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The Arab Awakening, act II: Time to move more boldly on investment

by
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Following the Arab Awakening in late 2010, the decline of foreign direct investment (FDI) in the Middle East and North Africa (MENA) from US$ 63 billion in 2010 to US$ 39 billion by the end of 2011, was significant, albeit with important differences among countries.[1] FDI inflows continued to slow slightly in 2012 and are expected to remain flat in 2013.[2] Although FDI inflows for the region as a whole were affected by a number of factors, including the crisis in global financial markets, the sharp decrease was also related to a loss of investor confidence and political instability that affected both oil importing and exporting countries. For example, in Egypt FDI inflows fell from US$ 6.4 billion in 2010 to a net disinvestment of US$ 483 million in 2011.[3] Sectors in the region that were hardest hit included agribusiness, construction, light manufacturing, renewable energies, and tourism.

A recent *Perspective* concluded that, "if political transitions in the region are democratic and coupled with political stability, the Arab Spring could increase FDI and contribute to economic development in the region."[4]

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[1] FDI increased in some countries such as Morocco. See UNCTAD FDI database 2012, available at: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx.

[2] MIGA, *World Investment and Political Risk* (Washington DC: The World Bank, 2013), pp.15-24.

[3] Ibid.

[4] Paul Antony Barbour et al., "The Arab Spring: How soon will foreign investors return?," *Columbia FDI Perspectives,* No. 67 (May 7, 2012), p.3.

While this may be true, political transitions can take years to evolve toward a stable economic environment. Two years after the Arab Awakening, risks for investors in the region are still high. Since 2011, foreign investors have filed six new arbitration requests against Egypt.[5] Labor unrest and weakened security in transition countries; political uncertainty in Egypt and Tunisia; turmoil in Libya, Syria and Yemen; and the Eurozone crisis have weakened investor confidence.

In this context, how can MENA countries reassure existing and potential investors and attract further investment? Outside of ensuring that fundamental conditions for doing business are in place -- macroeconomic stability, rule of law, quality infrastructure, and integrity in the public sector[6] -- governments should consider four actions.

First, MENA governments need to honor their existing commitments under bilateral investment treaties (BITs) and other international investment agreements. Investors will be watching how transition governments handle measures that could spark dispute, such as confiscation of assets and the expropriation and cancellation or revision of contracts. MENA governments could also assess their BIT networks with a view to ratifying or renegotiating signed agreements.

MENA governments should also reaffirm their commitment to the fundamental international investment principles of protection, non-discrimination, transparency, and predictability. The adherence of Egypt, Morocco and Tunisia (and likely Jordan later this year) to the OECD Declaration on International Investment and Multinational Enterprises would have further impact if these countries agreed to an updated review of their investment policies and spearheaded reforms such as new investment laws with stronger investor protections.

Strengthening regional integration would further enhance the attractiveness of MENA as an investment destination of over 240[7] million people with untapped potential to join global value chains. Intra-regional FDI flows in North Africa were a mere 6% of total flows between 2003 and 2010.[8] A first step to bolster intra-regional investment would be to incorporate investment provisions into existing regional free trade agreements like the Agadir Agreement or the Greater Arab Free Trade Area.

Measures to enhance predictability and reduce investor risk should be complemented by other measures to promote investment. Investment promotion that focuses on attracting lead firms in high growth sectors can help local companies acquire the skills and certification to deliver products, processes and services for global value chains. Small and medium-size enterprises in Morocco, for instance, are developing capabilities in the

[5] See icsid.worldbank.org/ICSID/Index.jsp.
[6] See OECD, *Policy Framework for Investment* (Paris: OECD, 2006).
[7] World Bank, *World Development Indicators* (Washington: World Bank, 2011).
[8] World Bank, *From Political to Economic Awakening: The Path of Economic Integration* (Washington: World Bank, 2012).

automobile and aeronautics sectors through their association with Bombardier, EADS, Renault, Safran, and Thales.

Aside from these government actions, the private sector must also do its share to convince the public and new political majorities of the beneficial role it can play in job creation and social development. Companies operating in the region should take decisive actions to foster integrity, corporate governance and responsible business conduct.[9] If firms act in the right manner, governments will have more incentive to honor their commitments.

MENA countries cannot afford to wait for investors to return. Governments must reaffirm their commitment to international investment principles, accelerate regional integration and implement targeted investment promotion measures. Broader reforms to strengthen governance, tackle corruption and modernize education systems and infrastructure will also be essential for FDI to have a lasting positive impact on growth and job creation across the region. It is time for MENA governments and their international partners to move more boldly on investment.

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[9] See the updated OECD Guidelines for Multinational Enterprises, OECD (2011), available at: http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/oecdguidelinesformultinationalenterprises.htm.

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