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THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN MENA COUNTRIES

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ABSTRACT

The Middle East and North Africa (MENA) area is a great instance of a maddening. The primary subject of this investigation can be put as the determinants of Foreign Direct Investment (FDI) in the Middle East and North Africa (MENA) area. Inside this specific circumstance, the exploration manages the nation level determinants of FDI streams and also organization level basic leadership on areas and activity modes in the MENA district. The goal of the investigation is to distinguish and specify the components in the MENA economies that are useful in drawing in FDI. The examination is vital on the grounds that FDI is basic in improving economies especially in creating countries and accordingly expanding occupations and success.

INTRODUCTION

The Middle East and North Africa (MENA) area is a great instance of a maddening Catch 22 in connection to the stream of Foreign Direct Investment (FDI). In spite of having a portion of the most extravagant oil-creating nations on the planet, and even after very nearly two decades when there was usage of basic modification, this area keeps on lingering behind in drawing in FDI inflows [1].

FDI inflows to all economies and nations, and additionally in the MENA nations, are viewed as basic for the improvement of the related economies and assume a critical job in the general advancement of such nations. The upsides

of FDI inflow is that they not just get cash and monetary assets with them, yet in addition takes into consideration exchanging of innovation, meets the budgetary capital needs, improves by and large profitability for the nearby and residential organizations and, in particular, helps in the age of chances for employments for the talented and the jobless individuals in the related economies [2].

There are a few explanations behind that can be ascribed to this pattern. One of the real reasons has been the high political precariousness in the area. The „Arab transitions“ or the Arab Spring as it is prevalently called, has acquired a drop development of the genuine GDP and has brought about an expansion in joblessness in every one of the nations of the MENA district [3]. The worldwide financial log jam in 2007-08 has been one worldwide explanation behind log jam of FDI, combined with this has been the effect of truly low unrefined petroleum costs that has affected the economies of the oil creating nations – a large number of whom reliant on incomes from oil for sustenance [4].

An examination of the genuine GDP development in these nations gives a reasonable picture of how the economies were affected which brought about lull of FDI inflows. In 2013, the MENA district on the generally speaking, figured out how to accomplish normal genuine GDP development of only 3.9%. This figure had recorded a normal of 6.9% out of 2003-08 [5].

Following the shortcomings uncover in the economies of the MENA area by the Arab Spring and the worldwide budgetary emergency, a few stages have been taken by various nations in drawing in FDI in the MENA locale. Such systems are various and incorporate an extensive variety of arrangements, particularly in the monetary and money related segments, in connection to speculation advancement organizations, and those identified with unhindered commerce zones [6].

Monetary impetus strategies attempted by the nations of the area incorporate advances like a 5 years charge occasion declaration in Syria while the equivalent has been reported for a time of up to 20 years by the legislature of Egypt [7]. These duty occasions are anyway reliant on the segments where FDI is being made. A few nations have additionally diminished corporate pay expense, for example, in Qatar, which fuse a decrease of the most extreme corporate assessment rate to 30% from 35%. The most noteworthy rate of corporate expense was lessened from 45% to 30% in Saudi Arabia [8]. Furthermore, money related motivations were additionally given which were focused at some privately owned businesses with intend to draw in and to urge such organizations to contribute. Such kind of motivation is frequently supported or organizations as remuneration for causing the detriments that are pervasive in a specific area which may have issues, for example, low advancement or solid joblessness [9]. Saudi Arabia for instance, gave particular rates to organizations for vitality utilization on the off chance that they migrated corporate units to specific zones, while foundation financing was given by the legislature in Algeria. Different motivations incorporate

endowment of real costs for migration and representative valuing for utilizing state-possessed land as in Tunisia [10].

The principle subject of this examination can be put as the determinants of Foreign Direct Investment (FDI) in the Middle East and North Africa (MENA) district. Inside this specific situation, the examination manages the nation level determinants of FDI streams and in addition organization level basic leadership on areas and task modes in the MENA district. The goal of the investigation is to recognize and identify the variables in the MENA economies that are useful in pulling in FDI. The examination is vital in light of the fact that FDI is basic in improving economies especially in creating countries and in this way expanding occupations and success. The turmoil and the vulnerability in arrangement follow the „Arab transitions“ has proceeded to altogether affect every single monetary action and additionally the prospects in close terms for the MENA district. What's more, thus critical basic difficulties have been uncovered by the "Bedouin transitions“ as for FDI inflow to the locale. Such auxiliary issues basically incorporate the overdependence, for a few nations, on the general population division regarding business, large amounts of the casual economy, restricted rivalry in the item showcase, absence of foundation, moderate and low endeavor creation, and essentially high reliance on imports of fuel and nourishment in a few economies [11].

METHODOLOGY

Method Outline

The main objective of this research paper is to analyze the factors in the MENA economies that are helpful in attracting FDI. The research methodology chapter will provide details of the techniques used for the research purpose. We need to collect information and evaluate the process according to the theoretical models and approaches. The positivism research philosophy is used in this perspective which helps in gaining appropriate information and hidden facts on the subject for the analysis process. The next process in the research methodology involves research approach, here the deductive approach is used as the topic includes the definite theoretical diagram and different model and theoretical aspect are available for the effective research work. Furthermore, secondary sources are counted for effective analysis and evaluation of the available information.

These secondary sources will help in evaluating the the factors in the MENA economies more appropriate way. In going down of the method outline, the descriptive designing will provide define and detail understanding of the applied theories and model and also helps in finding the impact of the outcome of the research work. The secondary sources will help in effective analysis and understanding of the topic of the research and also helps in the quality outcome. Here research onion technique is used to for making the method outline more appropriate and according to the requirements. This tool helped in listing the basic divisions essential for the research methodology and successful analysis of the topic of the. The Onion tool in this respect provides a definite structure under the research methodology will do. It provides

appropriate format and stages used in this process. It helps to divide this research mythology in six section or stages which are mainly research philosophy, strategies involved, approaches, techniques, time horizons and limitations.

Research Approach

In this case, the deductive approach is used as this research work is mainly oriented to influential factor for attracting FDI in MENA countries. Various theories and model are available in this respect for successful research analysis. The decision-making process and models will help in understanding the different influential factor for attracting FDI. Therefore, the deductive approach will help in the clear and appropriate understanding of the behavioral approach of the MENA countries. The inductive approach cannot be implemented in this scenario as there as established theories for the researcher and researchers are unable to evaluate newer theories in this perspective.

Research Design

In this scenario, the descriptive process is implemented as it defines the detail procedure and how the factors influence FDI. The descriptive designing also helps in understanding every aspect which influences FDI in MENA countries.

Data Collection

There are essentially two kinds of information sources in this setting of research work; they are for the most part essential information sources and optional information sources. Hence, the data from the essential information sources is fundamental in this setting as the exploration point is predominantly arranged with the persuasive factor for pulling in FDI in MENA nations. Here, for this examination reason for recognizing factors in the MENA economies that are useful in drawing in FDI, the analysts are basically centered around the auxiliary information sources, notwithstanding, there are noteworthy and steady for the clarifications for testing targets. The connection among free and ward factors can be assessed quantitatively, upheld by solid wellsprings of information like IMF, World Bank, UNCTAD information base, MENA Statistical Yearbook, and so on.

Aside from this speculations and model accessible are utilized to compelling investigation of this crude organization of information and data. Alongside the meeting and connection process, scientists for getting immediate data concentrated working on it contemplates, chronicled foundations, surveys and perception. Concerning auxiliary information, the scientist has utilized diverse on the web and disconnected sources, for example, diaries, past research work, sites, books, articles and sites in identified with the variables in the MENA economies that are useful in drawing in FDI Qualitative and Quantitative Data Techniques.

Population and Sample

The population comprises of bureaucrat of MENA region which helps generalising the conclusion for the research. On the other hand the accessible

population is the subset of target population from which the conclusion samples are drawn. The sample is used in this purpose is a subset of the population of MENA region. The population of MENA region are greatly influenced and attracted by the effective government strategies. Therefore, for appropriate data and information for the research purpose should be collected from a potential secondary source.

RESULT AND DISCUSSION

One of the most important aspects of FDI movements to MENA states is the increasing significance of investment within the area. Intra-MENA FDI entries on average signify more than one-third of the entire FDI to the section. In poor resource nations such as Lebanon, Jordan, Morocco, Egypt and Syria, the Intra-MENA FDI inflows offer much of the desirable investment. The potential development of capital within the MENA nations is considered very significant due to the fact that maximum of MENA countries are geologically and socially connected. Motivated by the huge oversupplies in oil exporting nations throughout the last decade, intra-MENA FDI is likely to endure to be one of the major causes of investment in this region. This surge in price of oil and the increasing accumulated incomes has motivated local financiers in MENA oil exporting nations to take benefits of immediacy in terms of the environmental, social and institutional expanse and capitalize within the states. The Export Credit Guarantee Corporation Arab Investment is a joint-Arab agency jointly providing bilateral data of MENA countries. The main intention of this section is to employ such statistics to investigate empirically determining factors of FDI in MENA nations employing a gravity model. The gravity model helps in examining the research questions and enhances the understanding of geographical factors within the region. The FDI statistics involved in this research paper is consensual FDI inflow in MENA nations through the period 1998-2011. The table 1 will provides evidence of the variables involved in this study.

Table 1: Sources variables, and their expected signs

Name of the Variable	Description	Data Source	Expected Sign
LN FDI	The log of FDI inflows in Millions of US\$ at current prices.	The Arab Investment and Export Credit Guarantee Corporation website	Dependent Variable
LN GDP _i	The log of GDP of the home country at purchasing power parity and in current US\$.	World Bank Development Indicators	+
LN GPD _j	The log of GDP of the host country at purchasing power parity and in current US\$.	World Bank Development Indicators	+
LN WDIST _{ij}	The log of weighted geographical distance between capital cities of the	CEPII website	-

	home and host countries.		
CONTIG _{ij}	A dummy variable equal to one if the home and host countries share same border or zero otherwise.	CEPII website	+
COMLAN _{G20ij}	A dummy variable equal to one if the home and host countries share same second language (spoken by 20% of the country' population) or zero otherwise.	CEPII website	+
BITS _{ij}	A dummy variable equal to one if the home and host country have bilateral investment treaties agreements or zero otherwise.	UNCTAD website	+
NATEXP _j	The percentage of fuel and ores exports in the host country' total exports.	World Bank Development Indicators	-
INFLACPI _j	Annual percentage change in the consumer price index of the host country.	World Bank Development Indicators	-
TRADE _j	The sum of exports and imports of the host country divided by the value of GDP, all in current US\$.	World Bank Development Indicators	+
LN INTERNET _j	The log of internet users per 100 peoples of the host country.	World Bank Development Indicators	+
INSTIT _j	A composed index of the six world governance indicators of the host country.	World Bank Development Indicators	+

Understanding the descriptive data of the variables involved in this case study. The mean value of the record of FDI is about 5.45 % and the standard deviation is about 7.80 %. The natural reserve and opportunities for trade are the factors with the maximum mean and the standard deviation amongst the independent variables. The mean value of the natural reserve is 53.49 % and the standard deviation is 37.96 %. The mean value of opportunities for trade as the percentage of GDP is 79.24 % and the standard deviation is about 35.45 %.

Table 2: Data descriptive statistics

Variable	Mean	St. deviation	Minimum	Maximum	Obs
LN FDI	5.45	7.80	0	24.05	3360
LN GDP _i	23.25	5.52	22.54	27.23	3360
LN GPD _j	23.76	4.20	22.54	27.23	3360
LN WDIST _{ij}	7.56	0.75	4.88	8.75	3360
CONTIG _{ij}	0.16	0.37	0	1	3360
COMLANG _{20ij}	0.07	0.25	0	1	3360
BITS _{ij}	0.35	0.48	0	1	3360
NATEXP _j	53.93	37.97	0	98.63	3360
INFLACPI _j	3.89	4.93	-9.80	22.11	3360

Variable	Mean	St. deviation	Minimum	Maximum	Obs
TRADE _j	79.24	35.45	0	175.96	3360
LN INTERNET _j	1.71	1.94	-5.34	4.46	3360
INSTIT _j	5.27	1.02	-2.01	1.86	3360

The table 3 provides statistics for correlation matrix of the dependent and independent variables used in this research paper. It is clear from the table that the relationships between the variables do not affect the multi- correlation. The maximum level of associations is among trade and institutions is 0.60 % as predominantly outcomes, FDI completely.

Table 3: Correlation Matrix

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(1)	1											
(2)	0.06*	1										
(3)	0.10*	-0.02	1									
(4)	-0.15*	0.04*	0.04*	1								
(5)	0.16*	0.00	0.01	-0.44*	1							
(6)	0.06*	0.06*	0.05*	-0.10*	0.07	1						
(7)	0.07*	0.06*	-0.03	0.13*	-0.17*	0.08*	1					
(8)	-0.05*	0.01	0.10*	-0.02	0.06*	-0.15*	-0.19*	1				
(9)	0.09*	0.03*	-0.12*	0.04*	-0.02	-0.05*	0.08*	0.24*	1			
(10)	-0.07*	0.04*	0.18*	-0.14*	-0.04*	-0.04*	0.02	-0.09*	-0.19*	1		
(11)	-0.05*	0.05*	0.01	-0.11*	-0.01	0.01	0.17*	-0.06*	-0.05*	0.42*	1	
(12)	-0.14*	-0.01	0.21*	-0.14*	-0.03*	0.01	0.00	-0.11*	-0.38*	0.60*	0.50*	1

Note: *Indicate significant at 5%. (1) LN FDI, (2) LN GDP_i, (3) LN GPD_j, (4) LN WDIST_{ij}, (5) CONTIG_{ij}, (6) COMLANG20_{ij}, (7) BITS_{ij}, (8) NATEXP_j, (9) INFLACPI_j, (10) TRADE_j, (11) LN INTERNET_j, (12) INSTIT_j.

The GDP of the MENA nation present the latent to capitalize in the host nation, although the GDP of host nation provides the ability of the host nation to engross these capital (pull factor). In this research paper, the gravity model is used to understand the influence of financial size on FDI by means of GDPs of the home-based and host nations in MENA region. The probable influence of financial proportions for both home-based and host nation on FDI in MENA nations is to be constructive. The influence of geographic and social aspects on FDI is repeatedly used in the literature review of gravity model. The intensification in the corporeal and social space between nations inclines the budget of information and transport. In this research paper, a weighted measure is used for physical distance as informed by CEPII7 database. This determines the physical distance based on two-sided distances in KM among the major metropolises in the home-based and host nation. The influence of bilateral investment treaties (BITs) on the FDI has been extensively examined for both emerging and developed nations. The mainstream of these researches concludes a positive influence of BITs on FDI. The intensification of the FDI between nations via BITs is a collective objective for most of the strategic implementations in emerging nations.

On the other hand, the resource adversely influences the growth enactment on non-resource FDI. In this research paper, we measured the influence of natural resource on the FDI to the host nation by means of share of oil and minerals in the nation's exports as a degree of natural resource accessibility. The probable consequence of natural resource is negative on FDI.

The inflation rate is usually used as a substitute of macroeconomic variability level. The higher and volatile inflation upsurges insecurity and consequently, directs to greater outlay risk. Accordingly, the FDI will be depressed in such circumstances. Academically, the correlation between FDI and openness to trade is determined by whether trade and FDI are supplements or alternatives. It is observed that FDI determinants influence of trade in emerging nations and accentuate the significance of directness to international business in enticing FDI. The outcome of eminence of infrastructure on FDI is positively influence the FDI determinants.

CONCLUSION

The worldwide monetary stoppage in 2007-08 has been one worldwide purpose behind lull of FDI, combined with this has been the effect of generally low unrefined petroleum costs that has affected the economies of the oil delivering nations – a considerable lot of whom reliant on incomes from oil for sustenance. The fundamental intension of FDI inflow is to bring cash and budgetary assets, exchanging of innovation, meets the monetary capital needs, upgrades in general efficiency for the neighborhood and residential organizations and, in particular, helps in the age of chances for employments for the talented and the jobless individuals in the related economies. As indicated by the examination, unmistakably there are a few reasons or determinants basic for FDI interest in MENA district. Market measure is among the most vital of the determinants of FDI inflow. For the inflow of flat FDI, this measure is the fundamental determinant. The vast and extending business sector of MENA area have more noteworthy obtaining power has the more prominent capacity to drawing in FDI all the more effectively contrast with weaker markets. The outside firms come in because of the capability of higher return for the venture and in this way, they have the chance to create higher rates of benefit for the speculations made. As per the review receptiveness assumes basic job for the level of worldwide exchange and its arrangements to such exchanging bear's noteworthiness for FDI choices.

The job of shoddy work for the inflow of FDI concurs that on its positive relationship they do as such for two distinct ramifications. Studies abiding into the exact proof on this issue are to a great extent isolated with research results running from a few scientists professing to have discovered that higher salaried host nations are disheartening for inflow of FDI to other people who guarantee that these elements don't have any critical impact and deny a constructive affiliation. The likely impact of money related extents for both locally established and have country on FDI in MENA countries is to be productive. The impact of geographic and social angles on FDI is over and again utilized in the writing audit of gravity show. The increase in the human and social space between countries slants the financial plan of data and transport.

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