, A. (2015). Greenfield versus merger & acquisition FDI: Same wine, different bottles?.

De Gregorio, J. (1993). Inflation, taxation, and long-run growth. Journal of Monetary Economics, 31, 271-298

De Gregorio, J., Lee, J.W. Borensztein .(1998) .How does foreign direct investment affect economic growth ?*Journal of International Economics, 45, 115-135.*

Demirhan, E., & Masca, M. (2008). Determinants of foreign direct investment flows to developing countries: a cross-sectional analysis. *Prague economic papers*, *4*(4), 356-369.

De Mello-Sampayo, F. (2009). Competing-destinations gravity model: an application to the geographic distribution of FDI. *Applied Economics*, 41(17), 2237-2253.

Desai, M. A. (2004). "Foreign Direct Investment in a World of Multiple Taxes. *Journal of Public Economics 88*, pp. 2727-2744.

Deseatnicov, I. a. (2011). Role of Political Risks in Japanese Outward FDI Activities Within Developed and Developing Countries: Are There Any Differences? . *International Conference On Applied Economics-ICOAE*.

Djankov, S., & Hoekman, B. (2000). Foreign investment and productivity growth in Czech enterprises. *The World Bank Economic Review*, *14*(1), 49-64.

Dorożyński, T., Świerkocki, J., & Urbaniak, W. (2014). Attracting FDI to the Region of Lodz by its Local Government. *Comparative Economic Research,* 17(2), 101-118.

Duarte, L. D. R. V., Kedong, Y., & Xuemei, L. (2017). The Relationship between FDI, Economic Growth and Financial Development in Cabo Verde. *International Journal of Economics and Finance*, 9(5), 132.

Duanmu, J. L. (2014). State-owned MNCs and host country expropriation risk: The role of home state soft power and economic gunboat diplomacy. Journal of International Business Studies, 45(8), 1044-1060.

Du, L., Harrison, A., & Jefferson, G. (2014). FDI spillovers and industrial policy: The role of tariffs and tax holidays. World Development, 64, 366-383.

Du, J., Lu, Y., & Tao, Z. (2012). Institutions and FDI location choice: The role of cultural distances. *Journal of Asian Economics*, 23(3), 210-223.

Dunning, J. H. (1979). Explaining changing patterns of international production: In defence of eclectic theory. *Oxford Bulletin of Economics and Statistics*, 41,

Dunning, J. H. (1980). Toward an eclectic theory of international production: Some empirical tests. *Journal of International Business Studies*, 11, 9-31.

Dunning, J. H. (1981). International production and the multinational enterprise.

Dunning, J. H. (1988). The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. *Journal of International Business*

Dunning, J. H. (1993). Internationalizing Porter's diamond. MIR: Management International Review, 7-15.

Dunning, J. H. (1993). Multinational enterprises and the global economy. UK: Addison-Wesley.

Dunning, J. H. (2000). The eclectic paradigm as envelope for economic and business theories of MNE activity. *International Business Review*, 9, 163-190.204

Dunning, J. H. (2001). The eclectic (OLI) paradigm of international production: past, present and future. *International journal of the economics of business*, 8(2), 173-190.

Dunning, J. H. (2002). Global Capitalism, FDI and competitiveness (Vol. 2). Edward Elgar Publishing.

Dunning, J. H. (2004) Institutional reform, FDI and European transition economies. Economics and Management Discussion Paper No.14, University of Reading.

Dunning, J. H., & Lundan, S. M. (2008). Multinational enterprises and the global economy. UK: Edward Elgar.

Dunning, J. H., & Pitelis, C. N. (2008). Stephen Hymer's contribution to international business scholarship: an assessment and extension. *Journal of international business studies*, 39(1), 167-176.

Dunning, J. H., & Rugman, A. M. (1985). The influence of Hymer's dissertation on the theory of foreign direct investment. *The American Economic Review*, 75(2), 228-232.

Durbarry, R., Gemmell, N., & Greenaway, D. (1998). *New evidence on the impact of foreign aid on economic growth*(No. 98/8). CREDIT Research paper.

Durham, B. J. (2004). Absorptive capacity and the effects of foreign direct investment and equity foreign portfolio investment on economic growth, European Economic Review, 48, 285-306 United Nations.

Economic & Social Commission for Western Asia (ESCWA). (2008). Foreign direct investment report. New York, USA: United Nations.

Economic & Social Commission for Western Asia (ESCWA). (2011). Foreign direct investment report. New York, USA: United Nations.

Egger, P., & Maria Radulescu, D. (2011). Labor taxation and foreign direct investment. *The Scandinavian Journal of Economics*, *113*(3), 603-636.

Egger, P., & Merlo, V. (2007). The impact of bilateral investment treaties on FDI dynamics. The world economy, 30(10), 1536-1549

Ekanayake, E. M. (2010). "How does foreign dirct investment affect growth in developing countries? An empirical investigation. *International Journal Of Business And Finance Research 4(3), Pp. 43-53* .

Ekanayake, E. M., & Halkides, M. (2008). Do remittances and foreign direct investment promote growth? Evidence from developing countries. Journal of International Business and Economics, 8, 58-68

Ekanayake, E. M., Mukherjee, A., & Veeramacheneni, B. (2010). Trade Blocks and the Gravity Model: A study of economic integration among Asian developing countries. *Journal of Economic Integration*, 627-643.

Elfakhani, S. M., & Matar, L. M. (2007). Foreign direct investment in the Middle East and North Africa region. *Journal for Global Business Advancement*, *1*(1), 49-70.

Ezeoha, A. E., & Cattaneo, N. (2012). FDI flows to sub-Saharan Africa: The impact of finance, institutions, and natural resource endowment. Comparative Economic Studies, 54(3), 597-632.

Ellis, P. D., & Zhan, G. (2011). How international are the international business journals?. *International Business Review*, *20*(1), 100-112.

El-Wassal, K. A. (2012). Foreign direct investment and economic growth in Arab countries (1970-2008): An inquiry into determinants of growth benefits. *Journal of Economic Development, 37(4), 79-100.*

Faeth I .(2009) .Determinants of Foreign Direct Investment – A Tale of Nine Theoretical Models .*Journal of Economic Surveys, 23(1): 165-196*.

Feenstra, R., & Kee, H. L. (2008). Export variety and country productivity: Estimating the monopolistic competition model with endogenous productivity. *Journal of international Economics*, 74(2), 500-518.

Feeny, S., Iamsiraroj, S., & McGillivray, M. (2014). Growth and foreign direct investment in the Pacific Island countries. *Economic Modelling*, *37*, 332-339.

Feldstein, M. S. (Ed.). (1999). *International capital flows* (pp. 421-466). University of Chicago Press.

Froot, K. a. (1991). "Exchange Rates and Foreign Direct Investment: An Imperfect Capital Markets Approach. *Quarterly Journal of Economics, 196:*, pp. 1191-1218.

Fu, X. (2012). Foreign direct investment and managerial knowledge spillovers through the diffusion of management practices. *Journal of Management Studies*, *49*(5), 970-999.

Fung, C. K. (2005). Hard or Soft? Institutional Reforms and Infrastructure Spending as Determinants of Foreign Direct Investment in China . *Japanese Economic Review, 56(4), 408-416*.

Garcia-Fuentes, P. A., Kennedy, P. L., & Ferreira, G. F. (2016). US foreign direct investment in Latin America and the Caribbean: a case of remittances and market size. *Applied Economics*, 48(51), 5008-5021.

Gast, M., & Herrmann, R. (2008). Determinants of foreign direct investment of OECD countries 1991–2001. *International Economic Journal*, 22(4), 509-524.

Gemayel, y. K. (2004). Risk Instability and the Pattern of Foreign Direct Investment in the Middle East and North Africa Region. *IMF Working Paper Middle East and Central Asia Department* .

Georgopoulos, G. (2008). Cross-border mergers and acquisitions: does the exchange rate matter? Some evidence for Canada. . *Canadian Journal of Economics* , pp. 41, 450–474.

Goedhuys, M. M. (2016). Corruption, innovation and firm growth: firm-level evidence from Egypt and Tunisia. *Eurasian Business Review,*, pp. 6(3), 299-322.

Goldberg, L. S., & Klein, M. W. (1997). *Foreign direct investment, trade and real exchange rate linkages in Southeast Asia and Latin America* (Vol. 6344). National Bureau of Economic Research.

Goldman, E., and Gorton, G. (2000). The Visible Hand, The Invisible Hand and Efficiency. Working paper 05. *Wharton Financial Institution Center*.

Goodspeed, T. V. (2006). Are other government policies more important than taxation in attracting FDI? . *Andrew young school of policy studies. Research Paper Series (working paper 28), 56–63*.

Gordon H., Mataloni, Raymond J. Jr., Slaughter Matthew Hanson“ .(2003) .Vertical Production Networks in Multinational Firms . " *NBER Working Paper No. 9723*.

Gorton, G., Kahl, M., & Rosen, R. (2005). *Eat or be eaten: A theory of mergers and merger waves* (No. w11364). National Bureau of Economic Research.

Görg, H. (2000). Analysing foreign market entry–The choice between greenfield investment and acquisitions. *Journal of Economic Studies*, *27*(3), 165-181.

Görg, H., & Wakelin, K. (2002). The impact of exchange rate volatility on US direct investment. *The Manchester School*, *70*(3), 380-397.

Grewal, B. S., & Ahmed, A. D. (2011). Is China's Western region development strategy on track? an assessment. Journal of Contemporary China, 20(69), 161-181.

Grosse, R., & Trevino, L. J. (2005). New institutional economics and FDI location in Central and Eastern Europe. MIR: Management International Review, 123-145.

Grosse, R., & Trevino, L. J. (1996). Foreign direct investment in the United States: An analysis by country of origin. Journal of international business studies, 27(1), 139-155.

Gui-Diby, S. L. (2014). Impact of foreign direct investments on economic growth in Africa: Evidence from three decades of panel data analyses. *Research in economics*, *68*(3), 248-256.

Guimón, J., Chaminade, C., Maggi, C., & Salazar-Elena, J. C. (2017). Policies to attract R&D-related FDI in small emerging countries: Aligning incentives with local linkages and absorptive capacities in Chile. Journal of International Management.

Guimón de Ros, J., & Narula, R. (2010). The investment development path in a globalised world: implications for Eastern Europe. Eastern Journal of Europeans Studies.

Guo, J. Q., & Trivedi, P. K. (2002). Firm–Specific Assets and the Link between Exchange Rates and Japanese Foreign Direct Investment in the United States: A Re–examination. *The Japanese economic review*, *53*(3), 337-349.

Guris, S., & Gozgor, K. (2015). Trade Openness and FDI Inflows in Turkey. *Applied Econometrics and International Development*, *15*(2), 53-62.

Gupta, P., & Singh, A. (2017). A Summary Of Theorıes Governıng Fdı Inflows In Developıng And Developed Countrıes. *Journal of Academic Research in Economics, 9(1).*

Gyimah-Brempong, K. (2002). Corruption, economic growth, and income inequality in Africa. *Economics of Governance*, *3*(3), 183-209.

Gylfason, T., & Zoega, G. (2006). Natural resources and economic growth: The role of investment. *The World Economy*, *29*(8), 1091-1115.

Habash, N. S. (2006). The Effect of Macroeconomic Policies on the Wave of FDI to the MENA Countries. In International Conference on Policy Modeling.

Habib, M., & Zurawicki, L. (2002). Corruption and foreign direct investment. *Journal of international business studies*, *33*(2), 291-307.

Hailu, Z. A. (2010). Demand side factors affecting the inflow of foreign direct investment to African countries: does capital market matter?. *International Journal of Business and Management, 5(5), 104.*

Hakro, A. N., & Omezzine, A. M. (2011). Governance infrastructure and FDI flows in MENA region countries. Middle Eastern Finance and Economics, 12, 143-158.

Hakimi, A., & Hamdi, H. (2017). Does corruption limit FDI and economic growth? Evidence from MENA countries. International Journal of Emerging Markets, 12(3), 550-571.

Hanson, G. (1998). Market Potential, Increasing Returns, and Geographic Concentration, processed University of Michigan, November. Revised version of NBER Working Paper, 6249.

Harding, T., & Javorcik, B. S. (2011). Roll out the red carpet and they will come: Investment promotion and FDI inflows. *The Economic Journal*, *121*(557), 1445-1476.

He, C., & Zhu, Y. (2010). Real estate FDI in Chinese cities: local market conditions and regional institutions. Eurasian Geography and Economics, 51(3), 360-384.

Head, K., & Ries, J. (2003). Heterogeneity and the FDI versus export decision of Japanese manufacturers. Journal of the Japanese and international economies, 17(4), 448-467.

Heshmati, A. (2017). Introduction to Studies on Economic Development and Growth in Selected African Countries. In Studies on Economic Development and Growth in Selected African Countries (pp. 1-7*). Springer,* Singapore.

Hennart, J. F. (2015). Commentary: Why and how can Multinational Enterprises be value-creating organizations?. *Journal of World Business*, 50(4), 623-626.

Hennart, J. F. (1982). A theory of multinational enterprise (pp. 81-116). Ann Arbor, MI: *University of Michigan Press*.

Henkelman, B. (2013). American real estate firms' failure to buy-in to Morocco's vision: Why American FDI in the real estate sector willcontinue to lag. *Northwestern University, Kellogg School of management, Real estate program.*

Herrera-Echeverri, H., Haar, J., & Estévez-Bretón, J. B. (2014). Foreign direct investment, institutional quality, economic freedom and entrepreneurship in emerging markets. *Journal of Business Research*, *67*(9), 1921-1932.

Hill, C. (2010). Foreign Direct Investment. International Business: Competing in the global marketplace, MacGraw-Hill, 236-261.

Hoenen, A. K., & Hansen, M. W. (2009). Oligopolistic Competition and Foreign Direct Investment:(Re) Integrating the Strategic Management Perspective in the Theory of Multinational Corporations.

Hussain, F., & Kimuli, C. K. (2012). Determinants of foreign direct investment flows to developing countries. *SBP Research Bulletin, 8*(1), 13-31.

Hymer, S. H. (1976). The international operation of national firms: a study of foreign direct investment. Cambridge: *Massachusetts Institute of Technology Press Google Scholar*.

Ietto-Gillies, G. (2012). Transnational corporations and international production: concepts, theories and effects. Edward Elgar Publishing.

Iimi, A. (2011). Effects Of Improving Infrastructure Quality On Business Costs: Evidence From Firm-Level Data In Eastern Europe And Central Asia. *The Developing Economies,* , pp. 49(2), 121-147.

IMF .(1993) .Balance of payments manual. Washington, D. C.: IMF*, .International Monetary Fund*.

International Monetary Fund (IMF). (2011). Regional Economic Outlook, October. Middle East and Central Asia Department. Washington DC: United Nations.

Jallab, M. S., Gbakou, M. B. P., & Sandretto, R. (2008). Foreign Direct Investment. *Macroeconomic Instability and Economic Growth in MENA Countries*.

Kalyvas, A. N., & Webster, A. (2011). A simple measure of the Similarity of the Sectoral Composition of Inward Investment and Its Possible Uses. Bournemouth University Working Paper series.

Kandiero, T., & Chitiga, M. (2006). Trade openness and foreign direct investment in Africa: economics. South African Journal of Economic and Management Sciences, 9(3), 355-370

Kang, Y., & Jiang, F. (2012). FDI location choice of Chinese multinationals in East and Southeast Asia: Traditional economic factors and institutional perspective. Journal of World Business, 47(1), 45-53

Kang, Y. & Liu, Y. (2016). Natural resource-seeking intent and regulatory forces: Location choice of Chinese outward foreign direct investment in Asia. Management Research Review, 39(10), 1313-1335.

Kaur, M., Yadav, S. S., & Gautam, V. (2013). Financial system development and foreign direct investment: A panel data study for BRIC countries. Global Business Review, 14(4), 729-742.

Khachoo, A. Q., & Khan, M. I. (2012). Determinants of FDI inflows to developing countries: a panel data analysis. Munich Personal RePEc Archive MPRA Paper No. 37278.

Khadaroo, J., & Seetanah, B. (2009). The role of transport infrastructure in FDI: evidence from Africa using GMM estimates. Journal of Transport Economics and Policy (JTEP), 43(3), 365-384.

Kahouli,B.,&Maktouf,S.(2015). Trade creation and diversion effects in the Mediterranean area: Econometric analysis by gravity model. The Journal of International Trade & Economic Development, 24(1), 76-104.

Khazri,B.,&Djelassi, Mouldi. (2011). The Relationship between Financial Liberalization, FDI and Economic Growth: An Empirical Test for MENA Countries. Economics and Finance Review, 1 (10), 20-26.

Kaur, M., Khatua, A., & Yadav, S. S. (2016). Infrastructure development and FDI inflow to developing economies: Evidence from India. International Business Review, 58(6), 555-563.

Kinda, T. (2013). Beyond natural resources: horizontal and vertical FDI diversification in Sub-Saharan Africa. Applied Economics, 45(25), 3587-3598.Taylor, C. T. (2000). The impact of Host Country Government Policy on US Multinational Investment Decision . *World Econmoy,* Vol .23.

Kindleberger, C. P. (1969). American business abroad. *Thunderbird International Business Review*, 11(2), 11-12.

Knickerbocker, F. T. (1973). Oligopolistic reaction and multinational enterprise. *Thunderbird International Business Review*, 15(2), 7-9.

Kogut, B., & Singh, H. (1988). Entering the United States by joint venture: Competitive rivalry and industry structure. Contractor, FJ; Lorange, P.: Cooperative Strategies in *International Business, Massachusetts*.

Kok, R., & Acikgoz Ersoy, B. (2009). Analyses of FDI determinants in developing countries. *International Journal of Social Economics*, 36(1/2), 105-123.

Koojaroenprasit, S. (2012). The impact of foreign direct investment on economic growth: A case study of South Korea. *International Journal of Business and Social Science*, 3(21).

Kudina, A., & Jakubiak, M. (2012). The Motives and Impediments to FDI in the CIS. In EU eastern neighborhood(pp. 71-82). Springer Berlin Heidelberg.

Kumar, N. (2002). Globalisation and the Quality of Foreign Direct Investment . *Oxford univerity press* .

Krugman, P. (1980). Scale economies, product differentiation, and the pattern of trade. *The American Economic Review*, 70(5), 950-959.

Kurtishi-Kastrati, S. (2013). Impact of FDI on economic growth: An overview of the main theories of FDI and empirical research. *European Scientific Journal*, ESJ, 9(7).

Kwok, C. C., & Tadesse, S. (2006). The MNC as an agent of change for host-country institutions: FDI and corruption. *Journal of International Business Studies*, 37(6), 767-785.

Kyereboah-Coleman, A., & Agyire-Tettey, K. F. (2008). Effect of exchange-rate volatility on foreign direct investment in Sub-Saharan Africa: The case of Ghana. *The Journal of Risk Finance,* 9(1), 52-70.

Laabas, B., & Abdmoulah, W. (2009). Determinants of Arab intraregional foreign direct investments. *Journal of Business & Policy Research*, 4(2), 138-169.

Lean, H. H., & Tan, B. W. (2011). Linkages between foreign direct investment, domestic investment and economic growth in Malaysia. *Journal of Economic Cooperation & Development*, 32(4), 75.

Lee, I. H., & Rugman, A. M. (2012). Firm-specific advantages, inward FDI origins, and performance of multinational enterprises. *Journal of International Management*, 18(2), 132-146.

Lei, H. S., & Chen, Y. S. (2011). The right tree for the right bird: Location choice decision of Taiwanese firms' FDI in China and Vietnam. International Business Review, 20(3), 338-352.

Lenny Koh, S. C., Demirbag, M., Bayraktar, E., Tatoglu, E., & Zaim, S. (2007). The impact of supply chain management practices on performance of SMEs. *Industrial Management & Data Systems*, 107(1), 103-124.

Li, J. (2015). Regional Innovation, Inward FDI and Industrial Structure: A Provincial and Firm Level Study of China. Diss. *Queen Mary University of London*.

Liargovas, P. a. (2010). Foreign direct investment and openness in developing economies. Springer, 106(2), 323-331. .

Lin, H. L., & Lin, E. S. (2010). FDI, trade, and product innovation: theory and evidence. *Southern Economic Journal*, 77(2), 434-464.

Lipsey, R. E. (2001). Foreign direct investment and the operations of multinational firms: concepts, history, and data(No. w8665). *National bureau of economic research*.

Lipsey, R. E. (2003). Foreign direct investment and the operations of multinational firms: Concepts, history, and data. Handbook of international trade, 1, 287-319.

Linnemann, Hans, An Econometric Study of International Trade Flows (Amsterdam: North-Holland Publishing Co.,1966)

Loree, D. W., & Guisinger, S. E. (1995). Policy and non-policy determinants of US equity foreign direct investment. Journal of International Business Studies, 26(2), 281-299.

Lu, J., Liu, X., & Wang, H. (2011). Motives for outward FDI of Chinese private firms: Firm resources, industry dynamics, and government policies. *Management and Organization Review*, 7(2), 223-248.

Lu, J., Liu, X., Wright, M., & Filatotchev, I. (2014). International experience and FDI location choices of Chinese firms: The moderating effects of home country government

support and host country institutions. *Journal of International Business Studies*, 45(4), 428-449.

Mah, J. S. (2010). Foreign direct investment inflows and economic growth of China. *Journal of Policy Modeling*, 32(1), 155-158.

Marc, Audi. (2011). Is foreign direct investment a cure for economic growth in developing countries? Structural model estimation applied to the case of the South shore Mediterranean countries. *Journal of International Business and Economics*, 11(4), 32-51

Martínez, V., Bengoa, M., & Sánchez-Robles, B. (2012). Foreign direct investment and trade: complements or substitutes? Empirical evidence for the European Union. *Technology and Investment*, 3(02), 105.

Malesky, E. J., Gueorguiev, D. D., & Jensen, N. M. (2015). Monopoly money: Foreign investment and bribery in Vietnam, a survey experiment. American Journal of Political Science, 59(2), 419-439.

Markusen, J. (1995). Incorporating the multinational enterprise into the theory of international trade. Journal of Economic Perspectives 9,, pp. 169-189.

Markusen, J. R., & Venables, A. J. (1999). Foreign direct investment as a catalyst for industrial development. *European economic review*, 43(2), 335-356.

Maskus, K. E. (2004). Encouraging international technology transfer (Vol. 7). Geneva: International Centre for Trade and Sustainable Development

Masso, J., Varblane, U., & Vahter, P. (2008). The effect of outward foreign direct investment on home-country employment in a low-cost transition economy. *Eastern European Economics*, 46(6), 25-59.

Mellahi, K., & Wood, G. (2003). The role and potential of stakeholders in "hollow participation": Conventional stakeholder theory and institutionalist alternatives. *Business and society review*, 108(2), 183-202.

MIGA. (2014). World Investment and political Risk. Washington .

Miller, D. (1993). The simplicity of competitive repertoires: An empirical analysis. In Academy of Management Proceedings ,Academy of Management. Vol. 1993, No. 1, pp. 32-36).

Mina, W. (2007). The location determinants of FDI in the GCC countries. *Journal of Multinational Financial Management*, 17(4), 336-348.

Mina, W. (2009). External commitment mechanisms, institutions, and FDI in GCC countries. Journal of International Financial Markets Institutions & Money, 19, 371-386.

Mina, W. (2010). Institutional reforms debate and FDI flows to MENA region. Paper presented at the 15th Annual Conference of African Econometrics: Econometric Modeling for Africa, UAE.

Mina, W. (2012). The institutional reforms debate and FDI flows to the MENA region: The best ensemble. *Journal of World Development*, 40, 1798-1809

Mohamed, S. E., & Sidiropoulos, M. G. (2010). Another look at the determinants of foreign direct investment in MENA countries: an empirical investigation. *Journal of economic development*, 35(2), 75.

Mohapatra, L. M., & Gopalaswamy, A. K. (2016). FDI, domestic investment and 2008 financial crisis: Evidence from emerging nations. *The Journal of Developing Areas, 50(6), 277-289.*

Moosa, I. (2002). Foreign direct investment: theory, evidence and practice. Springer.

Moosa, I. A., & Cardak, B. A. (2006). The determinants of foreign direct investment: An extreme bounds analysis. *Journal of Multinational Financial Management*, 16(2), 199-211.

Morris, R., & Aziz, A. (2011). Ease of doing business and FDI inflow to Sub-Saharan Africa and Asian countries. Cross Cultural Management: *An International Journal*, 18(4), 400-411

Mottaleb, K. A., & Kalirajan, K. (2010). Determinants of foreign direct investment in developing countries: A comparative analysis. Margin: *The Journal of Applied Economic Research*, 4(4), 369-404.

Mouldi, B. a. (2011). The Relationship Between Financial Liberalisation, FDI and Economic Growth: An Empirical Test for MENA Countries. *Economics and Finance Review:* 1(10) .

Mlachila, M. M., & Ouedraogo, R. (2017). Financial Resource Curse in Resource-Rich Countries. *International Monetary Fund.*

Naceur, S. B., Ghazouani, S., & Omran, M. (2007). The performance of newly privatized firms in selected MENA countries: The role of ownership structure, governance and liberalization policies. *International Review of Financial Analysis*, 16(4), 332-353.

Naudé, W. A., & Krugell, W. F. (2007). Investigating geography and institutions as determinants of foreign direct investment in Africa using panel data. *Applied economics*, 39(10), 1223-1233.

Neary, J. P. (2009). Trade costs and foreign direct investment. *International Review of Economics & Finance*, 18(2), 207-218.

Nene, M., & Pasholli, A. (2011). Financial Incentives And Their Impact For Attracting FDI Survey With Foreign Investitures In Albania,'. *Journal Of Knowledge Management, Economics And Information Technology*, (7).

Neto, P., Brandão, A., & Cerqueira, A. (2010). The impact of FDI, cross-border mergers and acquisitions, and greenfield investments on economic growth. IUP *Journal of Business Strategy*, 7(4), 24.

Norbäck, P. J., & Persson, L. (2004). Privatization and foreign competition. *Journal of International Economics,* 62(2), 409-416.

Nyarko, P. A., Nketiah-Amponsah, E., & Barnor, C. (2011). Effects of exchange rate regimes on FDI inflows in Ghana. International *Journal of Economics and Finance*, 3(3), 277.

Nyen Wong, K., & Cheong Tang, T. (2011). Foreign direct investment and employment in manufacturing and services sectors: Fresh empirical evidence from Singapore. *Journal of Economic Studies,* 38(3), 313-330.

O'Sullivan, A., Rey, M. E., & Mendez, J. G. (2011). Opportunities and Challenges in the MENA Region. Arab World Competitiveness Report, 2012, 42-67.

OECD. (2003). Checklist for foreign direct investment incentivies policies. organization for economic co-operation and development.

Okunbo, Osinubi, T. S., & Amaghionyeodiwe, L. A. (2009). Foreign direct investment and exchange rate volatility in Nigeria. International Journal of Applied Econometrics and Quantitative Studies, 6(2), 83-116.

Oladipo, O. S. (2010). Foreign direct investment: Determinants and growth effects in a small open economy. The International Journal of Business and Finance Research, 4(4), 75-88.

Oman, C. (Ed.). (2000). Policy competition for foreign direct investment: A study of competition among governments to attract FDI. *OECD Publishing*.

Omankhanlen, A. E. (2011). The effect of exchange rate and inflation on foreign direct investment and its relationship with economic growth in Nigeria. EA1, 1.

Omisakin, O., Adeniyi, O., & Omojolaibi, A. (2009). Foreign direct investment, trade openness and growth in Nigeria. *Journal of Economic Theory*, 3(2), 13-18.

Omoleke, I. I., Salawu, B., & Hassan, A. O. (2011). An examination of privatization policy and foreign direct investments in Nigeria. *African Journal of Political Science and International Relations*, 5(2), 72.

Onwuka, K. O., & Chaiechi, T. (2013). Foreign direct investment, financial markets and growth dynamics in MENA oil producing countries: a panel investigation. Journal of Finance and Investment Analysis, 2, 135-159.

Onyali, C. I., & Okafor, T. (2014). Foreign Direct Investment and the Nigerian Economy. Vision 2020 Mission. *International Journal of Business and Finance Management Research*. IJBFMR, 2, 8-16.

Onyeiwu, S. (2003). Analysis of FDI flows to developing countries: Is the MENA region different. In ERF 10th Annual Conference, December, Marrakech, Morocco.

Onyeiwu, S. (2008). Does Investment in Knowledge and Technology Spur Optimal FDI in the MENA Region? Evidence from Logit and Cross-Country Regressions. In African Economic Development Conference, Tunisia.

Onyeiwu, S., & Shrestha, H. (2004). Determinants of foreign direct investment in Africa. *Journal of Developing Societies*, 20(1-2), 89-106.

Ourvashi, B. (2012). Can Better Institutions Attract More Foreign Direct Investment (FDI)? Evidence from Developing Countries". *International Research Journal of Finance and Economics* , pp. pp. 59-70.

Paniagua, J., & Sapena, J. (2014). Is FDI doing good? A golden rule for FDI ethics. *Journal of Business Research*, 67(5), 807-812.

Pajunen, K. (2008). Institutions and inflows of foreign direct investment: A fuzzy-set analysis. *Journal of International Business Studies*, 39(4), 652-669.

Pantelidis, P., & Kyrkilis, D. (2005). A cross country analysis of outward foreign direct investment patterns. *International Journal of Social Economics*, 32(6), 510-519.

Petri, P. A. (2012). The determinants of bilateral FDI: Is Asia different?. Journal of Asian Economics, 23(3), 201-209.

Peltoniemi, M. (2011). Reviewing Industry Life-cycle Theory: Avenues for Future Research. *International Journal of Management Reviews*, 13(4), 349-375.

Poelhekke, S., & van der Ploeg, F. (2013). Do natural resources attract nonresource FDI?. *Review of Economics and Statistics*, 95(3), 1047-1065.

Pradhan, R. P., Arvin, M. B., Hall, J. H., & Nair, M. (2017). Trade openness, foreign direct investment, and finance-growth nexus in the Eurozone countries. *The Journal of International Trade & Economic Development*, 26(3), 336-360.

Pöyhönen, P. (1963). A tentative model for the volume of trade between countries. Weltwirtschaftliches Archiv, 93-100.

Protsenko, A. (2004). Vertical and horizontal foreign direct investments in transition countries (Doctoral dissertation, lmu).

Quazi, R. (2007). Economic freedom and foreign direct investment in East Asia. Journal of the Asia Pacific Economy, 12(3), 329-344.

Rabbiosi, L., Elia, S., & Bertoni, F. (2012). Acquisitions by EMNCs in developed markets. Management International Review, 52(2), 193-212.1998

Rahim M Quazi. (2007). Investment Climate and Foreign Direct Investment: A Study of Selected Countries in Latin America. *Global Journal of Business Research* .Vol. 1, No. 1, pp. 1-13

Rady, T. (2012). Foreign direct investment and growth: Theory, evidence and lessons for Egypt. *Journal of International Business Research*, 11(1), 1.

Ramasamy, B., & Yeung, M. (2010). The determinants of foreign direct investment in services. *Journal of the World Economy*, 33, 573-596

Rashid, M., Looi, X. H., & Wong, S. J. (2017). Political stability and FDI in the most competitive Asia Pacific countries. Journal of Financial Economic Policy, 9(02), 140-155.

Rappaport, J. (2000). How Does Openness to Capital Flows Affect Growth?". Mimeo, Federal Reserve Bank of Kansas City. Working Paper No. 00-11

Ravishankar, G., & Stack, M. M. (2014). The gravity model and trade efficiency: A stochastic frontier analysis of Eastern European countries' potential trade. The World Economy, 37(5), 690-704.

Rehman, C. A., Ilyas, M., Alam, H. M., & Akram, M. (2011). The impact of infrastructure on foreign direct investment: The case of Pakistan. International Journal of Business and Management, 6(5), 268.

Robert E., Lipsey. (2003). "Foreign Direct Investments and the Operations of Multinational Firms: Concepts, History and Data. in Choi E. K. and Harrigan J. (eds.): "Handbook of International Trade", Blackwell Publishing, Malden.

Robock, S. H. (1983). Simmonds ,K.,. International business and multinational enterprises. London: lrwin-Dorsey.

Rodrik, D., & Subramanian, A., & Trebbi, F. (2004). Institutional rule: The primacy of institutions over geography and integration in economic development. *Journal of Economic Growth*, 9, 131-165

Rogmans, T., & Ebbers, H. (2013). The determinants of foreign direct investment in the Middle East North Africa region. *International Journal of Emerging Markets*, 8(3), 240-257.

Rugman, A. M., Verbeke, A., & Nguyen, Q. T. (2011). Fifty years of international business theory and beyond. *Management International Review*, 51(6), 755-786

Rouis, M., & Tabor, R. S. (2013). Regional economic integration in the Middle East and North Africa: Beyond trade reform. USA: *World Bank.*

Sadni-Jallab, M., Gbakou, M., & Sandretto, R. P. (2009). Foreign direct investment, macroeconomic instability and economic growth in MENA countries.

Safarian, A. E. (1999). Host country policies towards inward foreign direct investment in the 1950s and 1990s. Transnational Corporations, 8(2), 93-112.

Sahoo, P., Nataraj, G., & Dash, R. K. (2014). Foreign Direct Investment (FDI) and Economic Growth in South Asia. In Foreign Direct Investment in South Asia (pp. 201-239). Springer India.

Sauvant, K. P. (2015, March). AIM Investment Report 2015: Trends and policy challenges. In Annual Investment Meeting, Dubai, United Arab Emirates.

Sayan, S. (Ed.). (2009). Economic performance in the Middle East and North Africa: institutions, corruption and reform. Routledge.

Shah, M.H., & Khan, Y. (2016). Trade Liberalization and FDI Inflows in Emerging Economies. Business & Economic Review. 8(1), 35-52.

Shan, J. (2002). A VAR approach to the economics of FDI in China. Applied economics, 34(7), 885-893.

Singh, H. a. (1995). Some new evidence on determinants of foreign direct investment in developing countries, . Policy Research Working Paper No.1531, The World Bank.

Slemrod, J. B. (1990). Tax effects on foreign direct investment in the United States: Evidence from a cross-country comparison. In Taxation in the global economy (pp. 79-122). University of Chicago Press.

Soumia, Z, & Abderrezzak, B. (2013). The determinants of foreign direct investment and their impact on growth: Panel data analysis for AMU countries. *International Journal of Innovation and Applied Studies*, 2, 300-313

Tallman, S. B. (1988). Home country political risk and foreign direct investment in the United States. Journal of International Business Studies, 19(2), 219-234.

Taylor, C. T. (2000). The impact of host country government policy on US multinational investment decisions. *The World Economy*, 23(5), 635-647.

Te Velde, D. W. (2001). Policies towards foreign direct investment in developing countries: emerging best-practices and outstanding issues (pp. 1-34). London: Overseas Development Institute.

Tekin, R. B. (2012). Economic growth, exports and foreign direct investment in Least Developed Countries: A panel Granger causality analysis. *Economic Modelling*, 29(3), 868-878.

Telford, T. G., & Ures, H. A. (2001). Role of Incentives in Foreign Direct Investment, The. Loy. LA Int'l & Comp. L. Rev., 23, 605.

Tan, B. W., & Tang, C. F. (2016). Examining the causal linkages among domestic investment, FDI, trade, interest rate and economic growth in ASEAN-5 countries. International Journal of Economics and Financial Issues, 6(1).

Thangamani, B., Xu, C., & Zhong, C. (2010). Determinants and growth effect of FDI in South Asian economies: Evidence from a panel data analysis. *International Business Research*, 4(1), 43.

Tolentino, P. E. (2010). Home country macroeconomic factors and outward FDI of China and India. *Journal of International Management*, 16(2), 102-120.

Tomassen, S., Benito, G. R., & Lunnan, R. (2009). The costs of governance in international companies. *International Business Review*, 18, 292-304

Tong, T. W., Reuer, J. J., Tyler, B. B., & Zhang, S. (2015). Host country executives' assessments of international joint ventures and divestitures: An experimental approach. *Strategic Management Journal*, 36(2), 254-275.

Udoh, E., & Egwaikhide, F. O. (2008). Exchange rate volatility, inflation uncertainty and foreign direct investment in Nigeria. Botswana Journal of Economics, 5(7), 14-31.

Udomkerdmongkol, M., Morrissey, O., & Görg, H. (2009). Exchange rates and outward foreign direct investment: US FDI in emerging economies. Review of Development Economics, 13(4), 754-764.

UN. (2000). The role of Foreign Direct Investment in economic development among ECAWA',. New York and Geneva: : United Nations

UNCTAD, 2001, World Investment Report. Promoting Linkages, United Nations, Geneva and New York.

UNCTAD, G. (2012). World investment report: Towards a new generation of investment policies. Unite Nations. New York and Geneva.

United Nation Conference on Trade and Development (UNCTAD). (2009). Global FDI in decline due to the financial crisis, and a further drop expected. New York, USA

Uwubanmwen, A. E., & Ajao, M. (2012). The determinants and impacts of foreign direct investment in Nigeria. Journal of International Journal of Business and Management, 7, 67-77.

Van de Voorde, E., & Vanelslander, T. (2008). Market power and vertical and horizontal integration in the maritime shipping and port industry (No. 2009-2). OECD/ITF Joint Transport Research Centre Discussion Paper.

Van den Bossche, P. (2008). The law and policy of the World Trade Organization: text, cases and materials. Cambridge University Press.

Van der Ploeg, F., & Poelhekke, S. (2009). Volatility and the natural resource curse. Oxford economic papers, 61(4), 727-760.

Vernon, R. (1966). International investment and international trade in the product cycle. The quarterly journal of economics, 190-207.

Vijayakumar, N. (2009). Causal relationship between foreign direct investment and growth: Evidence from BRICS countries. International business research, 2(4), 198.

Vijayakumar, N., Sridharan, P., & Rao, K. C. S. (2010). Determinants of FDI in BRICS Countries: A panel analysis. International Journal of Business Science & Applied Management, 5(3).

Wadhwa, K. (2011). Foreign direct investment into developing Asian countries: the role of market seeking, resource seeking and efficiency seeking factors. International Journal of Business and Management, 6(11), 219.

Wahab, S. A., Rose, R. C., & Osman, S. I. W. (2012). The theoretical perspectives underlying technology transfer: A literature review. International Journal of Business and Management, 7(2), 277.

Wall, S. and Bronwen, R. (2001). Introduction to International Business, Pearson Education, Malaysia

Wang, K. J., Dwi Lestari, Y., & Yang, T. T. (2015). Location determinants of market expansion in China's second-tier cities: a case study of the biotechnology industry. Journal of Business & Industrial Marketing, 30(2), 139-152.

Wang, C., Wei, Y., & Liu, X. (2010). Determinants of bilateral trade flows in OECD countries: evidence from gravity panel data models. *The World Economy*, 33(7), 894-915.

Wang, C., Hong, J., Kafouros, M., & Wright, M. (2012). Exploring the role of government involvement in outward FDI from emerging economies. *Journal of International Business Studies*, 43(7), 655-676.

Wang, M. (2009). Manufacturing FDI and economic growth: evidence from Asian economies. *Applied Economics*, 41(8), 991-1002.

Wei, S. Z. C., & Zhu, Z. (2007). A revisit to the outward FDI determinants: further evidence from count panel data models with fixed effects. *Applied Economics Letters*, 14(11), 809-812.

Wei, S. J. (2000). How taxing is corruption on international investors?. *Review of economics and statistics*, 82(1), 1-11.

Weyzig, F. (2013). Tax treaty shopping: structural determinants of Foreign Direct Investment routed through the Netherlands. International Tax and Public Finance, 20(6), 910-937.

Whalley, J., & Xian, X. (2010). China's FDI and non-FDI economies and the sustainability of future high Chinese growth. China Economic Review, 21(1), 123-135.

Wheeler, D., & Mody, A. (1992). International investment location decisions: The case of US firms. Journal of international economics, 33(1-2), 57-76.

Wiens, D. (2014). Natural resources and institutional development. Journal of Theoretical Politics, 26(2), 197-221.

Wilson, J. D. (1996). The tax treatment of imperfectly mobile firms: rent-seeking, rent-protection, and rent-destruction. The political economy of trade policy: *Papers in honor of Jagdish Bhagwati*, 225-44.

World Bank. (2011). Facing challenges and opportunities (Middle East and North Africa regional economic update). Washington DC, USA.

World Bank. (2014). Doing business 2014: Understanding regulations for small and medium-size enterprises. Washington DC, USA.

World Investment Report. (1999). Foreign direct investment and the challenge of development. New York, USA: UNCTAD.

World Investment Report. (2001). Promoting linkages. New York, USA: UNCTAD.

World Investment Report. (2005). Transnational Corporations and the Internationalization of R&D. New York, USA: UNCTAD.

World Investment Report. (2007). Transnational corporations, extractive industries and development. New York, USA: UNCTAD.

World Investment Report. (2009). Transnational corporations, agricultural production and development. New York, USA: UNCTAD.

World Investment Report. (2011). Non-equity modes of international production and development. New York, USA: UNCTAD.

World Investment Report. (2012). Towards a new generation of investment policies. New York, USA: UNCTAD.

World Investment Report. (2013). Global value chains: Investment and trade for development. New York, USA: UNCTAD

World Investment Report. (2014). Global value chains: Investing in the SDGs: An action plan. New York, USA: UNCTAD

Wren, C. (2006). Foreign direct investment and the regional economy. Ashgate Publishing, Ltd..

Wyk, J. V., & Lal, A. K. (2010). FDI location drivers and risks in MENA. Journal of International Business Research, 9, 99-116.

Yang, J. H., Wang, W., Wang, K. L., & Yeh, C. Y. (2017). Capital intensity, natural resources, and institutional risk preferences in Chinese Outward Foreign Direct Investment. International Review of Economics & Finance.

Rogmans Yang, B. (2007). Autocracy, democracy, and FDI inflows to the developing countries. International Economic Journal, 21(3), 419-439.

Yimer, A. (2017). Macroeconomic, Political, and Institutional Determinants of FDI Inflows to Ethiopia: An ARDL Approach. In Studies on Economic Development and Growth in Selected African Countries (pp. 123-151). Springer, Singapore.

Yilmaz, I., Tag, M. N., Ozkan, C., & Degirmen, S. (2014). Host country marketing culture and foreign direct investment. Procedia-Social and Behavioral Sciences, 148, 299-306.

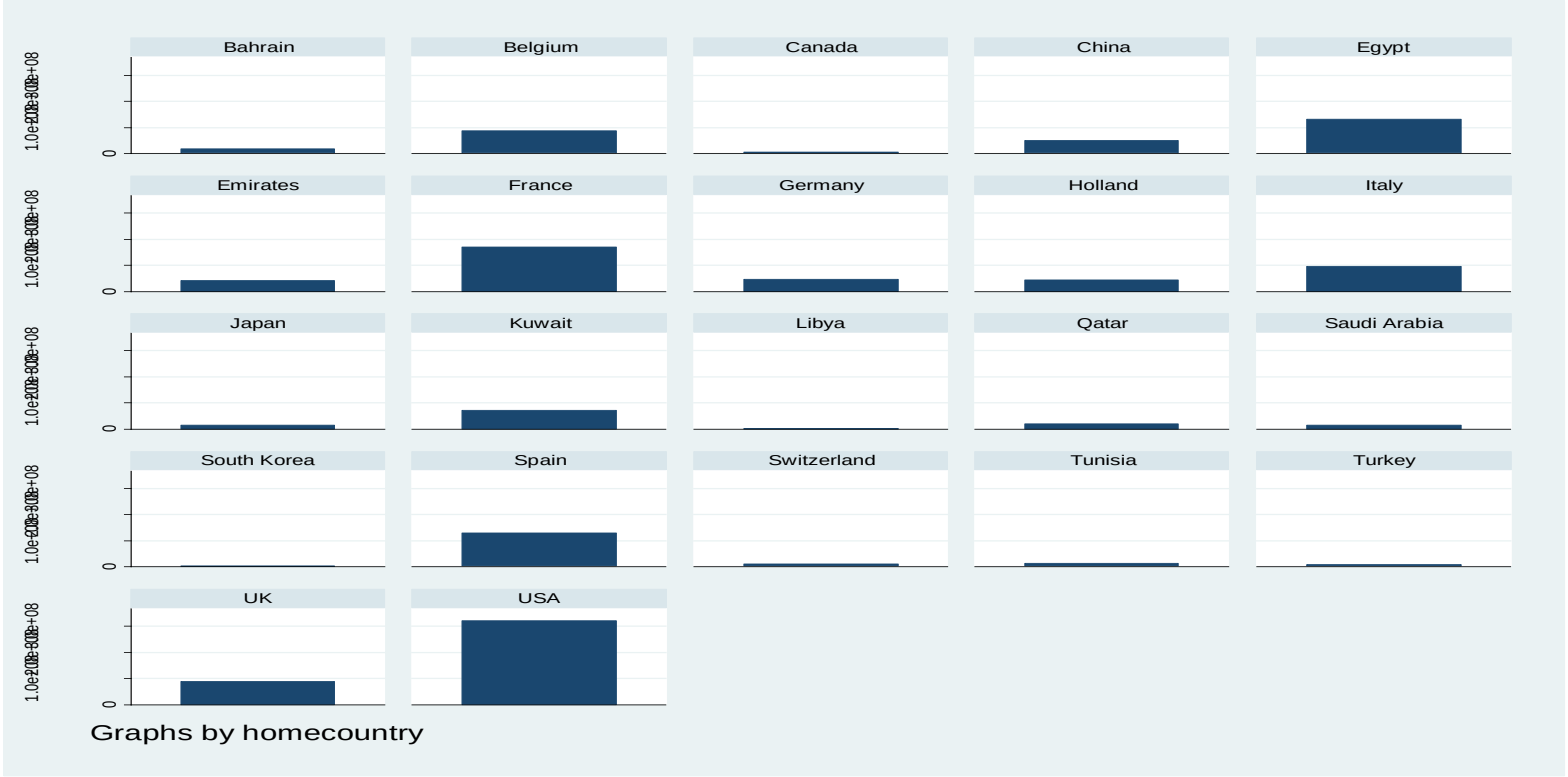
Young, S., Hood, N., & Hamill, J. (2017). Foreign multinationals and the British economy: Impact and policy. Routledge.

Zhang, K. H., & Markusen, J. R. (1999). Vertical multinationals and host-country characteristics. Journal of Development Economics, 59(2), 233-252.

Zhao, S. (2013). Privatization, FDI inflow and economic growth: evidence from China's provinces, 1978–2008. Applied Economics, 45(15), 2127-2139.

APPENDIX

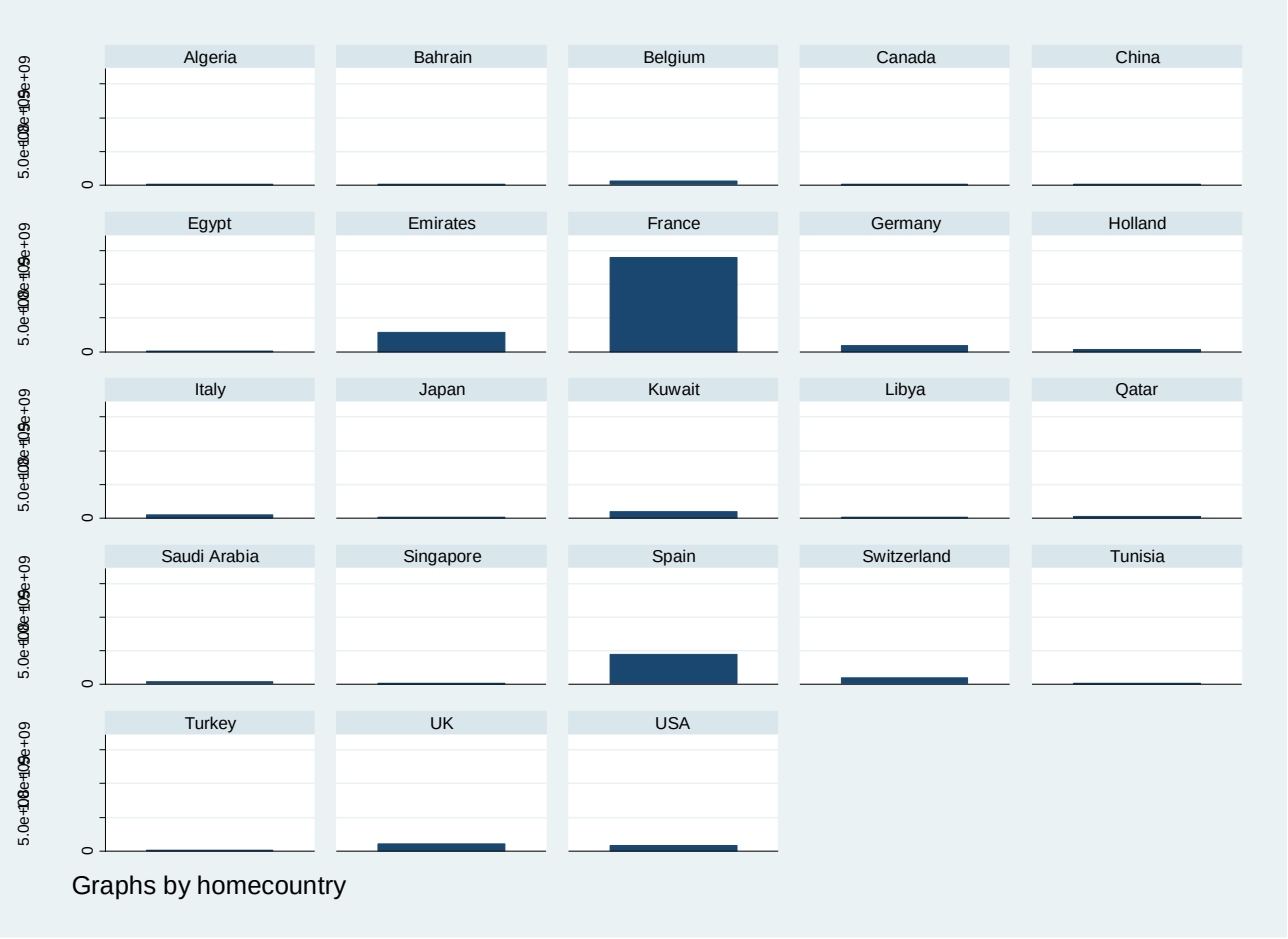
The Investing Countries in Algeria



The Investing Countries in Egypt

The Investing Countries Libya

The Investing Countries Morocco



The Investing Countries Tunisia