Review of Foreign Direct Investment and Partnerships during the first half of 2010

An upward trend, with more modest projects

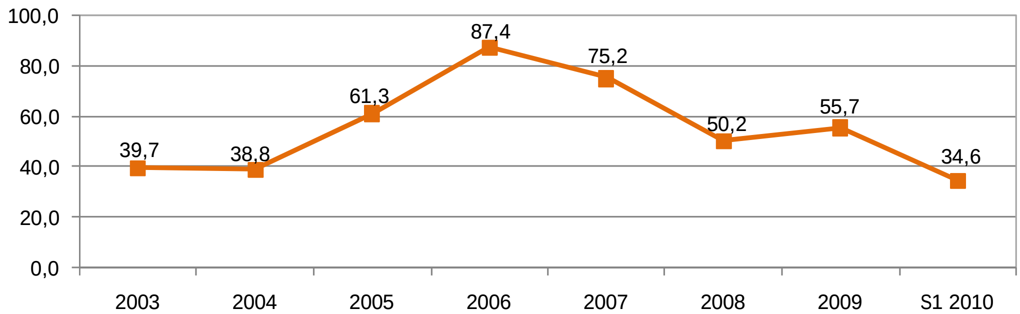
According to the Mediterranean Investment and Partnership Observatory ANIMA-MIPO supported by the EU-funded Invest in Med Programme, the number of Foreign Direct Investment (FDI) projects announced in MED countries[1] begins to increase again with **392 projects detected during the first semester 2010 (S1 2010) against 532 for the whole year 2009, i.e. +47%.**

The decrease of the average size of investment announcements however accelerates: 34.6 million euro (M€) by project during S1 2010, against 55.7 M€ in 2009 and 87.4 M€ during the 2006 record year (Figure 1). **FDI inflows thus remain quite steady** compared to 2009: 13.6 billion euro (bn €) during S1 2010 against 29.6 billion € in 2009 i.e. 8% drop.

Partnerships[2], for their part, show strong growth: 246 projects during S1 2010, vs. 302 for the whole year 2009 (+63%).

2010 is therefore consistent with the trends registered in 2009: reassured by the good economic forecasts for MED countries (Arab States should register a GDP growth of 4% in 2010 according to IMF), foreign companies boost their investment planning, but with more modest and less risky FDI projects. After the golden era of megaprojects in the telecoms, banking and real estate (2005-2007), and the financial and economic crisis (2008-2009), **companies resume their investment projects but limit their size and pay more interest in partnerships to develop their activities in the region.** This situation opens a window of opportunity for MED enterprises, which could benefit from a new scheme of added value sharing provided they could bring commercial, technical support and financial leveraging needed for the projects developed by their foreign partners.

Figure 1. Evolution of the average size of FDI projects (M€. Source: ANIMA-MIPO)



[1] Group of 11 countries neighbouring Europe, i.e. 9 Mediterranean partner countries of the EU (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia), one with observer status (Libya) and one in the membership process, Turkey. Malta and Cyprus joined the Union on May 2004.

[2] Defined as projects where a foreign corporation approaches a domestic market, either through an identified partner or by opening a local representation (branch, network, etc.).

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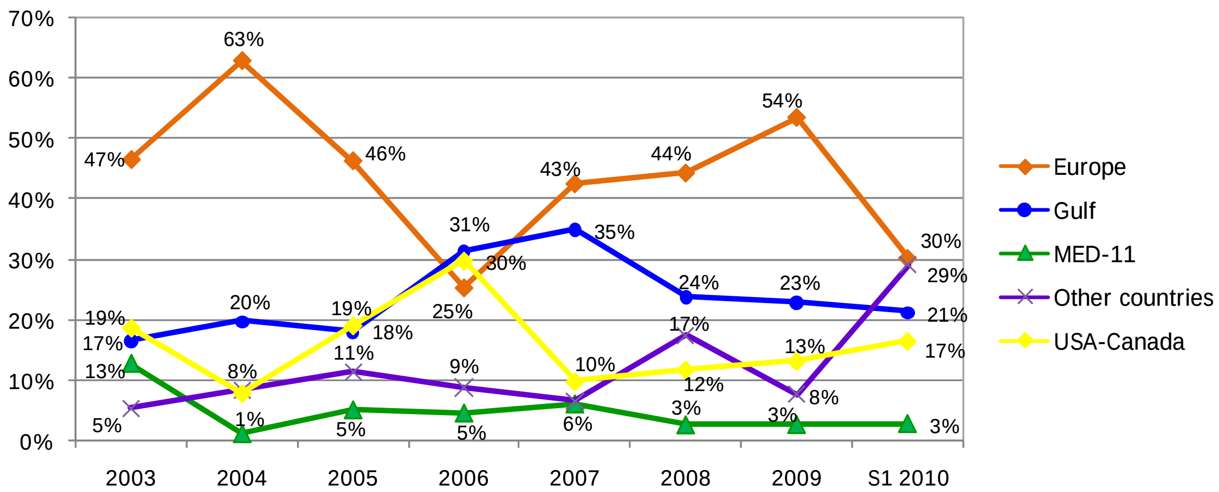
Emerging countries become major actors in the MED region

One major modification however occurs during the first half of 2010: the origin of FDI inflows varies significantly, **emerging countries becoming a new inescapable player for FDI in the MED countries.** They bring 29% of FDI announced inflows during S1 2010 (3.9 bn €), against 11% on average since 2003 (Figure 2). China comes first in this group with a diversified portfolio of sectors (energy, distribution, real estate, automobile, water, etc.) benefitting to Egypt, Israel, Syria and Turkey.

Emerging countries thus change the usual winner list by stealing the second place from the Gulf countries. European companies, which have brought over 40% of FDI inflows in the region since 2003 and resisted well in 2009 with 54% of FDI announcements, provide only 4.1 billion € during S1 2010 (30% of total inflows). This European falling back nevertheless probably does not presage a disengagement from the region: **European investors still lead the way in number of projects announced, with 42% of FDI projects and half of the partnerships during S1 2010**. European FDI projects are more modest on average than these of emerging countries (average size of 22 M€ against 112 M€ for emerging countries during S1 2010), but they offer a more diversified portfolio of sectors and 25% are developed by SMEs during 2003-2010, against 10% for emerging countries.

Figure 2. Evolution of origin of net FDI flows (Source: ANIMA-MIPO, 2003-S1 2010)



Eastern Mediterranean countries benefit the most from recovery

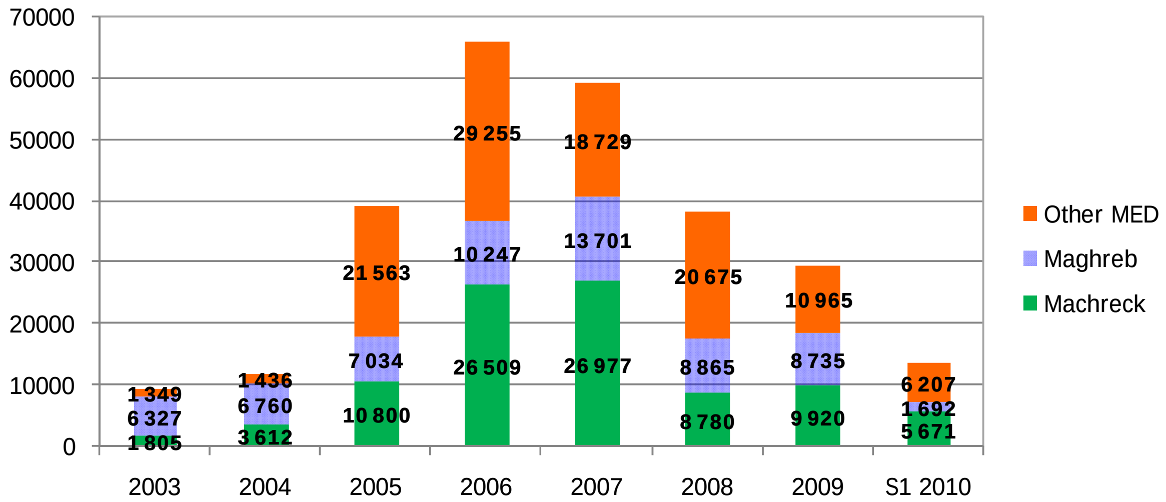
Israel and Turkey, the more globalised economies in the region and hence more affected by the crisis, rebound rather substantially after a bad year 2009 (Figure 3): +75% in number of FDI projects detected and +13% in FDI inflows, with respectively 1.5 and 4.5 bn € during S1 2010. **Turkey**, which should register a GDP growth reaching 6% in 2010 after a recession in 2008-2009, **attracts an increasing number of FDI announcements from the United States and the emerging countries** (namely China, Japan and Russia).

Machreq also follows an encouraging trend: +40% in number of projects and 5.7 bn € announced i.e. +14% in inflows compared to 2009. The strongest increases are for **Lebanon, which attracts during S1 2010 its 2009 total inflows, and Syria which**

attracts 2.2 billion € during S1 2010 against 0.9 billion € for the whole year 2009, notably thanks to the investment project of Chinese CNPC which buys Shell's Syrian assets, and Emirati Majid Al Futtaim (MAF) which launches a second mall project in Damascus. Partnerships also rise significantly in Machreq countries, which catch up with the Maghreb countries by attracting a little more than a third of the total number of partnerships during S1 2010.

Situation in Maghreb leads to less optimism: +29% in number of projects but 20% decrease of inflows during S1 2010 compared with 2009. The 1.7 billion € announced in a semester represents a very low level compared to the average amount of 8.8 billion € per year since 2003. The decline reaches 60 to 80% for Algeria, Libya and Morocco, while Tunisia is an exception with a 3.5 fold increase of the FDI inflows thanks to Emirati Gulf Finance House (GFH) which launches the construction of Tunis Financial Harbour after the acquisition of dedicated land in 2009. Without this announcement (3 billion dollars to be invested within 7 years), Tunisia would experience a decline similar to its Maghrebian neighbours. Figures are more contrasting in terms of number of projects detected during S1 2010: Tunisia leads by far (+76% compared with 2009); Morocco also does well (+29%) and status quo prevails in Libya. The 23% decline in Algeria is wholly imputable to the energy sector, which has accounted for one third of the Algerian FDI portfolio since 2003, whereas projects in other sectors are stable compared to 2009. Maghreb is thus especially affected by the decrease in the average size of FDI projects.

Figure 3. FDI inflows by host region from 2003 to 2009 and for S1 2010 (Source: ANIMA-MIPO)



At regional scale, investment intentions rise in several strategic sectors during S1 2010:

- Banking: Syria steals the limelight by attracting 10 projects after adopting in January 2010 a law enabling foreign players to hold up to 60% of capital of Syrian banks, against 49% previously;
- Consulting and business services: after the marked slowdown in 2009, operators resume their expansion strategies especially in Morocco and Tunisia which attract half of the 29 FDI projects announced. Partnerships also significantly rise;
- Electronic components: the sector attracts 24 projects, of which several American joint-ventures in Israel, against 22 for the whole year 2009;
- Distribution: the rebound after 2009 poor results mainly occurs in Turkey (8 projects out 19), with newcomers such as Chinese Li & Fung Group which chooses Turkey to set up its operation centre for Europe, Africa and the Middle East;
- Drugs: while Israel attracts Western companies (5 projects detected), Tunisia continues to develop its pharmaceutical sector and attracts 2 European but also 2 Jordanian corporations during the same period.

The **Invest in Med programme** aims at developing sustainable trade relationships, investments and enterprise partnerships between the two rims of the Mediterranean. Funded at 75% by the European Union over the 2008-2011 period, it is implemented by the MedAlliance consortium, which associates economic development organisations (ANIMA, leader of the programme), CCIs (ASCAME, EUROCHAMBRES), and business federations (BUSINESSMED). The members of these networks, as well as their special partners (UNIDO, GTZ, EPA Euroméditerranée, World Bank, etc.), gather a thousand of economic actors - mobilised through pilot initiatives centered on key Mediterranean promising niches. Each year, a hundred operations associate the 27 countries of the European Union and 9 Mediterranean partner countries: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia. www.invest-in-med.eu

ANIMA Investment Network is a multi-country platform supporting the economic development of the Mediterranean. The network gathers around 60 governmental agencies and international networks. The objective of ANIMA is to contribute to a better investment and business climate and to the growth of capital flows into the Mediterranean region. www.anima.coop

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