The Mediterranean Continues to Attract FDI

The Mediterranean countries are small, open economies with close ties to the euro zone area. While some MED countries are large oil exporters, most of them have large tourism sectors and benefit from expatriate remittances. Accordingly, their economies are vulnerable to declines in exports, oil revenues, tourism receipts, remittances and FDI inflows. The Southern Mediterranean countries did not escape the global economic crisis but demonstrated that they were well placed to respond to it. They suffered because of its secondary effects, albeit to a varying degree, depending on category and country. The drop in exports is the most substantial and direct channel through which the global crisis has affected the region, and the fall in FDI inflows also appears to be significant, while remittances, judging by past experience, tend to be a relatively stable source of revenue. As a result, real GDP growth weakened significantly in 2009 and recovered only moderately in 2010, al-

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though it remained positive. However, the weakening of economic activity in the Mediterranean region has been less pronounced than in advanced economies and most other emerging market regions. This is largely because the direct impact of the global financial turmoil on banking sectors and financial markets in Mediterranean countries has been relatively limited. This is mainly attributed to: (i) their lack of exposure to US mortgage-related assets that turned “toxic,” a feature the region shares with other emerging markets, and (ii) the limited financial development of many countries in the region and their limited integration into global financial markets.

Nevertheless, over the last few years many of these Mediterranean countries have attracted significant FDI inflows, particularly when compared with previous decades. This is largely due to a more dynamic domestic demand capable of appealing to foreign investors attracted by low-cost solutions, especially in terms of relatively cheap labour. The trend, however, slowed down in 2009 due to the crisis.

2010 was also a transition year for the southern rim of the Mediterranean with a net improvement in foreign investment in that year. According to the annual review of the Mediterranean Investment and Partnership Observatory (ANIMA-MIPO), which tracks investments into the Mediterranean, the number of announcements of FDI projects grew in the MED countries with 826 projects identified in 2010 against 542 in 2009, producing an increase of 52%. This upward trend in the number of investment projects was, however, less marked in terms of an increase in inflows: €33.2 billion against €28.4 billion in 2009, up by 17% (Chart 22).

For their part, international partnerships between companies rose by 71%; 493 projects in 2010 against 288 in 2009. This is partly due to the effect of the EU-funded Invest in Med programme, which is devoted to these partnerships and tends to be better at detecting such investments.

The Mediterranean Recipient Countries and Sectors

Records over the past three years show that Turkey (whose impressive rise to power has been attracting investments), Egypt (but still far from its past records) and Israel have proved to be the three major destinations for FDI. The Maghreb trailed behind and its performance has been disappointing on the whole. Only Tunisia has recorded a strong rise in FDI prior to the political crisis at the end of 2010. FDI announcements have reached their lowest level in four years in Libya. In Morocco, which is usually the shining star for partnerships favoured by SMEs, investments have remained nearly at the same level as in...
2009. Investments in Algeria were less marked due to a certain anti-liberalism (restrictions on imports control of FDI, etc.). In the Mashreq, Syria continues to confirm its new attractiveness, Lebanon receives mainly portfolio investments and the other countries (Jordan and especially Palestine) are stagnating.

Five main sectors usually favoured by investors: energy, building and public works, telecoms and material (cement, glass, etc.) took the lion’s share of FDI inflows in 2010. However, there was a sizeable drop in tourist investments due to the overcapacity in the sector. There was a large increase in the number of banking projects, in particular in Syria, given the liberalisation of the sector since 2009. The emergence of the distribution and franchise sectors and an increase in the automobile sectors (especially in Turkey and Morocco) were also noted for FDI. There was a disappointing performance for the agri-food business (only €219 million announced in 2010), the software industry (supposed to be one of the strengths of the Southern Mediterranean countries, with only €535 million) and chemical/petrochemical and fertilisers (only €394 million). It was also noted that cutting edge industries such as aerospace (in Tunisia and Morocco), engineering, general public electronics and logistics have gained new grounds, while textiles, a leading sector in the region, remains at a very low level in terms of foreign investments (€128 million).

Gulf Investments in the Mediterranean: The Passion Sloths but Does Not Recede

Gulf States, like those in the rest of the world, could not escape the severe economic and financial crisis albeit at a moderate level. The GDP in the six states of the GCC shrank by only 0.6 percent in 2009, and, even as oil prices and revenues declined, current account surpluses shrank but remained positive. GDP growth was sustained in the non-oil sectors due to heightened investment in domestic economies in the 2000s, and, because of quick increases in anti-recessionary government expenditure, the recession did not go as deep in the GCC as it did in the industrial countries and oil exports, which underpin their economy, made a recovery in the following years (see Chart 23).

Indeed, through most of the 2000s, the GCC states were the largest source of net global capital flows in the world, rivalling China as a 'new financial superpower.' They are also the home to some of the largest and oldest Sovereign Wealth Funds (SWFs), with estimated assets between $600 billion and $1 trillion at the end of 2008. However, due to the crisis, they used their financial surplus and called on their SWFs to help address challenges such as low financial liquidity, high unemployment and to mitigate the impact on their economic systems. They also sought to play a role in helping neighbouring countries to overcome the economic crisis within the broader Middle East region.

The GCC is much more integrated with the rest of the world than with the Mediterranean region be-

TABLE 12 Average FDI Flows per Destination, 2008-2010 (in €m)

<table>
<thead>
<tr>
<th>Country</th>
<th>DZ</th>
<th>EG</th>
<th>IL</th>
<th>JO</th>
<th>LB</th>
<th>LY</th>
<th>MA</th>
<th>PS</th>
<th>SY</th>
<th>TN</th>
<th>TR</th>
<th>MED-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANIMA</td>
<td>1,953</td>
<td>5,098</td>
<td>3,450</td>
<td>1,476</td>
<td>644</td>
<td>1,684</td>
<td>2,439</td>
<td>112</td>
<td>2,031</td>
<td>1,450</td>
<td>12,348</td>
<td>34,369</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>1,761</td>
<td>5,391</td>
<td>3,840</td>
<td>1,692</td>
<td>3,246</td>
<td>2,292</td>
<td>1,488</td>
<td>20</td>
<td>1,154</td>
<td>1,472</td>
<td>7,626</td>
<td>32,377</td>
</tr>
<tr>
<td>△ ANIMA / UNCTAD</td>
<td>+11%</td>
<td>-5%</td>
<td>-10%</td>
<td>-13%</td>
<td>-80%</td>
<td>-27%</td>
<td>+64%</td>
<td>+76%</td>
<td>-1%</td>
<td>+62%</td>
<td>+6%</td>
<td></td>
</tr>
</tbody>
</table>

Source: ANIMA and UNCTAD, for 2010, country or UNCTAD figures.
cause of the role of oil and gas in trade patterns. But integration via labour markets is significant, especially for Mashreq countries and Egypt. FDI linkages from the GCC to the rest of the Mediterranean are also important and during the last decade, Gulf investors have become a major player in the region, sometimes surpassing Europe. Since the inception of the ANIMA observatory (January 2003), they have invested some 70 billion euros in almost 700 projects and they tend to be concentrated in rather large “big ticket” projects (a ratio close to €100m per project), mostly in the Mashreq and Maghreb. For example, Gulf Finance House (GFH) announced the launch of Africa’s first offshore financial centre in Tunis Financial Harbour in collaboration with the Tunisian Government (€2,100 million), while Qatar Telecom (Qtel) announced that it would exercise its pre-emptive right on the remaining 50% stake in Tunisia from Orascom Telecom, recently acquired by Russian Vimpelcom (€1,100 million). In fact, GCC states had announced even more larger amounts to invest in the MED (€160 billion), but, of course, the global crisis has reduced some of their ambitions. The acceleration of their investment has been recent (2006 and 2007), mainly thanks to the Emirates and is somehow linked to a real estate/tourism bubble.

Gulf countries’ net investments in the Mediterranean, however, which have been growing over the last decade and have for a number of years overtaken that of North America and in some years even that of Europe, were caught up in 2010. Gulf countries have thus been surpassed by the “other countries”, mainly emerging ones, and are on a par with the USA and Canada (Chart 24). These 3 groups issue 15 to 16% each of the FDI directed towards the Southern Mediterranean countries. European investments took the lead for the third consecutive year and remained the main FDI source, constituting half of the investments in the Mediterranean in 2010. Usually ranked second, investments from Gulf countries are on the decline. Hardly hit by the financial crisis and the bursting of the housing bubble, Gulf countries adjusted their investment strategies. They supplied 18% of the flows announced during the first three quarters of 2010, against over 25% on average since 2003; and the average size of their investment projects has been halved to 50 million euros against an average of 100 million euros since 2003.

Gulf investors’ three favourite sectors, namely public works, banking and tourism, are still at the top, while public works and tourism projects are in relative decline and banking projects record a marked increase. Distribution emerges as a new leading sector, with over 10% of the total number of projects for the first nine months of the year, against 5% on average. Apart from the SWFs, Gulf investors also seem to favour lighter commitment and short-termism: partnerships from Gulf countries are rising, with 40
projects detected in nine months against 21 in total in 2009, mainly hosted by Mashreq countries. Transportation seems to attract several partnership projects: low cost carriers such as Emirati Air Arabia and Fly Dubai grab new market shares and launch new routes to MED countries.

It is also noted that European predominance is even stronger for partnerships (264 projects making 545 of the total in 2010), with North America coming second (20% of the total projects), and the Gulf reaching only 12%. Partnerships originating from the emerging countries made 9% and intra-MED 6%. Compared with 2009, however, the Gulf partnerships have tripled and those between MED countries have doubled, which is a source of great encouragement. Europe has a preponderant share of franchises and management contracts (public-private partnerships), (see Chart 25).

**Conclusion**

What some have called “the beginning of an affair” between the Gulf and the Mediterranean is still alive, despite the global and regional crisis. Over the last decade, GCC investors have become major economic players in the Mediterranean, sometimes surpassing their European counterparts. The Gulf has grown to be more enamoured with the Mediterranean, not only because of their common historical, cultural and religious heritage, but also because of the opportunities for growing close economic ties and return on investments.

However, Gulf-Mediterranean integration is far from being achieved and the two regions are still poles apart. Gulf investments in the Mediterranean help to bridge the gap and offer both an opportunity for diversification of investment for the former and a source for economic development for the latter. Gulf countries are also the most involved in world financial markets, mainly through their sovereign funds. Hence it was the first Arab region to feel the effects of the world financial and economic crisis, whose impact differed from one country to another. The crisis not only reduced their financial powers and dented their confidence, but also encouraged them to focus their investments mainly on the home market in an effort to stabilise their economies and financial system. Although they continued to invest in and support neighbouring countries, their investments in the Mediterranean have lagged behind that of Europe, and stand at a par to that of the United States and Canada in 2010.

The Mediterranean region, despite certain initial setbacks arising from the global economic crisis has, however, managed to recover and in 2010 has been
able to attract its fair share of foreign investments due to its appeal as a rewarding destination for FDI and partnerships.

Faced with the challenges of the Arab Spring and its aftermath, it will remain to be seen how the region will recover and translate the chaos of revolutions into an opportunity for the needed economic, social and political reforms, which underscore a country’s stability and economic performance and attract more foreign investments. The Gulf, shaking off the effect of the global crisis and gaining more confidence, is likely to continue its passion for investments in the Mediterranean, increase its share in the future and restore its position as one of the main sources of FDI, nurturing further regional cooperation and integration.

References


