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An Analysis of The Relation Between Foreign Direct Investment and Sociopolitical Variables in MENA Countries by Panel Regression

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ABSTRACT

Foreign direct investment (FDI) plays the role of an accelerator for the economic growth in host countries. Countries that provide the suitable environment economically and politically get ahead in this race. Over the last five years, the weighted importance of sociopolitical variables in the decision-making process has increased. The countries of the Middle East and North Africa (MENA) region, although they have a potential to develop, are regarded as country groups that have not yet fully achieved this. This article reveals and interprets the relationship between FDI and sociopolitical variables such as political risk, human development index, terrorism risk index, multidimensional poverty index, the rule of law, regulatory quality, and control of corruption, utilizing panel regression analysis. In the analysis of the MENA countries covering the years 2010-2016, it was concluded that all independent variables except the human development index and multidimensional poverty index were statistically significant and effective on FDI.

KEYWORDS

Foreign Direct Investment, MENA Countries, Panel Regression Analysis, Sociopolitical Variables

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INTRODUCTION

Foreign direct investment (FDI) is an essential economic activity that provides efficiency in resource utilization on the international platform. FDI, which has become one of the most important transnational activities in conjunction with globalization, increases the competitive power of the investing country in the international markets. In the host country that attracts investment, it enables the increase in production, exports, and employment, the growth of the qualified workforce, the spread of innovative management and marketing methods, besides economic growth and technological development. Therefore, those countries that import capital usually prefer types of foreign direct investment. FDI establishes a long-lasting relationship with the country invested. Hence, it is out of the question for such foreign investments to abandon host countries in short terms and suddenly. Host countries have to provide legal guarantees to foreign investors to be able to attract such investments. Governments try to attract long-term foreign direct investment to their countries, on the one hand, by the incentives they offer and on the other, by providing a favorable political and economic environment (Edwin & Lai, 2001).

Foreign direct investment, which has become one of the most significant cross-border activities with the emergence of globalization trend, especially after World War II, has gained wide popularity with regards to enabling efficient distribution of the limited resources worldwide. Foreign direct investments actualized between developed countries that had been exporting capital until the 1980s also started turning towards developing countries, through various incentive measures evolved after the debt crises encountered (Sezgin & Özkan, 2015).

Foreign investors pay utmost attention to the issue that the country they will invest in has economic, social, and political stability. Foreign capital enterprises state that political situation of a state usually influences their investment decisions. In many cases, companies avoid investing or reinvesting in countries having an unstable political environment (Sabade, 2014). Since political stability is an element which also assures economic stabilization, it affects foreign capital investments as well. Foreign capital first looks for safety and trust, and these factors affect not only the sales revenue and profits of the multinational investor company but also its current and future presence in the international markets and especially in the countries entered. In addition to these factors, bureaucratic obstacles, lack of coordination, confusion in the authorization, speculative news, double taxation problem, disruptions in legislation, the immaturity of the capital market, the alternative attractiveness of regional countries, inadequacies in foreign exchange legislation, and difficulties in profit transfer can be listed; however, these are not the main reasons. Technical details are not important for the foreign capital to come in. Stability, assurance, and rapprochements in the matters of economic, political, psychological and moral values increase the attractiveness of a country to foreign investors (Teli, 2014).

Institutional factors and sociopolitical elements that countries have are indicators of economic development. When deciding on the FDI, concepts such as the legal system, government effectiveness & bureaucracy, fight against corruption, political stability, regional international trade agreements, and privatization are always taken into consideration as general topics. From this fact, the objective of the study is to determine the effects of sociopolitical factors on FDI and to define the relations. In the analysis of the MENA countries covering the years 2010-2016, the effects of political risk, human development index, terrorism risk index, multidimensional poverty index, the rule of law, regulatory quality and control of corruption variables on FDI were examined and interpreted, using panel regression analysis.