



## The Political Economy of Governance in the Euro-Mediterranean Partnership

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## **Foreign Direct Investment in the Mediterranean Countries: Developments and Determinants of FDI in the Mediterranean Countries**

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## Abstract

The main purpose of this study is to investigate the following: firstly, the determination factors of FDI in the so-called Mediterranean countries (MECs), including Algeria, Cyprus, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia and Turkey by using traditional and non-traditional factors that may affect the inward and also outward FDI flows by means of a multiple regression analysis. In the final section of this study, conclusions and lessons will be drawn from our empirical results and suggestions will be made on how to improve FDI in each MEC.

The research work is divided into two sections. In the first part of the research a quantitative study on FDI in MECs is conducted. The methodology used in: “*Nunnenkamp, P. (2002), Determinants of FDI in Developing Countries: Has Globalisation Changed the Rules of the Game, Kiel Working Paper No: 1122*” has been adopted. This part is composed of two sub partitions. In the first partition, changes in the distribution of FDI stock are analysed by the means of some predetermined variables. In the second partition, correlation coefficients between FDI inflows and FDI stocks and same variables are computed. In the last part, the conclusions are evaluated and basic recommendations for both the MECs as whole and for each country are made in accordance with the descriptive and quantitative studies carried out in the previous chapters. We can draw the following conclusion from our empirical work in the Mediterranean Region: To increase inward FDI stocks, countries in the Mediterranean region should decrease tariffs, reduce or remove non-tariff barriers, slow down inflation rates, eliminate price controls, increase the average years of schooling and extend the domestic market. To increase inward FDI flows, countries in the Mediterranean region should decrease the government intervention to the economy.

**Keywords:** Foreign Direct Investments, Mediterranean Countries and European Union

**JEL-Classification:** F02, F15, F21, F23

# Foreign Direct Investments in the Mediterranean Countries (MECs) – A Macroeconomic Analysis-

## 1. Objectives

Main purpose of this study is to investigate the following:

1. Firstly, this study will focus on the determination factors of FDI in the on the so-called MECs, including Algeria, Cyprus, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia and Turkey<sup>1</sup> by using traditional and non-traditional factors that may affect the inward and also outward FDI flows by means of a multiple regression analysis.
2. In the final section of this study, conclusions and lessons will be drawn from our empirical results and suggestions will be made on how to improve FDI in the MECs for each country.

The paper is divided into two sections:

- In the first part of the research a quantitative study on FDI in MECs is conducted. The methodology used in: “*Nunnenkamp, P. (2002), Determinants of FDI in Developing Countries: Has Globalisation Changed the Rules of the Game, Kiel Working Paper No: 1122*”. This part is composed of two sub partitions. In the first partition, changes in the distribution of FDI stock are analysed by the means of some predetermined variables. In the second partition, correlation coefficients between FDI inflows & FDI stocks and same variables are computed.
- In the last part, the conclusions are evaluated and basic recommendations for both the MECs as whole and for each country are made in accordance with the descriptive and quantitative studies carried out in the previous chapters.

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<sup>1</sup> Egypt cannot be included, because the available database seems to be unreliable and therefore is generally not applicable.

## **2. Empirical Work: Quantitative Study on MECs**

Here, the inward FDI stocks and FDI flows to the MECs will be studied. The same methodology has been followed as in the paper: “**Nunnenkamp, P. (2002), *Determinants of FDI in Developing Countries: Has Globalization Changed the Rules of the Game*, Kiel Working Paper NO: 1122**”, which has been used as a guiding work. This section will consist of two parts. In the first part, changes in the distribution of inward FDI stocks in MECs are investigated.. In the second part, the correlation coefficients between FDI and major determinants are computed.

### **A. Data and Approach**

In reviewing the existing literature on FDI determinants, some implicit assumptions concerning the classification of variables as either traditional or non-traditional determinants have been made. But before presenting the approach and the database used in this study, it may be useful to justify these assumptions. The classification is essentially based on the overview of host country determinants of FDI. Furthermore, it has been taken into account that FDI in the MEC region traditionally concentrated in market-seeking and resource-seeking activities, while efficiency-seeking FDI is of a more recent nature in these host countries. Hence, variables that are typically regarded as driving forces of efficiency-seeking FDI are considered non-traditional determinants of FDI in developing countries.

Against this backdrop, it is obvious that market-related variables such as GDP, population, GDP per capita and GDP growth constitute traditional FDI determinants. In addition, the subsequent list of traditional determinants includes some factors, which UNCTAD (1998) considers being part of the overall policy framework for FDI and business facilitation measures of host countries. This is because factors such as entry restrictions, so-called hassle costs, and economic as well as political stability are relevant, in principle, for all types of FDI. However, other elements of the policy framework for FDI may affect specific types of FDI

differently. For example, performance requirements related to local content and imported inputs are likely to discourage efficiency-seeking FDI more than purely market-seeking FDI. Apart from data availability, our selection of non-traditional determinants is guided by UNCTAD's proposition that cost differences between locations and the availability of complementary local factors of production have become more important in the process of globalization. Complementary factors of production include business-related services such as access to local finance, and the strength and efficiency of local enterprises on which MNEs would like to draw as suppliers of inputs and potential customers. Furthermore, both analytical reasoning and previous empirical findings clearly suggest regarding the availability of local skills as a particularly important complementary factor of production.

The classification of trade-related variables as non-traditional FDI determinants may be more contentious. Trade policy is part of the overall policy framework affecting all types of FDI. At the same time, trade policy is an economic determinant of efficiency-seeking FDI, as well. The relevance of trade policy for market-seeking FDI in the past should not be ignored. As a matter of fact, the tariff-jumping hypothesis figured prominently in earlier research on FDI determinants. Lacking a promising alternative to FDI in the presence of significant trade barriers, it was reasonable indeed to expect higher FDI flows to large and protected markets. However, widespread trade liberalization, both multilaterally and unilaterally, should have eroded the tariff-jumping motive for FDI in manufacturing.

The following empirical analysis mainly draws on panel data on economic freedom conditions in 10 countries in Mediterranean region. These countries are Algeria, Cyprus, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia and Turkey. The Heritage Foundation/Wall Street Journal produces a user-friendly "index of economic freedom" as a tool for policymakers and investors. The idea of producing this index was first discussed at the Heritage Foundation in the late 1980s. The goal then, as it is today, was to develop a

systematic, empirical measurement of economic freedom in countries throughout the world. To this end, the decision was made to establish a set of objective economic criteria that, since the inaugural 1995 edition, have been used to study and grade various countries for the annual publication of the Index of Economic Freedom. The Index, however, is more than just a dataset based on empirical study; it is a careful theoretical analysis of the factors that most influence the institutional setting of economic growth. Moreover, although there are many theories about the origins and causes of economic development, the findings of this study are straightforward: The countries with the most economic freedom also have higher rates of long-term economic growth and are more prosperous than are those with less economic freedom.

Each year for 12 years, the Index has tracked the march of economic freedom around the world, becoming a must-have resource for investors, policymakers, academics, and others who want to learn about the link between economic freedom and prosperity. The 2006 Index of Economic Freedom measures 161 countries against a list of 50 independent variables divided into 10 broad factors of economic freedom. Low scores are more desirable; the higher the score on a factor, the greater the level of government interference in the economy, and the less economic freedom a country enjoys.

The checklist of the index covers 10 titles, which include: Trade policy, fiscal burden, government intervention, monetary policy, foreign investment, banking and finance, wages and prices, property rights, regulations and informal market.

The major strength of this index compared to the Global Competitiveness Report of the World Economic Forum in Geneva or European Roundtable of Industrialists' (ERT) improved investment conditions survey (in cooperation with the United Nations and the International Chamber of Commerce) is that comparability inside the index is ensured.<sup>1</sup>

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<sup>1</sup> ERT (European Round Table of Industrialists) (2000). Improved Investment Conditions: Brussels.

The weaknesses are twofold. First, the fact that it is an index makes it difficult to draw precise conclusions about the findings. Second, the limited sample of 10 host Mediterranean countries, i.e. MECs, prevents us from applying multiple regression analysis, as the degrees of freedom would be very low. Yet, the results achieved by the approach of simple correlations used in this study should be fairly representative.

The index presented in the web-site of the Heritage Foundation/Wall Street Journal is supplemented by World Bank data on variables that are typically considered important determinants of FDI, including market size proxied by the host countries' population and the level of GDP and GDP per capita, as well as the growth of local markets, proxied by GDP growth. Also, the skill level of workforce of the host countries will be used as another determinant, which is estimated with the average year of schooling, computed in the work of Barro-Lee.<sup>2</sup> All in all, we deal with 15 possible determinants of FDI in the MECs. The classification into traditional and non-traditional determinants is based on the reasoning in the beginning of this section. The following variables are considered as traditional determinants:

- **Population of host countries:** This variable is taken from the WDI of the World Bank.
- **GDP of host countries:** These variables are taken from WDI of the World Bank. GDP values are expressed with current US dollars.
- **Government intervention:** this variable has been taken from the Economic Freedom index. There are four factors behind this variable: *government consumption as a percentage of the economy, government ownership of businesses and industries, share of government revenues from state owned enterprises and government ownership of property as well as economic output produced by the government.*

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<sup>2</sup> Barro, Robert J., Jong-Wha-Lee (2000). International Data on Educational Attainment: Updates and Implications. Center for International Development, Working Paper 42.  
<http://www.cid.harvard.edu/ciddata/>.html

- **Regulations:** This variable has been adopted from the Economic Freedom index. There are six factors, which are closely connected with this variable: *licensing requirements to operate a business, ease of obtaining a business license, corruption within the bureaucracy, labour regulations such as established workweeks, paid vacations, and parental leave, as well as selected labour regulations, environmental, consumer safety, and worker health regulations and, regulations that impose a burden on business.*

The following variables are considered as non-traditional determinants of FDI inflows (all the following variables except average years of schooling are taken from Economic Freedom Index):

- **Trade Policy:** There are three factors supporting this variable: *weighted average tariff rate, non-tariff barrier and corruption in the customs service.*
- **Fiscal Burden:** There are three factors behind this variable: *top marginal income tax rate, top marginal corporate tax rate, year-to-year change in government expenditures as a percent of GDP.*
- **Monetary Policy:** This variable is measured by the *weighted average inflation rate from 1995 to 2004.*
- **Foreign Investment:** Nine factors are behind this variable: *foreign investment code, restrictions on foreign ownership of business, restrictions on industries and companies open to foreign investors, restrictions and performance requirements on foreign companies, foreign ownership of land, equal treatment under the law for both foreign and domestic companies, restrictions on repatriation of earnings, restrictions on capital transactions, availability of local financing for foreign companies.*
- **Banking and Finance:** There are five factors related with this variable: *government ownership of financial institutions, restrictions on the ability of foreign banks to open*

*branches and subsidiaries, government influence over the allocation of credit, government regulations that inhibit financial activity, freedom to offer all types of financial services, securities, and insurance policies.*

- **Wages and Prices:** There are five factors which are backing this variable: *minimum wage laws, freedom to set prices privately without government influence, government price controls, extent to which government price controls are used, government subsidies to businesses that affect prices.*
- **Property Rights:** There are seven factors connected with this variable: *freedom from government influence over the judicial system, commercial code defining contracts, sanctioning of foreign arbitration of contract disputes, government expropriation of property, corruption within the judiciary, delays in receiving judicial decisions and/or enforcement, legally granted and protected private property.*
- **Informal Market:** There are five factors behind this variable: *smuggling, piracy of intellectual property in the informal market, agricultural production supplied on the informal market, manufacturing supplied on the informal market, services supplied on the informal market, transportation supplied on the informal market, labour supplied on the informal market.*
- **Average Years of Schooling:** This variable is drawn from Barro and Lee (2000)<sup>1</sup>, in order to assess more accurately one particular complementary factor of production, namely the availability of sufficiently qualified labour in host countries.

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<sup>1</sup> Barro, RobertJ., Jong-Wha-Lee (2000).International Data on Educational Attainment: Updates and Implications. Center for Intenational Development, Working Paper 42.  
<http://www.cid.harvard.edu/ciddata/.html>

## B. Changes in the Distribution of FDI Stocks

This section portrays the distribution of FDI stocks in the 10 sample countries according to the (traditional and non-traditional) determinants listed above. For all determinants, we calculate the sample average. Sample countries are then grouped into two categories of weak and strong attractiveness with regard to particular determinants. For example, strong attractiveness means large markets, a high-income level, low FDI restrictions, favourable cost conditions and good endowment of complementary factors of production. In all respects, the sample average is taken as the dividing line between weak and strong attractiveness.

Table 1 presents average indicator values for the subgroups of sample countries with weak and strong attractiveness. While some indicators slightly worsen, some others improve. However, countries in the MECs are improving their position in the following variables: fiscal burden, government intervention, monetary policy, wages & prices, informal market, average years of schooling, GDP and population, their points in trade policy, foreign direct investment, banking & finance, property rights, as well as the decline in government regulations.

**Table 1: Average values of indicators**

	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>GDP (current Mn US\$)</b>	42916.31	44223.23	45948.52	44567.47	47706.11	42640.06	46385.28	55678.70	66057.20
<b>Population, total (Mn)</b>	15.68	15.96	16.23	16.51	16.78	17.06	17.34	17.61	17.94
<b>Gov't Intervention</b>	3.15	3.45	3.15	3.05	3.15	3.25	3.55	3.20	2.95
<b>Regulation</b>	2.50	2.60	2.60	2.90	2.90	3.00	3.20	3.10	3.10
<b>Trade Policy</b>	3.65	3.60	3.90	3.85	3.85	3.35	3.50	3.90	3.85
<b>Fiscal Burden</b>	4.16	3.74	3.83	3.80	3.99	3.86	3.76	3.73	3.63
<b>Monetary Policy</b>	3.30	2.90	2.90	2.70	2.30	1.70	1.50	1.50	1.40
<b>Foreign Investment</b>	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.70	2.70
<b>Banking &amp; Finance</b>	2.70	2.70	2.70	2.80	2.80	2.80	2.80	3.00	2.90
<b>Wages &amp; Prices</b>	2.90	2.90	2.90	2.90	2.90	2.60	2.50	2.50	2.50
<b>Property Rights</b>	2.70	2.70	2.70	2.60	2.60	2.50	2.90	2.90	2.90
<b>Informal Market</b>	4.00	3.70	3.70	3.70	3.70	3.70	3.50	3.25	3.25
<b>Schooling</b>	5.81	6.16	6.28	6.01	6.12	6.57	6.85	6.96	7.08

The distribution of FDI stocks between countries with relatively strong and weak attractiveness, as defined above, is shown in Table 2 (Note that in the table only the FDI inward stock shares of strong countries are represented, the shares of weak countries are simply the ratios that complete the ratios of strong ones to 100%). It is interesting to note and even surprising that countries with weak attractiveness hosted about half of FDI stocks in 1996 according to various indicators.

The share of more attractive countries rises to about one half of overall FDI stocks in 2004 with few exceptions. Although the FDI share of this subgroup of the sample has decreased in a few of the indicators, mostly an improvement in the FDI shares can be observed. This increase was most significant for the following indicators: monetary policy, wages and prices and schooling. Even though this list includes two non-traditional determinants of FDI, it is difficult to draw clear conclusions from these shifts in the distribution of FDI on whether non-traditional determinants have become more important.

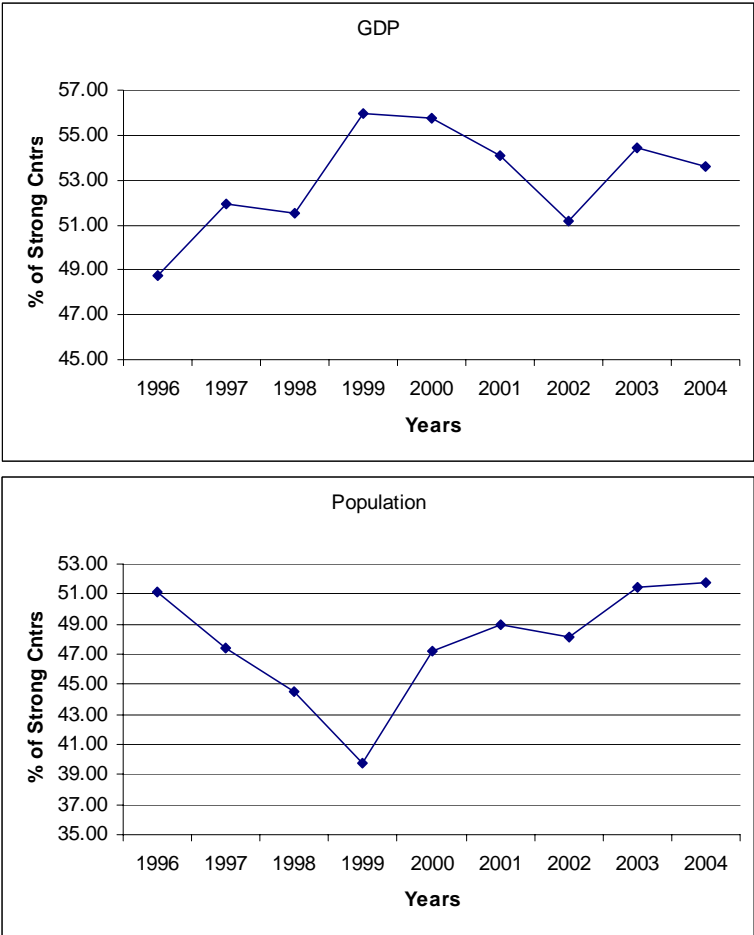
**Table 2: Distribution of FDI Stocks in 10 Countries in MENA Region: Shares of Countries with Strong Attractiveness According to Selected Indicators (in %)**

Indicators	1996	1997	1998	1999	2000	2001	2002	2003	2004
<b>GDP</b>	48.74	51.93	51.55	55.96	55.78	54.07	51.14	54.46	53.60
<b>Population</b>	51.15	47.41	44.53	39.73	47.18	48.99	48.19	51.49	51.73
<b>Gov't Intervention</b>	74.18	50.22	62.25	91.27	70.89	69.83	57.85	81.78	79.30
<b>Regulation</b>	79.09	48.51	50.56	30.15	32.20	58.35	68.65	65.07	64.63
<b>Trade Policy</b>	45.78	50.22	51.31	56.38	54.91	55.76	52.62	57.20	56.62
<b>Fiscal Burden</b>	3.05	32.50	30.96	16.97	41.27	5.64	25.95	20.07	16.21
<b>Monetary Policy</b>	41.16	37.69	37.81	42.95	42.90	43.35	75.74	70.20	75.08
<b>Foreign Investment</b>	85.71	85.60	85.02	82.55	81.20	76.45	61.11	44.93	43.88
<b>Banking &amp; Finance</b>	60.71	53.78	52.75	30.06	30.16	10.99	11.73	46.79	12.36
<b>Wages &amp; Prices</b>	35.25	37.84	39.74	43.73	43.87	60.83	61.75	59.19	59.38
<b>Property Rights</b>	58.96	62.94	51.20	58.88	60.41	58.35	33.41	32.40	31.70
<b>Informal Market</b>	52.76	68.49	66.20	57.69	54.70	55.69	40.29	62.67	51.92
<b>Schooling</b>	16.87	26.43	28.93	39.45	42.72	43.16	41.83	40.51	39.89

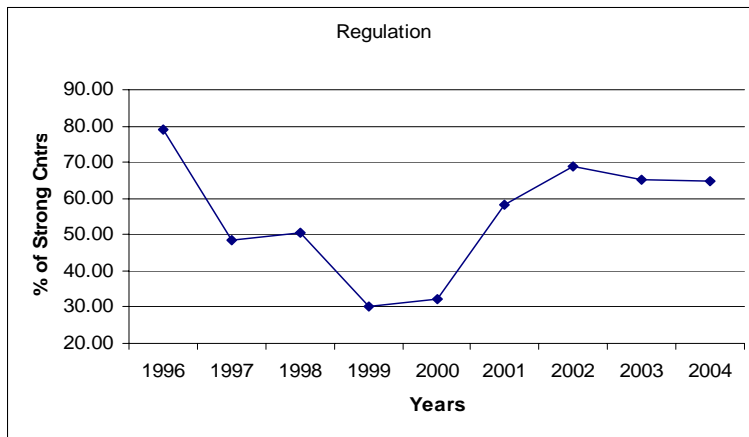
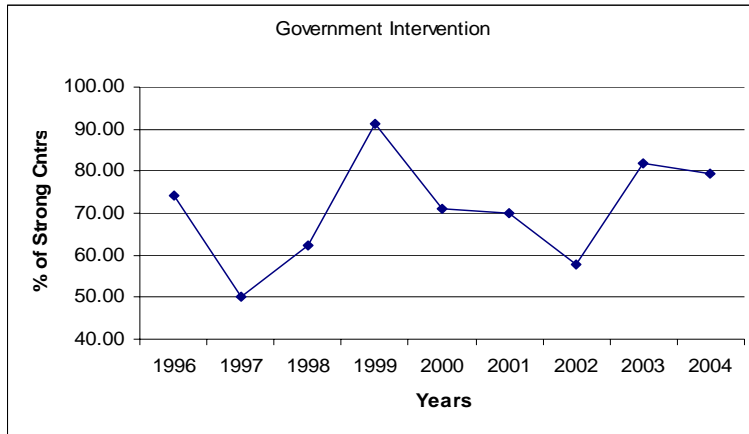
Furthermore, shifts of FDI towards more attractive host developing countries are observed for both non-traditional and traditional determinants. The main concern is the *changes* in FDI shares over time, rather than the level of FDI shares. Changes in shares move in the same direction irrespective of the classification. Most importantly, the earlier observation indicating, shifts in FDI towards more attractive host developing countries were not restricted to non-traditional determinants of FDI, in other words traditional economic determinants remainS valid.

**Figure 1: Changes in the distributions of inward FDI stocks according to the variables**

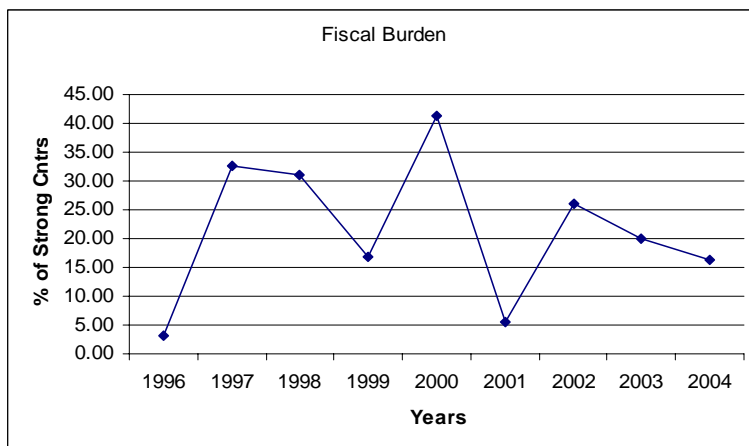
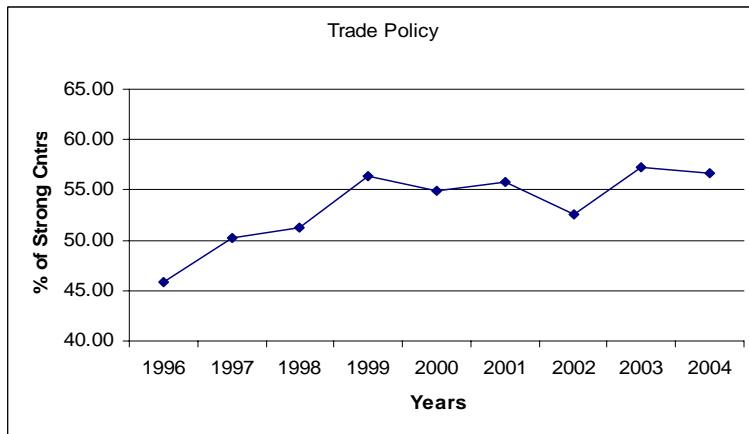
1.a



1.b



1.c



1.d

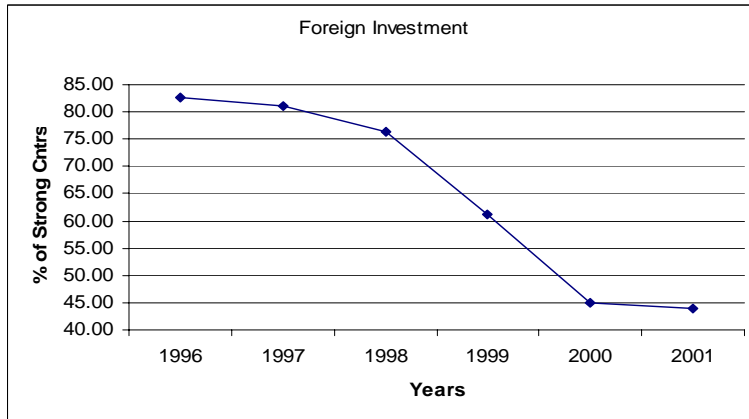
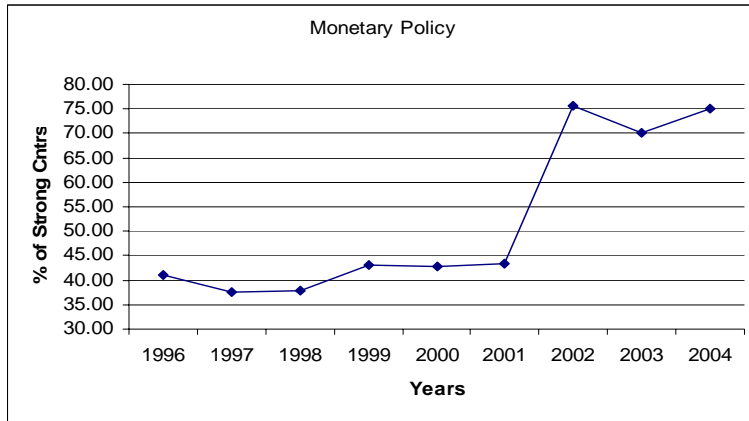
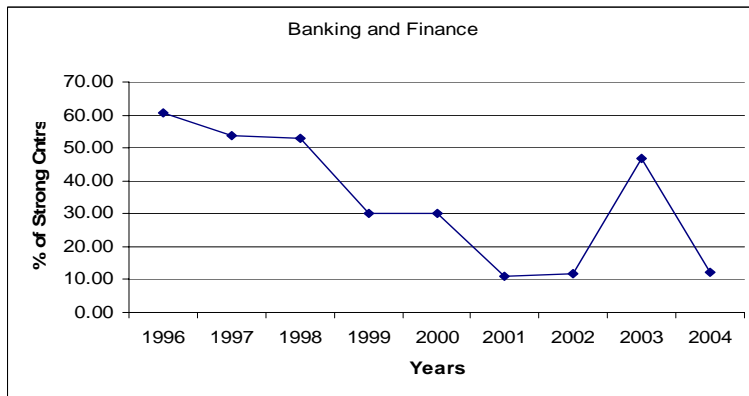
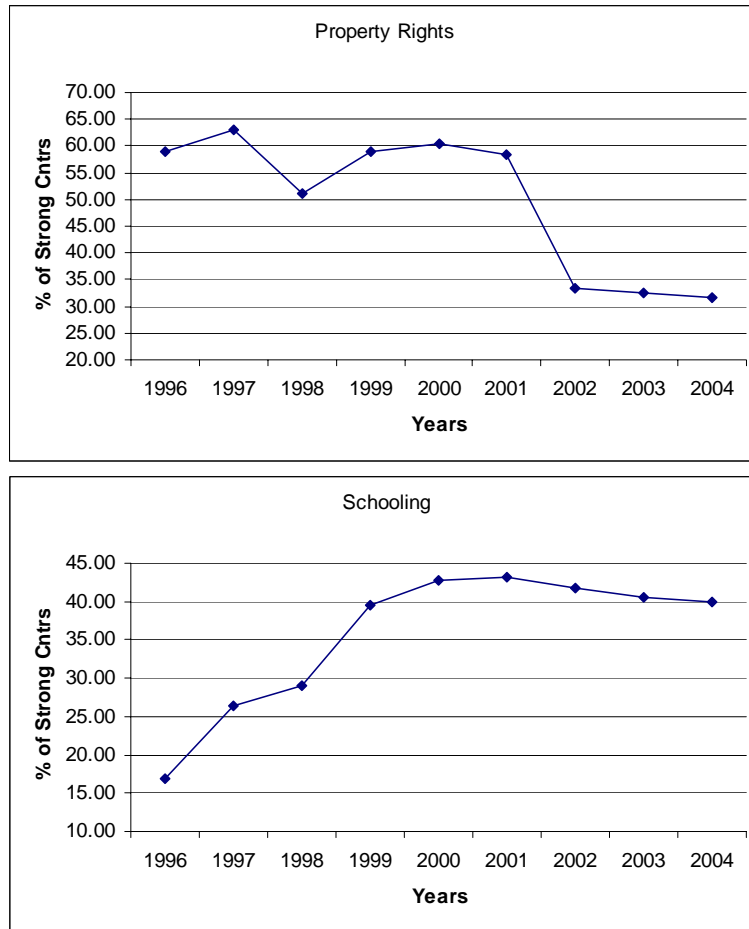


Figure 2: Changes in the distributions of inward FDI stocks according to the variables (cont'd)

2.a



## 2.b



If one looks at the Figure 1, it can be observed that for trade policy, monetary policy, wages & prices, schooling, GDP and population, there is a trend on increasing FDI stock shares for countries with strong attractiveness. For Foreign Investment, Banking & Finance and Property Rights, however, the opposite can be observed, which means for these variables there is a decreasing tendency. For other variables, no distinctive pattern over the years can be monitored.

When analysing Figure 1, it can be easily seen that

- improving trade conditions in the form of removing or abolishing tariffs, non-tariff trade barriers and fighting against corruption in the customs administration;
- slowing down of the inflation rates ;

- eliminating price controls;
- improving the education and increasing the educated labour force;

may help the countries in Mediterranean region gain more ground for FDI stocks. Also, the market size and purchasing power of the host country definitely increase the inward FDI stocks.

Interestingly, results for foreign direct investment, Banking & Finance and Property Rights are unexpected. Improving investment conditions, making banking and finance sector more free and developing property rights actually decrease the inward FDI stocks in the MECs. This can be interpreted that MECs are not considering certain investment incentives and property rights in this region. Also, it seems there is no solid change in the FDI stocks with the improvements in fiscal burden, government intervention, regulation and formal market in this region

### **C. Correlation Results**

The relevance of traditional and non-traditional determinants of FDI may be better captured by the subsequent correlation analysis. As mentioned already, the multiple regression analysis would be clearly superior to simple correlations, but is not feasible given the relatively small number of sample countries and the fairly large number of possible determinants.

In addition to FDI stocks, correlations with FDI flows are mainly performed for two reasons. First, FDI flows are expected to be less path dependent than FDI stocks. Any changes in the relevance of determinants may, thus, affect FDI flows more strongly than FDI stocks. Second, some additional determinants can be taken into account in the case of FDI flows. The GDP growth and the change in trade shares have been added as an alternative measure of opening up towards world markets to the list of non-traditional determinants in the correlation analysis for FDI flows.

**Table 3: Correlation Results for 10 Mediterranean Countries**

	Correlation with FDI Stocks		Correlation with FDI Inflows	
	1995-1999	2000-2004	1995-1999	2000-2004
<b>GDP</b> sig	0.7704 (0.0000)***	0.7933 (0.0000)***	0.4764 (0.0005)***	0.5508 (0.0000)***
<b>GDP growth</b> sig	n/a	n/a	-0.1011 (0.4848)	-0.0448 (0.7574)
<b>Population</b> sig	0.6329 (0.0000)***	0.5008 (0.0002)***	0.1200 (0.4067)	0.2847 (0.0451)**
<b>Gov't Intervention</b> sig	-0.3784 (0.0087)***	-0.3814 (0.0063)***	-0.0679 (0.6501)	-0.3161 (0.0253)**
<b>Regulation</b> sig	-0.2952 (0.0440)**	0.1840 (0.2009)	-0.4187 (0.0034)***	-0.0678 (0.6400)
<b>Trade Policy</b> sig	-0.3785 (0.0087)***	-0.3119 (0.0274)**	-0.4358 (0.0022)***	-0.3923 (0.0048)***
<b>Fiscal Burden</b> sig	-0.2931 (0.0456)**	-0.4578 (0.0008)***	-0.3352 (0.0213)**	-0.4263 (0.0020)***
<b>Monetary Policy</b> sig	0.2574 (0.0807)*	0.4173 (0.0026)***	0.0985 (0.5099)	0.3240 (0.0217)**
<b>Foreign Investment</b> sig	-0.3364 (0.0208)**	-0.2912 (0.0402)**	-0.3584 (0.0134)**	-0.3788 (0.0067)***
<b>Banking and Finance</b> sig	-0.0256 (0.8645)	0.2781 (0.0505)*	0.2615 (0.0759)*	0.2208 (0.1234)
<b>Wages and Prices</b> sig	-0.2903 (0.0478)**	-0.1179 (0.4149)	-0.2052 (0.1665)	-0.1112 (0.4421)
<b>Property Rights</b> sig	-0.2443 (0.0979)*	-0.0001 (0.9994)	-0.2496 (0.0907)*	-0.0892 (0.5381)
<b>Informal Market</b> sig	-0.1984 (0.1812)	-0.2953 (0.0374)**	0.0498 (0.7396)	-0.1865 (0.1946)
<b>Schooling</b> sig	-0.2795 (0.0848)*	-0.1095 (0.5013)	0.3860 (0.0139)**	0.1666 (0.3042)
<b>Change In Trade Shares</b> sig	n/a	n/a	0.2285 (0.1105)	0.0380 (0.8045)

Before analyzing FDI flows, the two columns on the left in Table 3 report correlation coefficients for FDI stocks on the one hand, and possible determinants of FDI on the other. Almost all correlation coefficients show the expected sign to be expected, although various coefficients lack statistical significance at conventional levels.<sup>1</sup> In the late 1990s, all the traditional determinants were significantly correlated with the inward FDI stocks for 10

<sup>1</sup> Note that in variables taken from Economic Freedom Index, 1 is the most preferable value, therefore for these variables we expect to see a negative sign in the correlation coefficients. Also \*, \*\* and \*\*\* shows the significance levels at 10%, 5% and 1%, respectively.

countries in the Mediterranean region. While most of the non-traditional determinants seem significantly correlated with the FDI stocks at reasonable levels, there are a few that show no meaningful relation. In the non-traditional determinants, trade policy, fiscal burden, foreign direct investment, wages and prices, property rights and schooling seem to be significantly correlated. Monetary policy is a significant factor for inward FDI stocks, but surprisingly the sign of the correlation coefficient seems wrong. A negative sign in the correlation coefficients of the variables taken from Economic Freedom Index is expected. Banking & finance and informal market seem not correlated with the FDI stocks in this region, but at least they have demonstrated the expected signs.

In the beginning of the new millennium, some changes in the correlation coefficients can be observed. The major changes especially take place in the non-traditional determinants. Except regulations, our traditional determinants seem significantly correlated with the FDI stocks in this region. Tariffs, non-tariff barriers, corporate tax rates, investment incentives are still the important issues that effect FDI stocks in this sample. In this period while trade policy, fiscal burden, monetary policy and foreign direct investment remain significant reasons for FDI stocks, wages & prices, property rights and schooling are losing their meanings; banking & finance and Informal Market become more important in explaining FDI stocks. This shift can be an evidence of the motivations of the multinational enterprises (MNEs) in this region. It seems MNEs are investing in these countries mostly for fulfilling their efficiency-seeking motives in different ways. They are trying to remain in a more secure business environment.<sup>1</sup> Before starting the quantitative study on FDI inflows, the variables for FDI flows are reproduced. The two columns on the right in Table 3 list two additional variables, i.e. GDP growth (proxying the growth of local markets) and the change in trade

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<sup>1</sup> The positive sign in the correlation coefficient of the banking & finance means a financial sector with more government dominance and the negative sign in the correlation coefficient of the Informal Market means a more transparent market.

shares (as an alternative measure of opening up towards world markets). GDP growth is measured by the annual change of the GDP, and the change in trade shares is calculated by the change in the ratio of total trade to GDP.

As it can be seen in Table 3, in the late 1990s while GDP and regulations are the only traditional determinants producing a significant correlation with the FDI inflows to the MECs, in the beginning of the new millennium population and government intervention becomes meaningful rather than regulations. Similar change can be observed in the non-traditional determinants. In the late 1990s, a significant correlation between trade policy, fiscal burden, foreign direct investment, banking & finance, property rights, schooling and FDI inflows to the region can be observed. In the beginning of 2000s, however, scheme changed a little. While trade policy, fiscal burden and foreign direct investment remain producing significant correlations with the FDI inflows, monetary policy joined to the significant reasons list. Banking & finance, property rights and schooling lost their importance in the second era, and Wages & Prices, Informal Market and Change in Trade Shares could not create a significant correlation with FDI inflows in the last decade.

Monetary policy produces an unexpected correlation with FDI inflows in the 2000-2004 period; same argument is valid for banking & finance in 1995-1999 period. As mentioned before, for all variables taken from the Index of Economic Freedom, a negative correlation with FDI flows and FDI stocks is expected. Again, this can be an evidence for a shift in the MNEs motives in this region. It seems MNEs are investing in these countries mostly their changing efficiency-seeking motives).

And a final observation for the correlation coefficients in FDI inflows: the traditional determinants are gaining importance in this region, while the non-traditional determinants are remaining the same (only change is in the behaviours of MNEs for fulfilling their efficiency-seeking motives)

### **3. Case Studies for Individual Mediterranean Countries:<sup>1</sup>**

#### **A. Algeria**

Although, Algeria has achieved its exact potential in FDI inflows (this can be seen in the Inward FDI Index Ratings), its share in FDI inflows among MECs is very small, and generally below 10%. Its foreign investors are mostly non-European countries. In the Index of Economic Freedom, Algeria is ranked as a “Mostly Unfree” country. With its huge energy resources and growing demands, Algeria may achieve much more than its potential in FDI inflows if the following points are considered:

- i) First of all, the aggressive liberalization program should be sustained, with the improved investment incentives and dispute settlement procedures.
- ii) There are many bureaucratic hurdles to starting a business in Algeria. According to the World Bank, the cost of starting a business, hiring and firing employees and registering property in Algeria is high, both in terms of bureaucracy and money. This red tape and high cost should be decreased.
- iii) Non-tariff barriers take the form of bureaucratic customs clearance procedures. A World Bank survey ranking 51 countries in terms of the number of days required to clear imports through customs identified Algeria as the worst at 23 days. Also, IMF reports that there is corruption in the customs administration. The Transparency International Corruption Perception Index (CPI) for 2005 ranked Algeria 97 out of 159 countries.

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<sup>1</sup> This part of the work is mainly based upon the reports of the Economist Intelligent Unit and the reports for each country prepared by the World Bank and other sources.

Therefore, the Algerian government should implement strict reforms in customs in order to prevent these complications, while enhancing the laws to decrease the corruption level in the country.

- iv) As a result of the lack in the legislation associated with franchising, transfers can be more difficult and usually require an authorization from the Bank of Algeria for certain groups of services. Also, foreign investors can repatriate dividends, profits and real net income out of their assets. In certain cases due to the inefficiency of the banking system and the heavy bureaucracy, it may take longer to obtain official permissions from the central bank. Therefore related codes should be added to the specific laws in order to make it easier to obtain permission and make transfers.
- v) While the legal framework for intellectual property rights (IPR) has been improving, the enforcement of the rules is still generally inadequate due to lack of public knowledge about counterfeiting and a lack of training in the customs services and judiciary. In order to cease counterfeiting, the Algerian government should increase the awareness of the public in regard to counterfeiting and train customs services and the judiciary enforcement of the rules related to the IPR and at the same time increase the punishment for counterfeiting.
- vi) Official statistics show that a huge amount of money illegally leaves the country every year due to over-invoicing. Although a number of foreign banks have a presence in Algeria, the government plays a dominant role in the banking sector. Private banks continue to struggle with the pace of changes in banking laws, regarding exchange reserves and minimum capital requirements. For that reason, Algeria needs an immediate

restructuring of its banking system with a more stable and fulfilling banking law.

- vii) The Economist Intelligent Unit reports that investors consider Algerian commercial law difficult to comprehend. Therefore the Algerian government should make commercial law more comprehensible, and give counselling service to foreign investors in understanding these laws. Also, Algeria should move toward a more transparent regulatory system in almost every sector, which will promote foreign investment.
- viii) Although the government has removed some price controls, it still influences prices through subsidies and direct controls on some commodities. These price controls can be necessary for the prosperity of the citizens, but should be removed gradually, by informing and adjusting the relevant sectors.
- ix) The World Bank reports that the government consumed 14.1% of GDP in 2003. In the same year based on the data from the IMF, Algeria received 68.75% of its total revenues from state-owned enterprises in the hydrocarbon sector. This ratio is very high in developing countries and should be decreased by reducing government intervention to the economy.
- x) Inflation is steadily increasing in Algeria. Thus, to improve its FDI inflows, the Algerian government should try to decrease price levels without hurting the inside demand.

## **B. Israel**

Although Israel is not achieving its potential in FDI inflows (this can be seen in the Inward FDI Index Ratings), its share in FDI inflows into the MECs is very large, and generally this share is above the 20%. The ratio of FDI inflows to gross fixed capital investments is higher in Israel than the average in Mediterranean region in the last 10 years. Its foreign investors are mostly from the US. In the Index of Economic Freedom, Israel is ranked as a “Mostly Free” country. With its educated workforce and secure contractual arrangements (Israel's legal system is largely based on the UK's but is increasingly influenced by US views and trends. It is widely perceived to be independent, fair and honest) Israel may achieve much more towards its potential in FDI inflows by considering the following points.

- i) Based on the information from the Economist Intelligent Unit and the IMF, Israel's average tariff rates are steadily decreasing. But according to the US Trade Representative, the cost of labelling has acted as a deterrent. Technical standards are increasingly becoming a major non-tariff barrier. So, tariffs should be kept low, but the non-tariff barriers may hurt future foreign investments, therefore they should be removed gradually.
- ii) Israel has been decreasing the corporate tax rates, and should continue with this policy, because there have been successful examples where FDI inflows have been improved by low corporate tax rates.
- iii) Inflation in Israel is 0.47% in annual average. Therefore, Israel should hold the price levels steady without hurting inside demand.
- iv) Although the current trend is towards deregulation, Israel's bureaucracy can still be difficult to navigate within. It is important that potential investors get approvals or other commitments made by regulatory officials in writing before proceeding, rather than relying on unofficial oral

premises. Red tape can hurt investment decisions, therefore these kind of bureaucratic procedures should be decreased or removed by the Israeli government.

- v) There are few significant barriers to foreign investment except for parts of the defence industry, which are closed to outside investors for national security reasons. There is no screening of foreign investment and no regulations regarding acquisitions, mergers and takeovers that differ from those that Israelis must follow. However, investments in regulated industries (e.g. banking, insurance) require prior government approval. To improve foreign investment, the regulated industries should be minimized, or regulations should be lessened.
- vi) Although the government is divesting itself from the banking sector, it retains significant shares of Israel's largest banks. The government is pursuing plans to sell its stake in some banks. Thus, to improve foreign investment, the government's plan of selling shares of banks should be swiftly performed on an international playground.
- vii) Political instability is a disincentive for investment. The peace in the Middle East should be formed by the cooperation of the neighbouring countries. Otherwise, investment in the Mediterranean region will remain damaged and worsen over time.
- viii) Most price controls have been lifted. According to the Economist Intelligent Unit, however the Ministry of Industry and Trade impose price controls and goods and services supplied by a monopoly or within the framework of restricted trade. Controls may also be imposed if there is a large concentration in the supply of a good, or if the goods and services are

subsidized. These kinds of price controls may discourage the investment decisions of multinationals, therefore should be removed without damaging the competition and the welfare of both consumers and firms.

### **C. Jordan**

Jordan is one of the MECs that has not yet achieved its potential in attracting FDI inflows (look at the FDI inward indexes). Its share in FDI inflows into Mediterranean region is at a moderate level, and generally this share is below 10%. The ratio of FDI inflows to gross fixed capital investments is usually lower in Jordan than the average in the MECs for the past decade, but this ratio has been increasing. Its foreign investors are mostly from the UAE and the US. In the Index of Economic Freedom, Jordan is ranked as a “Mostly Free” country. With the key reforms undertaken in the information technology, pharmaceuticals, tourism and services sectors, with its well- educated labour force and its relatively well developed financial services sector, Jordan may achieve even more towards its potential in FDI inflows by considering the following points.

- i) Investors have reported “hidden costs” when investing in Jordan due to bureaucracy, red tape, vague regulations and conflicting jurisdiction. These hidden costs should be removed or at least decreased with the changes in the laws and codes.
- ii) Jordan’s record on IPR enforcement has improved. However, a sizeable portion of videos and software sold in the marketplace continues to be pirated. Enforcement action against audio/video and software piracy is growing in quantity and improving in its targeting capability, but successful prosecution of piracy cases remains spotty. Therefore, effective

enforcement mechanisms and legal procedures need to be put into place without delay.

- iii) Although in many instances bureaucratic procedures have been streamlined, red tape and opaque procedures still present problems for foreign and domestic investors. The arbitrary application of customs, tax, labor, health and other laws or regulations, particularly at the level of local government, have hampered investment. Therefore, transparency in the regulations must be accomplished.
- iv) One flaw in the credit market is the lack of long-term credit, owing to the short-term nature of banks' deposit structure. The absence of long-term credit discourages projects requiring long development periods. As a consequence, large investment projects often resort to foreign markets to raise capital. Thus, the necessary amendments must be imposed in the banking sector.
- v) The government has removed most price controls but determines the price of fuel through subsidies and sets the price of flour, electricity and public transportation. These kinds of price controls may discourage the investment decisions of multinationals, therefore should be removed without damaging the competition and the welfare of both consumers and firms.
- vi) The judiciary is generally independent, although the Economist Intelligence Unit reports that the King is the country's ultimate authority. According to the US Department of State, "The Ministry of Justice has great influence over a judge's career and subverts the judicial system in favour of the executive branch." The law passed in June 2001 meant to

limit the Ministry of Justice's influence over a judge's career and prevent it from subverting the judicial system in favour of the executive branch, but it seems insufficient. Therefore, further improvements must be done in this area of law.

#### **D. Lebanon**

Lebanon is another important country in the region that has not achieved its potential in attracting FDI inflows (look at the FDI inward indexes). Its share in FDI inflows into MECs is very low, and generally this share is below the 5%. The ratio of FDI inflows to gross fixed capital investments is frequently lower in Lebanon than the average in the MECs region for the past decade. Its foreign investors are also mostly from the UAE and the US. In the Index of Economic Freedom, Jordan is ranked as a “Mostly Unfree” country. With its tradition of being an open country to foreign direct investment, and laws and decrees to encourage investment, Lebanon may achieve much more towards its potential in FDI inflows by considering the following points.

- vii) Some issues continue to cause frustration among local and foreign businessmen. Impediments include red tape and corruption, arbitrary licensing decisions, complex customs procedures, archaic legislation, an ineffective judicial system, high taxes and fees, flexible interpretation of laws and a lack of adequate protection of intellectual property. Therefore, in addition to the existing laws, necessary regulations must be put into operation in order to decrease the red tape and corruption. Important reforms related to customs procedures, judicial system and intellectual properties must be constructed and implemented. Moreover, taxes and fees should be reduced to attract investment.

- viii) Cases in Lebanese courts are not settled rapidly, because of archaic procedures, a shortage of judges, inadequate support structures, and an inherent slowness in the handling of cases inherited from the days of the French mandate. Therefore, the court system should be renewed and modernized, because dispute settlement is an important factor that effects the investment decisions of MNEs.
- ix) Lebanon has legislation to provide adequate protection for intellectual property. However, enforcement is weak and must be increased (e.g. training public in this issue).
- x) Political violence must be stopped with the cooperation of neighbouring countries, especially with that of Israel. Otherwise, the FDI inflows to Middle East region will drop drastically.
- xi) Local unqualified labour force falls short of supplying necessary workforce for Lebanese economy. Arab (mainly Syrian and some Palestinian refugees), Asian, Indian, and African labourers are hired to work in construction, agriculture, industry, and households. To prevent this short supply of unskilled labour, the minimum wages in mentioned sectors can be increased in exchange of increasing the rate of unemployment. Of course, increasing wages may have negative impact on the FDI inflows.
- xii) According to the US Department of Commerce, "The import and export of goods is subject to a number of trade barriers imposed by 10 state bodies in Lebanese government. Measures include prohibitions, licenses, quotas, visas, veterinary certificates, and phytosanitary certificates." These barriers may be decreased to attract FDI to Lebanon.

- xiii) The EIU reports that many private-sector borrowers are driven off the market because more than 60% of bank credit goes to the government. Therefore, some reforms must be undertaken in order to gain this crowded out investors, due to the lack of a well-established credit sector.
- xiv) The Economist Intelligence Unit reports that the government subsidizes the production of certain crops, such as tobacco, and thereby indirectly affects the prices of some utilities, such as electricity, through its state-owned enterprises. As a common policy recommendation, these kinds of price controls may discourage the investment decisions of multinationals; therefore they should be removed without damaging the competition and the welfare of both consumers and firms.
- xv) According to the US Department of Commerce, "Transparency has never been strong in Lebanon. The government does not always establish clearly the rules of the game." So, the government bodies must maintain transparency in regulations.

## **E. Malta**

Malta differs from the other countries in the region. First, it is a full member of the European Union. Second, it achieved its inward FDI potential in the 1990s, but in the near past it had been far behind of its potential. Its share in FDI inflows into MECs was greatly fluctuating up and down in the last decade. Its foreign investors are mostly from the UK and the US. In the Index of Economic Freedom, Malta is ranked as a "Mostly Free" country. With its advantages for foreign investors like membership in the EU, competitive wage rates (compared to other EU states) a highly skilled English speaking labour force, access to markets, a fair and just business environment, excellent telecommunications and flight

connections as well as several financial and other investment incentives, Malta may achieve its prolific days in attracting more FDI inflows by considering the following points.

- xvi) According to the World Trade Organization, Malta imposes non-tariff trade barriers through a complex regulatory system and export subsidies. Of course these are among the necessities of being a member country in the European Union, but these kinds of non-tariff barriers may hurt the inward FDI flow, therefore should be removed or decreased with the help of EU.
- xvii) The top corporate tax rate is 35% in Malta. This rate can be decreased gradually to attract more foreign investment.
- xviii) "Direct investment by non-residents is usually permitted in all sectors except real estate, wholesale retail trade, and public utilities," reports the International Monetary Fund. "Non-resident participation may not exceed 50% of equity in businesses involved in information technology services." This rule should be slightly lessened, to get more shares from the FDI flows into the MECs.
- xix) The government of Malta should also eliminate unnecessary bureaucratic procedures and it has to take steps in order to conform to EU standards regarding regulations for work, safety, health and other laws in general.

## **F. Morocco**

Morocco is frequently achieving more than its potential in inward FDI flows. Its share in FDI flows into MEC region is fluctuating, and can be summarized on the basis of three periods. In the beginning of 1990s, more specifically between 1990-1995, it has taken a large share from the FDI flows into the MECs. Between 1995-2002, its share was above 10%. In the second period, its share dropped drastically below 5%. And in the third period, 2003-

2004, its share rises again and exceeds 10%. Its foreign investors are mostly from France, the US and Spain. In the Index of Economic Freedom, Morocco is ranked as a “Mostly Unfree” country. With the new Free Trade Agreement between Morocco and the US, Morocco may attract additional FDI inflows by considering the following points.

- xx) Morocco has high trade tariffs with a decreasing trend. According to the US Department of Commerce, "The greatest barriers to trade in Morocco are irregularities in the government procurement procedures, lack of transparent governmental and judicial bureaucracies and contraband." Therefore, to attract more FDI, the Government of Morocco should keep decreasing the tariffs, regulate the government procurement procedures and make the regulations more transparent.
- xxi) The International Monetary Fund reports that Morocco's top corporate tax rate is 35%, which can be considered high. Therefore, decreasing corporate tax rates may help Morocco to achieve more FDI inflows.
- xxii) Previous Moroccan governments have tried to attract investment by "reforming investment laws, lowering import barriers, freeing up prices, reforming the judiciary and the labour market, reducing red tape and corruption, improving the financial sector, privatizing state firms and offering concessions," reports the Economist Intelligence Unit, but "Morocco's unwieldy bureaucracy remains a major constraint on the competitiveness of the economy and deters investors." Therefore, recommended to all the countries in Mediterranean region, Morocco should pass regulatory laws to decrease bureaucracy.
- xxiii) The US Department of Commerce reports that Morocco's "banking system is still used by the government to channel domestic savings to finance

government debt, and the banks are required to hold a part of their assets in bonds paying below market interest rates." This application may hurt the FDI inflows; therefore some regulations may be implemented to Banking and Finance sector.

xxiv) The market freely determines commodity prices without government involvement with the exception of staple commodities such as gasoline, vegetable oil, sugar and flour. These kinds of price controls may discourage the investment decisions of multinationals, therefore should be removed without damaging the competition and the welfare of both consumers and firms.

xxv) The World Bank reports that the inefficiency of the judicial system is holding back economic development. The courts move too slowly in dealing with cases, bankruptcy protection and liquidation procedures are inefficient and the courts often fail to enforce legal rulings. Additionally many of those working in the judiciary have inadequate expertise. Thus, improving the judicial system may encourage the investment decisions of MNEs in this country.

## **G. Syria**

Syria is the only country in the Mediterranean region that consistently achieved much more than its potential in inward FDI flows in the last decade. Its share in FDI flows into MECs has fluctuated in the last decade, and generally this share is below the 6% rate. Its foreign investors are mostly from the UAE and Russia. In the Index of Economic Freedom, Syria is ranked as a "Mostly Unfree" country. Its FDI stocks are rising and they go by the half of its GDP. Syria may maintain this excess performance by considering the following points.

- xxvi) Syria's tariffs are much higher than the MEC average. Also, Syria prohibits imports of electrical appliances, chocolates, fruit juices, mineral water, cosmetics, and ceramics from non-Arab countries. In addition, customs procedures are cumbersome, tedious, and time-consuming because of complex regulations. Corruption is common in customs. Therefore, Syria may attract more FDI inflows by reducing tariffs, removing the non-tariff trade barriers and import restrictions and by regulating the customs both in terms of procedure and corruption.
- xxvii) The top corporate tax rate in Syria is 35%. This rate can be considered high. Therefore, decreasing corporate tax rates may help Syria achieve more FDI inflows.
- xxviii) The World Bank reports that the government consumed 10.7% of GDP in 2003. In the same year, based on data from the Economist Intelligence Unit, Syria received 43.46% of its total revenues from state-owned enterprises and government ownership of property; up from the 39.98% reported in the 2005 index. This can be interpreted as the increasing intervention of Syrian Government to the economy. This fact may hurt the investment decisions of MNEs in this country. Therefore, Syrian government should consider decreasing its role in economics as a major supplier.
- xxix) Most investors find Syria's business environment a difficult one, plagued by ambiguous regulations and arbitrary government enforcement. Economic reforms in the recent past have been largely symbolic and have done little to improve Syria's overall investment climate, which helps to explain the reasons behind its economic problems. Therefore, the Syrian

government should improve the investment climate by imposing strict and prolific reforms.

- xxx) Credit continues to be predominantly centrally allocated, and the banking sector is still dominated by state-owned institutions. The Central Bank also continues to constrain the workings of the small private banks, setting interest rate caps, for example, and retaining restrictions on foreign-currency operations. Reallocations or restructuring banking sector may affect the FDI inflows positively.
- xxxi) The pricing regime has slightly relaxed from the rigidity of previous years, but Syrian consumers remain very price conscious and prices are not allowed to fluctuate greatly. According to the Economist Intelligence Unit, the government sets prices, provides subsidies, and controls marketing in the agricultural sector. Therefore, lessening price controls may help the Syrian government improve the investment climate.
- xxxii) Protections on property rights are weak. Therefore, in order to attract more FDI inflows the government must implement new regulations on protection of property rights.
- xxxiii) In Syria, bureaucratic procedures for licensing and necessary documentation move slowly and require official approval from many levels within the government. Under-the-table payments are often required, as corruption is endemic at nearly all levels of government. Labour laws are complex and significantly limit the employer's flexibility to hire and fire employees. Therefore, to develop investment environment, transparency in regulations must be maintained.

## **H. Tunisia**

Tunisia comes second after Syria in achieving more than its potential in inward FDI flows. Tunisia generally attracts more FDI than its potential. It gets a considerable share from the FDI inflows to the Mediterranean region. This share fluctuated between 5% and 25% in the last decade. The ratio of FDI inflows to gross fixed capital formation is always higher than the region average. Its inward FDI stocks are always higher than the 50% of its GDP. The major investors are from France and the US. In the Index of Economic Freedom, Tunisia is ranked as a “Mostly Unfree” country. With the investment encouragements, Tunisia may sustain high FDI inflows by considering the following points.

- xxxiv) Although the Tunisian constitution guarantees the independence of the judiciary, the judiciary is not fully independent from the executive branch. Local legal experts assert that courts are susceptible to political pressure. A well-established dispute settlement can affect the investment decisions of MNEs; therefore, independence of judiciary must be maintained to attract more FDI.
- xxxv) Tunisian law limits the number of expatriate employees allowed per company to four. Getting know-how and benefiting from technology spillovers are beneficial sides of FDI inflows. Therefore, restraining expatriate employees may decrease these benefits, and should be relaxed by modifying appropriate laws.
- xxxvi) Customs agents do not actively investigate copyright violations unless the copyright holder, who would have to file a specific complaint in Tunisia for protections to be enforced, makes a complaint. To enforce protection of IPR, the investigations should be conducted regularly in the customs.

- xxxvii) Bureaucratic procedures, while slowly improving in some areas, are cumbersome and time-consuming. Foreign employee work permits; commercial operating license renewals, infrastructure-related services, and customs clearance for imported goods are usually cited as the lengthiest and most opaque procedures in the local business environment. Investors have commented on the inconsistencies in the application of regulations. Therefore, transparency in regulations should be preserved and bureaucracy should be decreased.
- xxxviii) The mobilization and allocation of investment capital are still hampered by the underdeveloped nature of the local financial system. Interest in stocks and bonds is flat and the stock market has difficulty attracting capital investment. Capital controls are still in place. Tunisia may attract more FDI by doing some adjustments in the finance sector and removing or relaxing capital controls.
- xxxix) High tariffs and inconsistent procedures within the customs administration can be a major obstacle not only for importers, but also for investors. Therefore, reducing tariffs and reconstructing customs may help Tunisia to attract more FDI.
- xl) Top corporate tax rate in Tunisia is as high as 35%. Therefore, reducing this rate may improve FDI inflows into the country.

## **I. Turkey**

Although Turkey is one of the countries in the Mediterranean region which cannot achieve its potential in inward FDI flows, it generally gets the biggest share of FDI inflows to this region. This share fluctuated between 10% and 60% in the last decade. The ratio of FDI inflows over gross fixed capital formation in Turkey is always below the average for MECs. Turkey has FDI stocks at almost 15% of its GDP. Major investors in Turkey are the US, Germany and the UK. In the index of economic freedom, Turkey is ranked as a “Mostly Unfree” country. With one of the most liberal legal regimes for FDI in the OECD, Turkey can reach towards its potential in FDI inflows by considering the following points.

First some policy recommendations based on the quantitative study on Turkey will be introduced:

- i) Tariffs are affecting inward FDI flows, therefore should be decreased.
- ii) Corporate tax is another determinant for FDI inflows. To attract more FDI, Turkey should gradually decrease corporate tax rates.
- iii) FDI prefer Turkey for its cheap and unskilled labour, its labour intensive production structure, and trade opportunities. This means that the MNEs operating in Turkey mostly position vertically. They locate their labour intensive processes in Turkey for cheap and unskilled labour. Turkey should immediately change this scheme, and start attracting more capital intense, skilled labour demanding FDI. To achieve this, Turkey should give importance to protecting property rights, increase education quality, and start to establish research and development facilities.
- iv) The persistence of FDI is very small in Turkey, compared to CEECs, Ireland, Spain and Greece. This is because in Turkey FDI is mostly entering the market

by mergers and acquisitions. Turkey should immediately increase “Greenfield investments” by increasing investment incentives.

- v) Inflation is seen as a risk factor by investors, therefore inflation must be decreased without hurting domestic demand and employment.

The following policy recommendations to improve inward FDI flows are concluded from the descriptive study on Investment Climate in Turkey:<sup>1</sup>

- vi) Excessive bureaucracy should be decreased.
- vii) Reforms should be implemented in the judicial system, and the burden on the court system should be lessened.
- viii) Tax should be collected consistently.
- ix) Transparency in regulatory system should be maintained.
- x) Political and macroeconomic uncertainties must be removed.

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#### **4. Conclusion:**

We can draw the following conclusions from our empirical work in the Mediterranean Region:

- A. To increase inward FDI stocks, countries in Mediterranean Region should:
  - i. decrease tariffs;
  - ii. reduce or remove non-tariff barriers;
  - iii. slow down the inflation rate;
  - iv. eliminate price controls;
  - v. increase the average years of schooling;
  - vi. extend the domestic market.
  
- B. To increase inward FDI flows, countries in the region should:
  - i. decrease government intervention in the economy;
  - ii. decrease tariffs;
  - iii. reduce or remove non-tariff barriers;
  - iv. decrease corporate tax rates;
  - v. increase incentives for investments;

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### Web Resources

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11. Overseas Private Investment Corporation, <http://www.opic.gov>
12. The Political Reference Almanac, <http://www.polisci.com/world>
13. The World Factbook, <http://www.cia.gov/cia/publications/factbook>
14. Transparency International, <http://www.transparency.org>
15. UNCTAD, World Investment Reports and Database, <http://www.unctad.org>
16. US Export-Import Bank, <http://www.exim.gov>
17. US Trade and Development Agency, <http://www.ustda.org>
18. World Bank, <http://www.worldbank.org>

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### **Government of Algeria**

1. Bank of Algeria, <http://www.bank-of-algeria.dz/>
2. Constitutional Council, <http://www.conseilconstitutionnel-dz.org/>
3. Ministry of Agriculture and Rural Development, <http://www.minagri-algeria.org/>
4. Ministry of Energy and Mining, <http://www.mem-algeria.org/>
5. Ministry of Finance, <http://www.finance-algeria.org/>
6. Ministry of Foreign Affairs, <http://www.mae.dz/>
7. Ministry of Higher Education and Scientific Research, <http://www.mesrs.edu.dz/>
8. Ministry of Industry and Restructuring, <http://www.mir-algeria.org/>
9. National Centre of the Commercial Register, <http://www.cnrc.org.dz/>
10. National Office of Statistics, <http://www.ons.dz/>
11. Supreme Court, <http://www.coursupreme-dz.org/>

### **Government of Israel**

1. Antitrust Authority, <http://www.antitrust.gov.il/index.asp>
2. Bank of Israel, <http://www.bankisrael.gov.il/>
3. Center for Business Promotion, <http://www.cbp.gov.il/>
4. Central Bureau of Statistics, <http://www.cbs.gov.il/>
5. Israel Export Institute, <http://www.export.gov.il/>
6. Ministry of Agriculture and Rural Development, <http://www.moag.gov.il/>
7. Ministry of Education, <http://www.education.gov.il/>
8. Ministry of Finance, <http://www.mof.gov.il/>
9. Ministry of Foreign Affairs, <http://www.mfa.gov.il/mfa/go.asp?MFAH0fap0>
10. Ministry of Industry and Trade, <http://www.moit.gov.il/>
11. Ministry of Justice, <http://www.justice.gov.il/>

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1. Central Bank of Jordan, <http://www.cbj.gov.jo/>
2. Customs Department, <http://www.customs.gov.jo/>
3. Department of Statistics, <http://www.dos.gov.jo/>
4. General Intelligence Department, <http://www.gid.gov.jo/>
5. Higher Council for Science and Technology, <http://www.hcst.gov.jo/>
6. Ministry of Education, <http://www.moe.gov.jo/>
7. Ministry of Energy and Mineral Resources, <http://www.nic.gov.jo/memr/memr.html>
8. Ministry of Finance, <http://www.mof.gov.jo/>
9. Ministry of Industry and Trade, <http://www.mit.gov.jo/>

10. Ministry of Planning, <http://www.mop.gov.jo/>
11. National Center for Human Resources Development, <http://www.nchrd.gov.jo/>

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1. Bank of Lebanon, <http://www.bdl.gov.lb/>
2. Central Administration for Statistics, <http://www.cas.gov.lb/>
3. Council of Development and Reconstruction, <http://www.cdr.gov.lb/>
4. Customs Administration, <http://www.customs.gov.lb/>
5. Investment Development Authority of Lebanon, <http://www.idal.com.lb/>
6. Ministry of Economy and Trade, <http://www.economy.gov.lb/>
7. Ministry of Finance, <http://www.finance.gov.lb/>
8. Ministry of Industry, <http://www.industry.gov.lb/>
9. National Council for Scientific Research, <http://www.cnrs.edu.lb/>

#### **Government of Malta**

1. Central Bank of Malta, <http://www.centralbankmalta.com/>
2. Department of Customs, <http://www.business-line.com/depofcus/>
3. Government of Malta, <http://www.gov.mt/>
4. Ministry for Economic Services, <http://www.mes.gov.mt/>
5. Ministry for Justice and Local Government, <http://www.justice.gov.mt/>
6. Ministry of Education, <http://www.education.gov.mt/>
7. Ministry of Foreign Affairs, <http://www.foreign.gov.mt/>
8. National Statistics Office, <http://www.nso.gov.mt/>

#### **Government of Morocco**

1. Administration of Customs and Indirect Taxes, <http://www.douane.gov.ma/>
2. Directorate of Foreign Investments, <http://www.invest.gov.ma/>
3. Directorate of General Economic Politics, <http://www.finances.gov.ma/dpeg/dpeg.htm>
4. Directorate of Statistics, <http://www.statistic.gov.ma/>
5. Ministry of Economic Provision and Planning, <http://www.mpep.gov.ma/>
6. Ministry of Economy, Finance and Privatization, <http://www.finances.gov.ma/>
7. Ministry of Foreign Affairs and Cooperation, <http://www.maec.gov.ma/>
8. Ministry of Justice, <http://www.justice.gov.ma/>
9. Ministry of the Public Sector and Privatization, <http://www.minpriv.gov.ma/>
10. National Agency for the Regulation of Telecommunications, <http://www.anrt.net.ma/>
11. Office of Industrial Development, <http://www.odi.gov.ma/>

#### **Government of Syria**

1. Ministry of Economy and Foreign Trade, <http://www.syrecon.org/>
2. Ministry of Education, <http://www.syrianeducation.org/>
3. Ministry of Industry, <http://www.syr-industry.org/>
4. Ministry of Information, <http://www.moi-syria.com/>
5. Ministry of Petroleum and Mineral Resources, <http://www.mopmr-sy.org/>

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1. Agency for Promotion of Industry, <http://www.tunisianindustry.nat.tn/>
2. Central Bank of Tunisia, <http://www.bct.gov.tn/>
3. Foreign Investment Promotion Agency, <http://www.investintunisia.tn/>

4. National Institute of Statistics, <http://www.ins.nat.tn/>
5. Ministry of Higher Education, Scientific Research and Technology, <http://www.mes.tn/>
6. Tunisian Government, <http://www.ministeres.tn/>

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2. Central Bank, <http://www.tcmb.gov.tr/>
3. Competition Authority, <http://www.rekabet.gov.tr/>
4. General Directorate of Revenues, <http://www.gelirler.gov.tr/>
5. Ministry of Finance, <http://www.maliye.gov.tr/>
6. Ministry of Industry and Trade, <http://www.sanayi.gov.tr/>
7. Ministry of Justice, <http://www.adalet.gov.tr/>
8. Ministry of National Education, <http://www.meb.gov.tr/>
9. Prime Ministry, <http://www.basbakanlik.gov.tr/>
10. Privatization Administration, <http://www.oib.gov.tr/>
11. Secretariat of Customs, <http://www.gumruk.gov.tr/>
12. Secretariat of Foreign Trade, <http://www.dtm.gov.tr/>
13. Secretariat of the State Planning Organization, <http://www.dpt.gov.tr/>
14. Secretariat of Treasury, <http://www.hazine.gov.tr/>
15. State Institute of Statistics, [http://www.die.gov.tr](http://www.die.gov.tr/)