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Dose the FDI Flow into Arab Region Influenced by the Global Financial Crisis?

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Abstract

This study provides an overall view of the Foreign Direct Investment (FDI) inflows for the Arab region during the global financial crisis (GFC) in 2008. There a little attention has given to the FDI flows in Arab region as the main focus was on the countries where the GFC started. The objective of this study is to compare and analyses the global FDI inflows with Arab region during the GFC. It attempts to answer the question whether the FDI flow into Arab region was impacted immediately by the GFC? It provides a case analysis of FDI inflows in the Arab countries to test what is the reduction in these inflows? Are FDI inflows hold due to the assumption of that the region is considered as preferable distention to FDI? The study gives better understanding to the share of each individual Arab country over the period. It also introduces a case analysis of FDI inflow for Arab countries then compare it with other global regions.

Keywords: FDI, global financial crisis, foreign enterprises, Arab region

1. Introduction

There is competition among developing countries to attract Foreign Direct Investment (FDI) inflows since it is an important source of technology transfer, export development, job creation, labour skill creation, upgrading of management and improved productivity in local firms (World Bank, 2013a). FDI raises the host country's investments and capital production efficiency by enhancing the diffusion of knowledge and innovation for the technological and managerial levels (Borensztein, De Gregorio, & Lee, 1998; Balasubramanyam et al., 1999). FDI can be important source of technology and know-how while raising linkages with local firms that can help jump-start an economy (Alfaro et al., 2009).

In 2013, FDI flows to developing economies accounted for 53% of global FDI flows, followed by developed economies at 38%, and transition economies at 7.3%. However, FDI flows to Arab economies accounted for the low level of 3.3% of global FDI flows (UNCTAD database) (Note 1). This low share may be attributed to various factors but not limited to lacks of growth strategy, inefficient social policies; corruption and weak institutions that prevent an equal distribution of economic gains; alliance between the government and a privileged rent-seeking business elite is seen as an important driver of the Arab Spring revolutions; and for the weak institutional quality that operate in the region (World Bank, 2013b).

As Arab countries absorb a small amount of inflows, there is a little focusing for the FDI flows to Arab region as the main focus was on the FDI flows in countries that the GFC started. Thus, the objective of this study is to restudy the size of FDI flows into Arab region during the crisis and compare it to the global FDI inflows. This study provides an overall view of the FDI inflows for the world and highlights these inflows in Arab region and trying to answer the question of what was the FDI flows levels on Arab region during the GFC? It provides a case analysis of FDI inflows in the Arab countries to test if the inflows have been impacted by the crisis and what is the reduction in these inflows? what was the position of FDI in the Arab region as compared to other global regions in the same period? In addition, the study sheds light on the FDI position inside the Arab countries themselves over the period before and after the GFC in 2008. It also raises question about whether the FDI flow into Arab region was impacted by the GFC by providing analyses to the level of FDI in the region during that time. The reset of this paper is constructed as follows, section two give definition of FDI, section three shows the method, section four illustrates the allocation of FDI inflows over the global regions during GFC with a comparison Arab region, and section five is the conclusion.

2. What is Foreign Direct Investment (FDI)?

FDI is a category of investment which reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor (OECD, 2008). The term 'lasting interest' implies the existence of a long-term relationship between the direct investor and the direct investment enterprise, and a significant degree of influence on the management of the enterprise. A direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship.

FDI has three components: first, equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than its own. Second, reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained by affiliates are reinvested. Third, intra-company loans or intra-company debt transactions refer to the short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises. There are two types of FDI: inflows and stock. FDI inflows comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received from an investing enterprise by a foreign direct investor. FDI stock is the value of the share of the capital and reserves (including retained profits) attributable to the parent enterprise, plus the net indebtedness of affiliates to the parent enterprise (World Investment Report, 2007).

3. Method

The data for different global regions have been collected from the UNCTAD database website. As the study is focusing on examine the size of FDI inflows over different region during the GFC, especially, for Arab region. Thus, the main variable that will be the center of the study is the FDI inflows. To test the hypothesis, the study will apply analytical methodology by comparing the amounts of the inflows into Arab region during the GFC to reach understanding if there is significant changing in these inflows. In addition, the study will value these inflows for each Arab country individually, see Table 1 for the countries sample, to investigate what is the inflows changing for each country in the region between 2007 and 2012.

4. Results

In order to reach a conclusion about the size and position of FDI inflows during the GFC, this section analyses the data of FDI inflows for different global regions and summarize the development in the direction of these amounts over the same period. First part is dedicated to perform the analysis on those data overall the global, whereas, the second part is for showing the case analysis data for inflows to Arab region during GFC.

4.1 Global Overview of FDI Inflows during the GFC

Figure 1 shows FDI inflows into developed, developing and transition economies over the period 1995 to 2012. During 2003 to 2007, global FDI inflows followed an upward trend, fuelled by steady world economic growth, ongoing liberalisation in investment regimes, and the implementation of large-scale internationalisation strategies by a growing number of Multinational Enterprises (MNEs). As a result of the global financial and economic crisis (GFC), global FDI inflows fell from a historic high of US$1,979 bil in 2007 to US$1,697 bil in 2008, a decline of 14%. The decline in global FDI differed among the three major economic groups in 2008. In developed countries, where the financial crisis originated, FDI inflows fell in 2008 while in developing and transition economies they continued to increase. This geographical difference tended to end by late 2008 or early 2009, where there was a general decline across all economic groups. In 2011, global FDI inflows rose by 16% to US$1.52 tril, still slightly lower than the 2005-2007 pre-crisis level but this represents remarkable recovery for the first time despite the continuing effects of the GFC and ongoing sovereign debt crises. FDI inflows to developed countries grew robustly in 2011, reaching US$748 bil, an increase of 21% as compared to 2010. In 2011, developing countries continued to account for nearly half of global FDI inflows, reaching a new record high of $684 bil, an increase of 11% as compared to 2010. In 2011, FDI flows to transition economies rose to $92 bil, an increase of 24% as compared to 2010 and accounting for 6% of global FDI inflows. In 2012, global FDI inflows fell by 18% to US$1.35 tril, compared with 2011. This sharp decline was in contrast to other economic indicators such as GDP, international trade and employment, which all registered positive growth at the global level. Economic fragility and policy uncertainty in a number of major economies gave rise to caution among investors. FDI inflows to developing economies and transition was more resilient than to developed countries, recording their second highest level, although they declined slightly by 4% to US$703 bil in 2012. They accounted for a record 52% of global FDI inflows, exceeding inflows to developed economies for the first time ever, by US$142 bil. On the other hand, FDI inflows to developed economies declined by 32% to US$561 bil (World Investment Report, 2009, 2012, 2013).

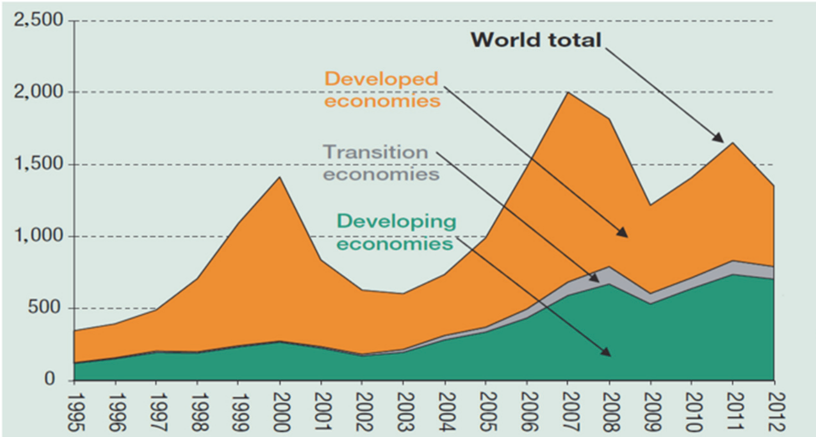

Figure 错误!文档中没有指定样式的文字。1. FDI inflows by Group of Economies 1995–2012 (US$ bil)

Source: UNCTAD, World Investment Report (2013): Global Value Chains: Investment and Trade for Development, New York.

4.2 FDI Inflows during the GFC in Arab Region

Figure 2 shows FDI inflows into Arab countries from 2004 to 2012. FDI inflows grew rapidly from 2004 and 2007 due to the stability and the development of economic factors such as increasing oil prices, economic reform and improvement to the business climate, and the privatisation of state-owned enterprises in certain countries (ESCWA, 2008). However, in 2008 when FDI inflows to Arab region had reached a peak of US$97 bil, they were affected by the GFC and in 2009 declined by 15.5% to US$82 bil as compared to 2008. In 2012 FDI inflows to Arab countries increased by 15.3% as compared to 2011.

Table 1 illustrates two cumulative periods of FDI inflows into the region before and after the GFC. The first cumulative FDI inflows, during the period of 2007 to 2009 (before the Arab Spring that triggered in 2010), decreased from US$261,242 mil to US$168,475 mil; over 2010 to 2012 which is the second cumulative period according this study. The second cumulative inflows dropped by 35.5%. For individual country break dawn data, over the period 2007-2009 Saudi Arabia and UAE accounted for the highest percentages of cumulative FDI at around 38.2% and 12.1% respectively, followed by Egypt with 10.5%. In the second period, 2010-2012, Saudi Arabia had the largest cumulative FDI inflows of US$57,722 mil (36.3% of cumulative FDI inflows). UAE occupied second place with US$22,781 mil (14.3% of cumulative FDI inflows) followed by Lebanon with US$11,552 mil (7.2% of cumulative FDI inflows). The three largest recipients together captured 58% of cumulative inflows to the area. However, the gap between high and low performance countries remains broad. The principal factors that explain this include the pace of economic and investment reforms, the assessment of political risk by potential investors, access to inexpensive production factors (land, energy, and physical and human capital) and integration after the Arab Spring revolutions.

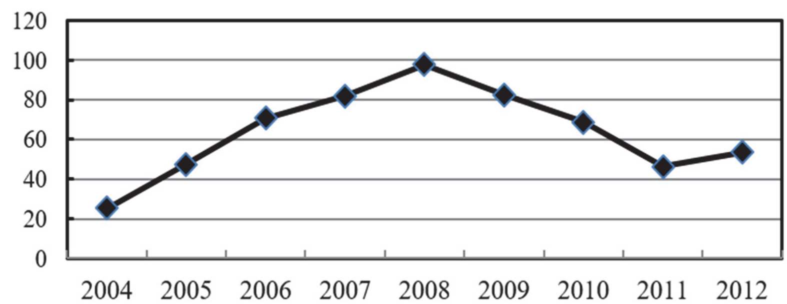

Figure 2. FDI inflows to Arab Countries 2004-2012 (US$ bil)

Source: UNCTAD, database, 2013.

Table 错误!文档中没有指定样式的文字。1. Summary FDI Inflows Statistics of Arab Countries (US$ mil)

Country	Cumulative 2007-2009 (first period)	First period cumulative as % of total	Growth % 2008-2009	2010	2011	2012	Cumulative 2010-2012 (Second period)	Second period cumulative as % of total	Growth % 2011-2012
Algeria	7,001	2.6	5.9	2,264	2,571	1,484	6,319	3.9	-42.2
Bahrain	3,807	1.4	–85.6	155	780	891	1,827	1.15	14.1
Comoros	26	0.009	197.5	8	23	16	48	0.03	-26.5
Djibouti	523	0.19	–56.4	26	77	100	204	0.12	28.2
Egypt	27,784	10.5	-29.3	6,385	-482	2,797	8,700	5.4	#
Iraq	4,425	1.6	-13.8	1,396	2,082	2,549	6,027	3.8	22.4
Jordan	7,861	2.9	-14.6	1,650	1,473	1,402	4,527	2.8	-4.7
Kuwait	1,219	0.4	#	456	855	1851	3,162	1.9	116.5
Lebanon	12,512	4.7	10.8	4,279	3,484	3,787	11,552	7.28	8.6
Libya	10,340	3.9	4	1,909	#	1,425	3,334	2.1	#
Mauritania	479	0.18	-100.8	130	588	1,204	1,923	1.2	104.6
Morocco	7243	2.7	-21.5	1,573	2,568	2,835	6,977	4.3	10.4
Oman	7769	2.9	-49.6	1,243	739	1,514	3,496	2.2	104.8
Palestine	380	0.14	483.4	180	213	244	638	0.4	14.3
Qatar	16603	6.3	115	4,670	–86	326	4,910	3	#
Saudi Arabia	100232	38.2	–7.5	29,232	16,308	12182	57,722	36.3	-25.3
Somalia	336	0.12	24.1	112	102	107	321	0.2	5.2
Sudan	6842	2.6	-30.1	2,063	2,691	2487	7,242	4.5	–7.5
Syria	5278	2	75.1	1,469	804	#	2,273	1.4	#
Tunisia	6062	2.3	-38.8	1,512	1,147	1918	4,578	2.8	67.1
UAE	31912	12.1	–70.8	5,500	7,679	9602	22,781	14.3	25
Yemen	2601	1	–91.6	188	–518	348	19	0.01	#
Total	261,242	100%	-16.2	68,663	46,342	53,469	168,475	100%	15.3 %

Source: Authors' own calculation based on UNCTAD, database, 2015.

Note. The sign (#) indicate that data are not available. The periods are selected before and after the Arab Spring revolutions which started in 2010.

4.3 Arab Region FDI inflows Versus Global FDI Inflows around the GFC

Table 2 shows regional FDI inflows. In 2013, developing economies maintained their lead in hosting FDI inflows, garnering 53%, followed by developed economies (38%) and transition economies (7.3%). The Arab region received only 3.3% of the total global inflows in 2013, second lowest level after Southern Asia (2.4%).

Table 2. FDI inflows by region, 2006- 2013 (US$ bil)

Year	2006	2007	2008	2009	2010	2011	2012	2013
World	1481	2001	1818	1221	1422	1700	1330	1451
Developed economies	988	1322	1032	618	703	880	516	565
European Union	587	864	551	363	383	490	216	246
North America	297	333	367	166	226	263	203	249
Developing economies	432	591	668	532	648	724	729	778
Africa	35	51	59	56	47	48	55	57
Asia	296	365	396	323	409	430	415	426
East & South-East Asia	228	286	302	251	348	377	366	382
Southern Asia	28	34	56	42	35	44	32	35
Latin America & Caribbean	98	172	211	150	189	243	255	292
Oceania	35	46	51	26	36	69	57	50
Transition economies	60	88	117	70	70	94	84	107
Arab Countries	70	82	97	82	68	46	53	48

Source: UNCTAD database, 2015.

Saudi Arabia is the only country in the Arab region which appeared among the top 20 FDI host economies for 2010, in eleventh position, behind China (second) and India (eighth), but ahead of Luxembourg (twelfth) and Brazil (fifteenth). No Arab country was listed in the top twenty in 2013 (World Investment Report, 2014). This is indicating to major decline in the FDI flows to the region although there are rich oil countries that can be attractive to foreign investors. Thus, Arab countries need to identify these problems within economic solutions and maybe more for political stabilization. Recent literature usually distinguishes between two sets of factors that affect FDI inflows. First, there are country-specific factors, which reflect domestic opportunity, local economic conditions and host country policies. These factors comprise the availability of resources, geographical advantage, market size and macroeconomic policies that affect FDI. Second is the global clusters. Capital inflows is more attractive to global clusters that provide confidence to international investors by enhancing macroeconomic stability and institutional and political reforms. Foreign firms invest in new markets that are characterized by low levels of risk and high integration with the world (Note 2).

5. Conclusion

This study provides an overall view of the FDI inflows for the Arab region and compares it with the world during the global financial crisis in 2008. The study analyses the level FDI inflows into Arab region over the period before and after the financial crisis. It provides a case analysis of FDI inflows in the Arab countries to test if the inflows have been impacted by the crisis and what is the reduction in these inflows?

Before the GFC, Arab region was attracting FDI flows but these flows showed low levels even after few years from the GFC. Arab countries are attracting less FDI if compared to others world regions. The Arab region needs to attract more FDI that can contribute to the development by enhancing economic openness, relaxing trade barriers and increasing preferential trade agreements which attract more FDI. The development level of financial institutions is vital because they facilitate the financial services to MNEs then attracting FDI inflows. Removal of trade barriers and increasing economic integration within the region and the world by strengthening trade treaties will have the effect of boosting FDI inflows to Arab region. In order to attract FDI that transfers technology for long-term development, policy makers need to upgrade the educational system, making it more compatible with the demands of the global business environment. As natural resource endowment positively attracts FDI, Arab countries must increase efforts to find and extract new raw resources, and they will benefit from the advanced technology offered by MNEs in these industries.

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Notes

Note 1. In 2010, among the top 20 FDI host economies, Saudi Arabia occupied 11th position, behind China (2) and India (8). No Arab country appeared in the top 20 in 2013 (World Investment Report, 2014).

Note 2. For more see: Gastanaga et al., (1998) Asiedu (2002), Frenkel et al., (2004), Wojciechowski (2013), Deseatnicov and Akiba (2016) and Okafor et al., (2017).

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