Chapter 25

Foreign Direct Investment in North Africa:

A Descriptive Analysis of the Performance, Policies, Challenges

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ABSTRACT

North Africa is considered to be one of the wealthiest areas of the continent thanks to its natural resources and strategic geopolitical location. While the region is generating about one-third of Africa's total GDP, its economic indicators are not presenting a bright picture for North African countries. This chapter attempts to provide an in-depth overview of the investment environment and shed light on the main constraints on foreign direct investment (FDI) in each of the North African countries. The authors focus on contemporary trends in FDI and policies regarding human capital promotion and infrastructure development. The descriptive analysis indicates that the volume of FDI in the North Africa region is still weak compared to international flows to other developing regions. This outcome can be associated, in addition to unattractive FDI policies, with the absence of real economic and financial reforms, persistent political instability, lack of technological readiness, inadequate regulatory and institutional framework, high corruption and inefficient bureaucracy.

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INTRODUCTION

In the last three centuries, the amount of academic work studying the factors affecting FDI flows has increased, because of the potential positive spillover of foreign direct investment on economic development. Policymakers began adopting new policies those can create a stable atmosphere and prevent avoidable risks for investors.

Dunning (2002) argued that emerging economies need to attract more FDI in order to improve their technological knowledge and capabilities. The benefits of FDI in developing countries can be significant through its role in enhancing the international transfer of capital, technology and management skills. FDI also influence balance-of-payments and level of competition (Ahmed, 2012; Wahab et al., 2012), which can impose burdens on local firms and industries. Moreover, increasing the amount of FDI in the host country may affect national sovereignty negatively through the influence of foreign firms on policymakers (Duanmu, 2014). Thus, governments search for appropriate strategies related to FDI, including the improvement of institutional quality and infrastructure, minimizing entry barriers and improving financial incentives.

In the North Africa region, at the beginning of the 90s, the governments have taken real steps to open the economy and liberalize the financial system to establish a proper investment environment (Rady, 2012). Despite some progress in terms of macroeconomic stability and structural reforms, North African countries still have difficulties in attracting foreign investments (Hisarciklilar et al., 2006), such as poor regulatory and institutional framework (Anyanwu et al., 2016).

Regardless of the cultural and historical commons among North African countries, there are abundant variances in terms of economic, social and political development. There are essential dissimilarities in terms of population and market size between Egypt and other countries. While natural resources represent more than 95% of Algeria's and Libya's exports, it is only about 13% in Morocco and Tunisia.

According to the World Bank, the amount of FDI flows into North African countries has increased from an annual average of US$2.2 billion in the 1990s to US$12.5 billion in 2000s. As shown in Figure 1, the flows of FDI into North Africa made a peak in 2007, reaching 4.5% of regional GDP. However, the level of FDI inflows decreased notably after 2011 due to political disturbances (*Arab Spring*) going down to an annual average of 2% of regional GDP between 2011 and 2015.

Given the size of its natural resources and strategic geographic location, one can easily argue that FDI inflows to North African countries is still insufficient compared to those for other developing regions around the world. The share of FDI inflows into North Africa in aggregate FDI inflows in developing countries is only 3%, compared to 2% in Turkey, 10% in West Asia, 18% in South America, and 37% in East Asia. Moreover, the average of FDI stock over GDP within the period of 1996-2017 in the North Africa region was 25.7% compared to 47.3% Southern Africa region and 49.7% in the South-East Asia region.

In this context, this study provides a general overview of the investment environment in North African countries, namely Algeria, Egypt, Libya, Morocco, and Tunisia. Main observations motivating this study can be summarized as follows:

a) Although the North Africa region is one of the wealthiest areas of the world, given its natural resources and strategic location, the weakness of economic and social indicators in this area still represents a considerable challenge for governments and policymakers.

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