RECENT FDI TRENDS IN THE MAGHREB REGION: A BRIEF OVERVIEW

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Abstract:

From the early 1980s the Maghreb countries (Algeria, Morocco and Tunisia) have, with varying extent and pace, initiated important reforms aimed at restructuring their economies through liberalisation and privatisation. With a more market-oriented system being pursued – pointing towards their gradual integration into the global economy – these countries have made foreign investment one of the top priorities in their development process. In light of the main policy measures undertaken by the governments concerned, this paper seeks to assess the degree of their respective success in making their economies more attractive to foreign direct investment. It also reviews the degree of performance that has tended to vary across the region. Issues that need to be addressed to improve much more the enabling environment/conditions for the business to expand and diversify are considered at a final stage.

ملخص:

باشرت دول المغرب العربي (الجزائر، تونس و المغرب) منذ بداية الثمانيات إصلاحات هامة هادفة إلى إعادة هيكلة اقتصادياتها، وفي إطار انتهاجها اقتصاد السوق جعلت هذه الدول من الاستثمار الأجنبي احد الأولويات في سياستها التنموية. وعلى ضوء الإجراءات المتخذة من طرف الحكومات المعنية، تحاول هذه الدراسة تقصي مدى نجاعة هذه التدابير في جعل اقتصاديات المنطقة نقطة استقطاب للاستثمار الأجنبي المباشر، كما تبين الاختلافات في قدرة دول المنطقة في جذب هذا النوع من الاستثمار. وأخيرا تبرز هذه الدراسة بعض العراقيل وكيفية التغلب عليها من اجل تحسين المحيط الاستثماري للمنطقة.

Introduction

Since the beginning of the 1980s the Maghreb countries, like many other developing countries, came to experience major difficulties, not least because of the economic policies they had pursued until then. The poor performance that characterised decades of a state-led development and the transformations the global economy has witnessed left them with no other alternatives than to engage in a process of reforms. Considering that it is a matter of survival, successive governments have embarked upon programmes designed to restructure the economy via liberalisation and privatisation.

The whole undertaking is meant to redress the economic stagnation, or to put it more accurately, the economic decline. The move towards a market-oriented economy is being perceived as the key to rapid economic growth. With foreign aid becoming much more difficult to obtain, other sources need to be found to support this transitional phase and achieve the development goals. The package of reforms implemented and under way, is, among other things, expected to provide a favourable environment and an attractive location for private foreign capital, especially in the form of foreign direct investment (FDI), as an important source of external finance.

Thus the paper focuses on the achievements made by the Maghreb countries in bolstering flows of FDI. It begins with a succinct review of the policy framework aimed at liberalising the investment regulations. Next, it takes a closer look at how successful these countries have been in their respective performance, by providing a statistically-based evaluation of recent trends in FDI both within the region and in comparison with countries of a more-or-less similar level of development. Finally, the paper concludes with a number of issues that ought to be taken on board to further the improvement of the business environment.

Reforms and Policy Framework

Undoubtedly, the perception made of FDI has changed considerably. A large amount of literature, both theoretical and empirical, about the implications of multinational corporations (MNCs) and FDI on growth in developing countries has proliferated. During the 1960s and 1970s MNCs were commonly seen as an instrument of foreign economic domination and thus maintaining the development gap between industrialised countries and developing countries. In recent times, this perception seems to be substituted by a rather optimistic view on their role. The 1980s debt crisis meant that many developing countries started to find it difficult to obtain financial resources. Given these constraints, inward investment in the form of FDI has become an attractive source of foreign capital.

Case studies of the implications of FDI on the host countries' economies have dealt with broader effect such as growth or specific impact on sectoral issues such as trade, technology, employment and so forth.[1] By sector, the FDI is expected to contribute to the growth of host economies through:

- The promotion of physical capital formation, including technology transfer;
- The development of managerial skills and employment;
- The promotion of different types of linkages with local companies, that is stimulating local productivity through backward linkages to domestic service suppliers;
- The encouragement and development of niche export markets.

As far as the last issue is concerned, the 2002 *World Investment Report* produced by the United Nations Conference on Trade and Development (UNCTAD) has contended that:

> TNCs play an important role in the exports of many developing countries and economies in transition. Indeed, for the most dynamic products in world trade, TNCs are central for enabling these countries to reach world markets, and they provide some of the 'missing elements' that developing countries need to upgrade their competitiveness in export markets.[2]

Having said that, the Maghreb countries have made important efforts to improve their investment climate.[3] To promote the conditions conducive to an investment-friendly environment, the governments concerned enacted legislations providing for legal and institutional frameworks to govern foreign investment. As a result, the new investment regimes set up lifted many of the prevailing restrictions on FDI entry (screening requirements and other restrictions) and operations branches and affiliates.[4] While noteworthy progress has been achieved, there is still room for improvement. Indeed, a recent and comprehensive study on business environment in 133 countries conducted by the World Bank makes clear that the Maghreb countries need to make further changes to their enabling investment environment. Table 3 gives an idea about the challenges to set up a business in these countries, using a number of measures. For instance, there are on average13 administrative procedures required, an associated time and cost of 37 days and 367 dollars respectively, and 396 percent minimum capital required (as percentage of GNI per capita). Clearly, between these countries there are variations but, as a group, they seem to be in a better position in relation to the MENA region as whole. Nevertheless, comparing their investment climate (main indicators for starting a business) with that of the OECD –

or even an emerging market such as Malaysia – one must admit that much more work needs to be done, at least in terms of simplifying procedures, reducing time and costs as well.

***Table 3*: Starting a business in the Maghreb**

	Procedures (number of)	Duration (days)	Cost (% of GNI per capita)	Minimum Capital (% of GNI per capita)
Algeria	18	29	31.9	73.0
Morocco	11	36	19.1	762.5
Tunisia	10	46	16.4	351.7
MENA*	11	50	54.5	1,104.3
OECD**	6	30	10.2	61.2

(*): Average in the Middle East and North Africa; (**): Average in the Organisation for Economic Cooperation and Development.

Source: Based on data derived from the World Bank, *Doing Business in 2004: Understanding Regulation* (Washington, DC: World Bank and Oxford University Press, 2004).

FDI Indicators

FDI flows (inward) reached a record level of almost 1,393 billion dollars throughout the world in 2000, yet they declined to 651.2 billion dollars in 2002. This downward trend started from 2001 corresponding to a flow of 823.8 billion dollars.[5] The share of developing countries, which was on average about 50 billion dollars per year during the period 1985-1995, increased to nearly 246.0 billion dollars in 2000, but went down to 162.1 billion dollars in 2002.[6] In sum, the plausible explanation behind the fact that the developing countries have not fared well in recent years is indeed associated with a downward global phenomenon (see Figure 1 in Appendix).

Although efforts are being made to attract FDI, Algeria, Morocco, and Tunisia have, compared with other regions, remained one of the less attractive ones. For instance, their share of FDI flows to developing countries and economies, as a group, was 1.4 percent in 2002, a proportion well below the 2.1 percent exceptional one in 2001 (see Figure 2 in Appendix). Yet this pattern needs to be differentiated when examining their performance separately. As Table 1 reveals, the Maghreb countries have witnessed fluctuating levels of FDI inflows, denoting on occasions better performance (Algeria in 2001 and 2002, and Morocco in 2001). By contrast, FDI flows to Algeria remain modest, if not small in an economy considered the second largest one in Africa. Not surprising then to see that the FDI stocks vary considerably.

***Table 1*: FDI inflows into Algeria, Morocco and Tunisia (billion of dollars)**

	1985-1995 (annual average)	1998	2000	2001	2002
Algeria	0.017	0.501	0.438	1.196	1.065
Morocco	0.237	0.417	0.423	2.808	0.428
Tunisia	0.260	0.668	0.779	0.486	0.821
Developing countries	50.0	191.3	246.1	209.4	162.1
World	181.0	686.0	1,393.0	824.0	651.2

Source: UNCTAD, *World Investment Report 2003 – FDI Policies for Development: National and International Perspectives* (New York and Geneva: United Nations, 2003).

As Table 2 reveals, inflows by absolute values and stocks show a steady increase, but may not provide a much clearer picture of the importance of inward FDI for host country or countries. Therefore the attractiveness of a country can be appreciated by looking at how significant is the ratio of FDI to GDP. The same table provides an indication of the importance of this ratio in the region’s economy. Its pattern (ratio) over time shows no major change thus reflecting a poor attractiveness. This is chiefly the case of Algeria when compared with its neighbours in the Maghreb region and the developing countries in general. With a ratio of 10.5 percent in 2002 Algeria is still lagging far behind while other countries or regions of a more-or-less development level are making significant inroads – Morocco almost 27 percent, Tunisia 66 percent and the developing countries 36 percent. The marginal role played by FDI in Algeria is quite evident when taking into consideration the FDI impact on gross fixed capital formation. Between 1999-2002, the FDI contribution was 6.2 percent whereas Morocco registered 16 percent, Tunisia just about 12 percent, and the average in developing countries was more than 13 percent.[7]

No doubt all these indicators suggest that Algeria needs to make much more efforts to improve its image as a good location for business and private investment. However, it should be borne in mind that reforms undertaken in Morocco and Tunisia, especially in relation to privatisation, relatively progressed at a faster pace than in Algeria. Indeed, the privatisation programme contributed to increase the FDI inflows in these countries. During the period 1990-1999, proceeds from privatisation amounted to 3,102 million dollars in Morocco, 523 million dollars in Tunisia and only 55.1 million dollars in Algeria.[8] In addition, one also has to take account of the fact that the available statistics on Algeria have tended not to include those investments by foreign companies into the hydrocarbon sector (exploration and production sharing), being in this case the major recipient.[9] Investment in this sector increased from 671 million dollars in 1999 to 2.3 billion dollars in 2003, and the cumulated stock amounted to 8.6 billion dollars over the period 1999-2003.[10]

Table 2: FDI stocks in Algeria, Morocco and Tunisia

	Stocks (billion dollars)				**GDP (Percentage of)**		
	1990	**1995**	**2000**	**2002**	**1990**	**2000**	**2002**
Algeria	**1.4**	**1.4**	**3.4**	**5.7**	**2.2**	**6.5**	**10.5**
Morocco	**0.9**	**3.0**	**6.8**	**10.0**	**3.5**	**20.3**	**26.9**
Tunisia	**7.6**	**11.0**	**11.5**	**14.0**	**62.0**	**59.3**	**66.2**
Developing countries	**551.5**	**920.4**	**2,029.4**	**2,340.0**	**14.8**	**31.1**	**36.0**
World	**1,954.2**	**3,002.0**	**6,146.7**	**7,122.4**	**9.3**	**19.6**	**22.3**

Source: UNCTAD, *World Investment Report 2003 - FDI Policies for Development: National and International Perspectives* (New York and Geneva: United Nations, 2003).

Another way of appraising the relative importance of FDI flows into these countries is by comparing their performance within the Euro-Mediterranean zone. The three countries are signatories to the EU association agreements, as part of Europe's partnership policy launched during the Euro-Mediterranean Conference on 27-28 November 1995 in Barcelona. The declaration adopted stated that 'economic development must be supported both by internal savings, the basis of investment, and by direct foreign investment', and the emphasis was put on 'the importance of creating an environment conducive to investment, in particular the progressive elimination of obstacles to such investment which could lead to the transfer of technology and increase in production and exports'.[11]

The Maghreb countries have been placing high hopes on their partnership arrangements with the EU. For instance, the targeted growth rate of 8 percent a year expected by Morocco from the agreement is based in large part on attracting foreign direct investment.[12] In like manner for Tunisia, it has been argued that unless it can attract one billion US dollars of new foreign direct investment per year in all sectors, then its free trade deal with the EU will be detrimental to its economy.[13] While these initial expectations might not have materialised in practice, they, however, reflect the significance attached to this type of investment in anchoring the Maghreb economies into the European economic space.

According to available statistics, FDI flows (registered capital and other transactions) from the EU to the 12 Mediterranean partner countries (MEDA-12) increased from 0.444 billion Euros in 1992 to 2.350 billion Euros in 2001; a level that is still relatively low in comparison with the Union's commitment in other parts of the world such as the Candidate countries, the Mercosur countries and the Asian NICs.[14] Over this period, the Maghreb countries' share was 7 percent and 21 percent, perhaps reflecting a much more noticeable position of the EU's FDI in the region (Morocco and Tunisia in particular) in recent years. However, a more detailed picture of European investment in the region is provided by a recent report (2003) from the Euro-Mediterranean Network of Investment Agencies (referred to under the acronym of ANIMA), which considers that the 'region's attractiveness is improving'.[15] Accordingly, its analysis of investments by sub-region of destination in 2003 shows the following:

- Maghreb (Algeria, Morocco, Tunisia): 146 projects (53 percent);
- Machrek (Egypt, Jordan, Palestine, Syria, Lebanon): 52 projects (19 percent);
- Other MEDA countries (Cyprus, Israel, Malta, Turkey): 77 projects (28 percent)

With about 162 projects (59 percent) the Union occupies a relatively dominant position as a source of FDI flows to the MEDA-12, followed by the United States (44 projects, 16 percent) and Islamic countries (19 projects, 7 percent).[16] While the predominance of the Maghreb region is evident – accounting for more than a half of the MEDA-12 total, 275 projects – it is the case that other regions such as Central and Eastern Europe have performed much better, as they were the destination of 451 FDI projects during the same period of time (2003). Obviously, this performance can be explained by the fact many countries in this region are new candidates joining the EU in May this year and, as a result, they have benefited from significant and wide-ranging European support to prepare their economies for membership, something the Maghreb countries have not been given on the same scale.

Concluding Remarks

It is apparent that the Maghreb countries, in their reform programmes, have endeavoured to create conditions (legal, institutional and others) that would make their region an attractive location, especially in terms of FDI inflows. Undoubtedly, the extent and the pace of the policy measures have varied across the region. It is also the case that the FDI flows have tended to fluctuate from year to year and within the region from country to country, depending, amongst other things, on the investment opportunities. Yet, in general, these flows remain relatively low when compared to other emerging markets.

The persistence of a number of obstacles ought to be addressed in an efficient and forward looking way. Amongst these one can cite the absence of a larger market, the still existing regulatory hurdles, political uncertainties and the question of the slow process of privatisation. The latter issue is and continues to be an important component of the reform programme, but has not progressed at the desired pace, notably in Algeria and to a lesser extent in Morocco. Nonetheless, one should bear in mind the fact that privatisation has, with the exception the hydrocarbon sector, been the main contributor to the FDI inflows in these countries – for instance, the sale of licenses in the telecommunication sector in Algeria and Morocco.

For some time to come, the importance of foreign financing in the form of FDI promises to be extremely decisive in smoothing the region's transitional process (towards market economy, in its relations with the EU and commitment to multilateral trade liberalisation). It is quite clear that increasing FDI flows requires not only diversifying its sectoral focus, but promoting its activities in greenfield areas as well.

Appendix

Figure 1
FDI Flows: Worldwide and Developing Countries

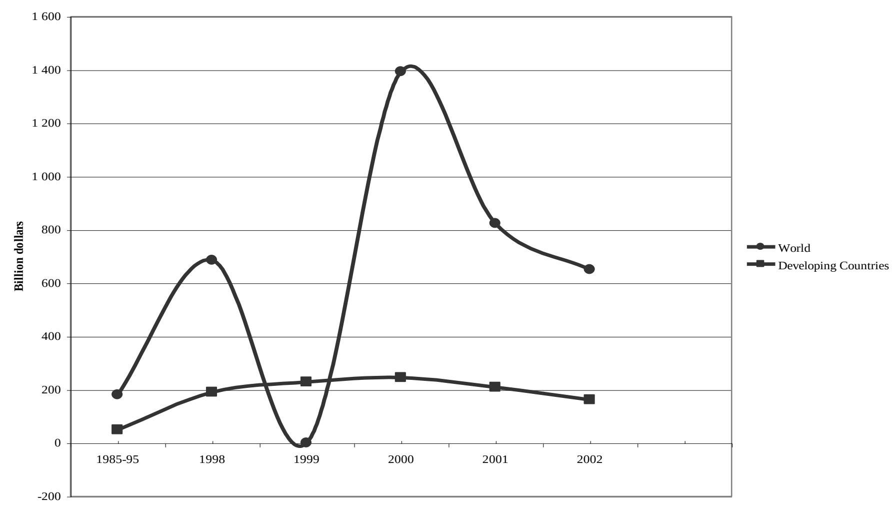
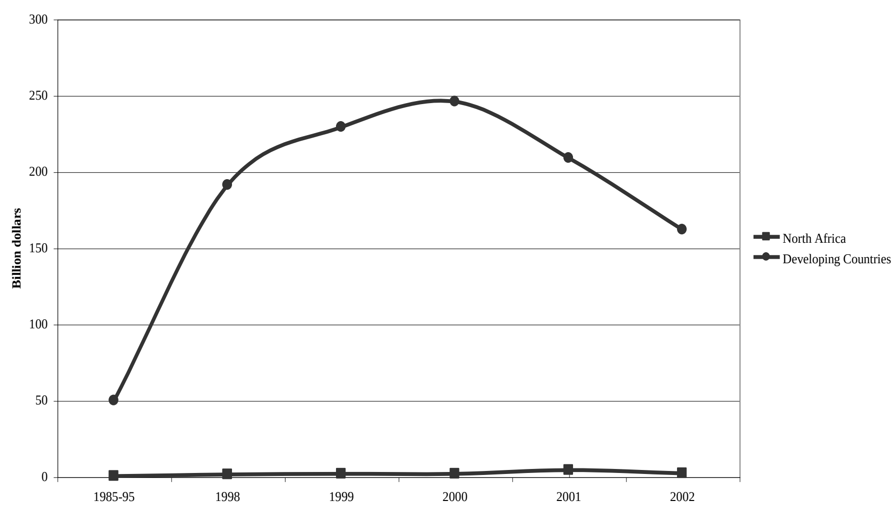


Figure 2
FDI Flows to Developing Countries and North Africa



Source: Based on data derived from the UNCTAD, *World Investment Report 2003 – FDI Policies for Development: National and International Perspectives* (New York and Geneva: United Nations, 2003).

Endnotes:

[1] For further details see, for instance, Eduardo R. Borensztein, Jose De Gregorio and Jong-Wha Lee, 'How Does Foreign Direct Investment Affect Economic Growth?', *Journal of International Economics*, 45, 1 (1998), pp. 115-135; Theodore Moran, *Foreign Direct Investment and Development: The New Policy Agenda for Developing Countries and Economies-in-Transition* (Washington: Institute for International Economics, 1998).

[2] UNCTAD, *World Investment Report 2002: Transnational Corporations and Export Competitiveness* (New York and Geneva: United Nations, 2002), p. 189.

[3] For a detailed account on host country determinants of FDI, see for instance UNCTAD, *World Investment Report 1998: Trends and Determinants* (New York and Geneva: United Nations, 1998). Padma Mallampally and Karl P. Sauvant, 'Foreign Direct Investment in Developing Countries', *Finance and Development*, 36, 1 (March 1999), pp. 34-37; Nora Ann Colton, 'The Maghrebi Economies as Emerging Markets', in Yahia H. Zoubir (ed), *North Africa in Transition-State, Society and Economic Transformation* (Gainsville, Florida: University Press of Florida, 1999), pp. 158-176.

[4] UNCTAD, *Investment Regimes in the Arab World: Issues and Policies* (New York and Geneva: UNCTAD, 2000), p. 7.

[5] UNCTAD, *World Investment Report 2003 - FDI Policies for Development: National and International Perspectives* (New York and Geneva: United Nations, 2003).

[6] *Ibid.*

[7] *Ibid.*

[8] World Bank, *World Development Indicators 2001* (Washington, DC: World Bank, 2001), pp. 270-272.

[9] There are twenty foreign oil companies operating in Algeria with a 2.5 billion dollars invested in exploration so far; for more details see *http://www.sonatrach-dz.com*, accessed 19 March 2002.

[10] Algérie Presse Service, 'IDE : 2,3 milliards USD dans le secteur des hydrocarbures en 2003', *http://www.aps.dz/fr/pageview.asp?ID=60688*, accessed 12 April 2004.

[11] See European Commission, *Barcelona Euro-Mediterranean Conference (27-28 November 1995) – Declaration and Work Programme*, DN: DOC/95/7, 4 December 1995.

[12] *Financial Times*, 19 December 1995.

[13] *Arabies*, no. 107, November 1995, p. 34; see also *Financial Times*, 28 November 1995.

[14] Eurostat, *Statistics in Focus – Economy and Finance*, no. 13, 2003, p. 2.

[15] ANIMA, 'Foreign Direct Investment in the MEDA region in 2003', *http://www.animaweb.org*, accessed 04 April 2004.

[16] *Ibid.*, pp. 26-27.