Investment as an Essential Factor of Mediterranean Countries' Development

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The attractiveness of foreign direct investment (FDI) has become not just a priority for the countries of the Mediterranean basin, but an indispensable factor in their socio-economic development, to the extent that such investment is now a central feature of national budgets, and even of many five-year plans. What is worse, this investment now represents a common challenge for all the countries concerned, and one in which European governments are increasingly involved. It is in this context that the intensification of the EIB FEMIP (European Investment Bank – Facility for Euro-Mediterranean Investment and Partnership) commitment in the MEDA region in 2003 and 2004 needs to be seen. The results of this last financial year, the first year of implementation of the "intensified FEMIP," reflects the continuing commitment of this institution to its support for the Barcelona Process. In fact, the activity (long-term loans and venture capital) now reaches 2.2 billion euros. It covers a wide range of investments, the majority of which stem from the private sector. The first Euro-Mediterranean investment meeting held on 13-14 January 2005 in Marseilles, organised by the Euro-Mediterranean Network of Investment Promotion Agencies (ANIMA) and *The Economist*, with the support of local authorities, revealed the progress made in the MEDA region in attracting FDI, as shown in an analysis provided by the MIPO (Mediterranean Investment Project Observatory). It also made clear how important such investment is for producing the socio-economic changes that are considered necessary before democracy may be advocated. An approach which, nevertheless, continues to differ from that of the United States, whether it be in the case of the former partnership project with the North African countries (nicknamed the "Eizenstat Initiative"), or that launched during the G8 summit (at Sea Island in 2004). The latter has been presented as an instrument to develop freedom, the entrepreneurial spirit and democracy not only in a large region encompassing the MEDA area, but also for other zones, such as the GCC (Gulf Cooperation Council) area or countries further away from the Mediterranean such as Iran or Afghanistan.

The official statements produced by some experts in the field rank the region as an intermediate market which has not so far been particularly attractive (if compared with China or India, for example), and rarely on the "short list" of investors, in particular since it is not considered to be an easy market. The increasing number of investment proposals for 2004 and of forecasts for 2005 is nevertheless promising.

In fact, the balance-sheet shows that the MEDA region succeeded in attracting 400 investments in 2004, against 275 in 2003. What is most revealing about the present situation is that the origin of the investors is becoming increasingly diversified. This means that dependence on Europe is beginning to fall, albeit relatively. Although Europe continues to have the lion's share of incoming investment (55%), North America's percentage (19%) is growing, at a time when increasing interest by the Gulf States and the rest of the Muslim world (10%) is also being recorded; this proves that international investors are aware of the region's future, its potential and its market of over 700 million consumers in 2004, even if the zones' integrated regional domestic market continues to appear weak for the present, and hence detrimental for investments requiring a minimum level of demand.

Interventions as well as the talks held in Marseilles during the 1st Euro-Mediterranean investment meeting concluded – far removed from the quantitative balance sheet of the FDI – that the MEDA zone is a considerably attractive place. Proof of this is the substantial increase in these investments in the space of a year, with a marked improvement forecast for 2005. This improvement has taken place after the recent years' deficit during which there was 3 to 4 times less foreign direct investment than in other emerging regions of the world. This is what has produced this really worrying situation, considering the requirements of this region in terms of employment, capital and wealth. It should, however, be noted that in 2004, MEDA region obtained twice as many ICT projects as the Central and Eastern Europe Countries (CEECS). Turkey and Morocco lead in terms of projects. This caused the Minister of Finance of the latter country to declare that "Morocco got its stripes in the MEDA region."[1] In this same direction, FDI towards the southern Mediterranean countries has been established with a marked improvement for Tunisia recorded in 2004. In fact, the annual

[1] *La Gazette du Maroc*– N° 406, 7 February 2005– p. 35.

report of the CBT (Central Bank of Tunisia) revealed that the volume of FDI attracted by this country was close to 800 million dinars (around $630 million), which has enabled the construction of 171 industrial and service units and the creation of 6,000 additional jobs. However, this same report takes into account that the average level of foreign investment attracted by Tunisia during recent years has increased to 990 million dinars (around $800 million) annually, compared with 733 million dinars ($590 million) during the first five-year plan. The report has also emphasised that the Ministry for International Co-operation and Foreign Investments as well as the FIPA (Foreign Investment Promotion Agency) are henceforth concentrating their efforts on attracting FDI in information technology, Internet related services, transport, the environment, health and higher education.

Among the reasons which ought to encourage European investors to become much more involved in the region are the powerful synergies that exist between the Southern and Northern Mediterranean. Philippe de Fontaine Vive, Vice-president of the EIB[2] has endeavoured to explain this, indicating that his institution's objective is to invest 2 billion euros in the zone between 2003 and 2006, ranging from micro-credits through to very large investments. This proves that the region has become Europe's border territory. Moreover, experts maintain that the so-called synergies now go beyond the stereotypes based on natural resources, such as hydrocarbons, agriculture or cheap, unskilled labour. Commentators evoke the benefits related to the production of certain goods at a competitive cost, selective schemes for industrial co-operation initiated at both shores, and also, the need of managers in Europe till 2015. Two important factors are added to this: delocalisation, which is progressing successfully, and the existence of a European savings surplus (valued at 30 billion euros annually); a large part of this sum could be allocated to the Mediterranean.

In this context, development of so-called "new" sectors, such as informatics, call centres, health related industries, tourism and its corollaries, industrial services and others, should lead to an increase of FDI, more concretely, in those countries which have demonstrated their capacity to undertake new projects during the last two years. Reports written on the subject highlight a noticeable expansion of activity in Jordan, Lebanon, Egypt and Syria. Libya, which has not yet definitively joined the Barcelona Process, could become the centre of attention for FDI in the short term, since not only does everything require rebuilding in a country which was hit hard by an embargo for more than a decade, but it could also become a springboard for the African market through private investment – local as well as foreign. In the same way, Libya, with a surface area greater than that of Egypt, offers "virgin" opportunities for investment; and what is more, it has already got into its stride with LAFICO (Libyan Arab Foreign Investment Company), its secular finance arm. Its portfolio of investments is estimated at over $40 billion.[3]

It should also be emphasised that the projects implemented with the objective of attracting FDI entail an injection of capital approaching the order of 20 billion euros, which frequently stem from large global enterprises. The good attendance of the majority of them at the first Euro-Mediterranean investment meeting is proof of the growing interest on the part of these enterprises in investing in the opportunities the MEDA region will have to offer in the coming years. The 2004 example, with a number of investments announced, including 10 mega-projects worth over 500 million euros as well as 30 large projects valued at between 100 and 500 million euros, spread over 9 sectors accounting for more than 20 projects each (tourism, energy, textiles, banking and finance, car industry, agro-food industry, telecommunications, logistics and public works, software and ICT), contradict the official statements which present a poor picture of MEDA.

However, the latest conclusions announced at symposia or seminars organised by the World Economic Forum on the same theme of investment, whether it be in Algiers, at Marrakech (Morocco), at Al-Akaba (Jordan) or at the Carthage Forum in Tunisia, all agree on the pro-

TABLE 15 **Aggregated investment (MIPO: Mediterranean Observatory New Foreign Investment Projects)**

	2004		2003	
Target countries	**Amount FDI (US$m)**	**Number of projects**	**Amount FDI (US$m)**	**Number of projects**
Algeria	5 857	59	2 519	31
Cyprus	**	8	**	2
Egypt	2 468	39	484	87
Israel	146**	24	2 653	28
Jordan	1 944	21	124	13
Lebanon	1 016	26	228	12
Malta	**	5	264	3
Morocco	4 032	120	3 765	89
Palestinian A.	78**	2	10**	2
Syria	422	11	100	4
Tunisia	192**	32	94	26
Turkey	2 944	53	631	43
Total MEDA	19 099	400	10 862	274

* only for the projects whose amount has been announced.
** negligible amount (too few projects quantified).
Source: Stéphane Jaffrin & Bénédicte de Saint-Laurent. ANIMA – Notes and Studies – N° 15/ January 2005.

[2] *Challenge Hebdo* – N°1, 2 April 2004 p. 36-37
[3] *Al-Hayat*, 9th September 2004 p. 13.

mising prospect of investing in the area. Current investors, representatives of the multinationals and other prominent figures have again stressed the advantages on offer, such as the existence of a young population that is eager to learn and come closer to European standards, in addition to other positive factors such as the appreciable efforts to improve the climate for investments.

Despite their positive aspects in terms of attracting investments to the MEDA region, the Southern Mediterranean countries do not conceal their anxiety about what they call the "flagrant" imbalance in the granting of aid and investments in favour of CEECs (Central and Eastern European Countries). In a declaration made by the former ambassador and Tunisian Minister of Finance, Taher Sioud, in 2002 on the occasion of the celebration of the 7th anniversary of the signatureof the Association Agreement, he stated that "for each euro which goes to 12 countries of the southern Mediterranean, 10 euros, at least, will go into the coffers of the new EU members."

Orientation of FDI towards the southern Mediterranean countries now has an irreversible momentum, nevertheless. The Barcelona Process, which will celebrate its anniversary in 2005, is aware of the importance of investment in the Mediterranean basin, since each point of growth in the MEDA region finds its expression in an increased demand for European goods and services. In this context, a study by the *Cercle des Economistes* (end of 2003) shows that if the EU and MEDA were to benefit from the same level of integration as that existing between China and Japan (an integration which is nevertheless limited), growth would attain 0.75% in Europe and 0.60% in the region.