Foreign investment: slight withdraw in 2016 in MED countries, though previsions remain optimistic

Low economic growth and important political risks perceived by companies: The flows of foreign direct investment (FDI) have lowered by 5% in 2016 in all of the MED countries, after a great leap forward in 2015 (+25%).

Those statistics, published in the annual report on global investment (World Investment Report 2017 - WIR 2017) of the UNCTAD (United Nations Conference on Trade and Development) published on the 7th of June 2017, do attest that the path to a full economic recovery remains unstable. 2016 is a year of global stabilization, (the global flow lowered by 0.9%), whereas the UNCTAD had justified the 2015 rise by some important reconfigurations within international groups. In the MED countries, the rise remains attached to the evolution of economical laws promoting engaged investments in several countries.

The overall decline of FDI flows in 2016 is the result of weak economic growth

The World Investment Report 2017 reports divergent trends across regions. Developed economies capture 59% of global inflows of FDI in 2016, the highest proportion since 2007. Investment growth in North America (+ 9%) and other developed countries (+ 164% for Australia, Bermuda, Israel, Japan and New Zealand combined) offset the decline of FDI in Europe (-6%). Conversely, FDI inflows in developing economies declined by 14% in 2016 due to low commodity prices and slower economic growth.

UNCTAD is cautiously optimistic about 2017: rising international trade, the increase of corporate profits and economic recovery may be conducive to a slight growth (+ 5%) in FDI flows, still tied to current geopolitical tensions.
The report devotes its annual focus to the digital economy, which is strategic for inclusive and sustainable development on a global scale.

The Mediterranean follows the global trend, but the Mashreq and Israel are doing well

According to the global trend, the 11 countries of the South and East of the Mediterranean (MED: Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia and Turkey) registered a 5% decline of FDI inflows in 2016 and captured 2.4% of world foreign direct investment inflows, a stable share compared to 2015 (2.5%). These regional figures hide very contrasting national realities: Turkey and Israel remain the two economic heavyweights of the region, followed by Egypt, which pulls up North Africa.

North Africa: Investments ease in Maghreb countries but progress in Egypt

In Algeria, firstly, after the negative flows recorded in 2015 with the acquisition of the telecom operator Djejzy by the State, foreign investment returns to a level very close to the average for 2012 to 2014 (around 1.5 Billion), which is well below the country's strong potential. Investors continue to hope for the improvement of business climate and the reform of the investment framework to capture the country’s many sectoral opportunities in the domestic market. The Finance Law (PLF) 2017 adopted in October 2016 proposes new tax incentives for companies and investors. Moreover a reform of NIDA (National Investment Development Agency) missions is under study.

In Libya, the political impasse persists, prohibiting any significant recovery in the activity of foreign companies.

Morocco, which has performed well over the last five years, is experiencing a marked decline (-29% compared with 2015), which UNCTAD attributes to the reduction of demand from European consumers. Morocco, despite its status as a
Foreign investment: strong disparities in the 2015 balance sheet of MED countries

The major industrial base in the automotive and aeronautic industries, retains its place among the first African countries receiving FDI, ranking 4th in 2016. It is also pursuing its regional investment strategy in Africa, with outflows of FDI exceeding $ 600 million, as in 2015. The draft of the new Investment Charter, revealed in July 2016, is expected to be adopted by the end of 2017 or at the beginning of 2018. It will replace the previous text, which dates from 1995, and should contribute to the improvement of the business climate in Morocco.

In Tunisia, foreign investment is still not taking off: the new decline in 2016 (-4%) has put FDI flows below the symbolic threshold of one billion dollars for the first time since 2006. The Tunisia 2020 strategic plan announced at the International Investment Conference in November 2016 and the entry into force in April 2017 of the new Investment Code, the latest decrees of which are expected by the end of the year 2017, are nevertheless strong signals for foreign companies. Among the improvements afforded, the Code eliminates income taxes on major investment projects for 10 years and facilitates remittances outside the country.

As in 2015, investment in North Africa is being driven upward by Egypt, where inflows of FDI increase by 17% in 2016. This is the best performance for the MED countries, excluding Palestine (where the flows are too low to be significant), and Algeria, which had experienced an exceptional negative balance in 2015. UNCTAD mentions investments in the Egyptian hydrocarbon sector after the discovery of gas reserves in the Western Desert. The signing of the agreement between Egypt and China on the construction of a new Silk Road, called “One Belt and One Road”, also allows the country to capture 15 Chinese investments worth 15 Billion dollars, especially for the development of economic zones in the Suez Canal. On 2 June 2017, the country also adopted a new investment law, reducing the administrative burden for new projects and introducing new incentives.

2016 is a fairly good year for the Mashreq countries

The balance sheet is upward in Palestine, where inflows of foreign investment have more than double (even though they remain very modest, see figure 3) and in Lebanon: + 9%. With foreign investment up to 4.9% of the GDP, Lebanon is one of the most efficient economies in the region, and ranks 4th among the 19 Arab countries in FDI inflows, despite a still tense political situation. The country can rely on liberal investment policies, skilled labor, an efficient banking sector and a strategic regional situation.

In Jordan, investors remain cautious: flows decline by 4% in 2016 and are at their lowest level since 2012. A new law regulating foreign investment was however adopted on 16 June 2016 in order to increase the attractiveness of the country. It updates the list of sectors closed to foreign investment (armaments, crafts) and those for which an association with a majority local investor is required (maintenance and maritime health services), and removes the minimum social capital which was imposed on investors.
Foreign investment: strong disparities in the 2015 balance sheet of MED countries

Israel takes the top spot, surpassing Turkey for the first time since 2004

Turkey, which seems to be permanently undermined by the coup attempt of July 2016, is experiencing a 31% decline in its FDI inflows. Nevertheless, the country has strong economic fundamentals: industrial diversification and lower exposure to oil price fluctuations. Turkey also introduced in March 2016 attractive measures for foreign investors, including support for research and development (R & D) and innovation activities, as well as a regulation, introduced in 2017 offering Turkish citizenship to foreign investors subject to certain conditions. The country has finally concluded no fewer than seven international investment agreements in 2016, with Georgia, Somalia, Jordan, Ghana, Côte d'Ivoire and the Republic of Moldova.

Israel finally reverted to the first destination of foreign investors in the Mediterranean in 2016, with 12.3 billion dollars invested (a 7% increase compared to 2015), against just under 11 billion for Turkey. The country is also one of the big emitters of FDI: Its investments, up 26% in 2016, include the giant Teva Pharmaceutical. The country continues to rely on its strong attractiveness in terms of innovation and in December 2016 launches the Innovation Visas program to attract innovative foreign entrepreneurs.

Bibliography / More information

- ANIMA-MIPO observatory of investments and partnerships in the Mediterranean (www.animaweb.org/mipo)