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FDI in Mediterranean Partnership Countries. How to improve the institutional environment in the Mediterranean region to attract the FDI?

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Contents

Abstract

Both developed and developing countries struggle nowadays to strengthen their attractiveness for foreign direct investment (FDI). This has become a new imperative for national policy in a globalized and internationalized world economy characterised by free movement of production factors. FDI inflows have an overall positive impact on countries' development and economic growth as well as, especially important for the Mediterranean Partnership Countries (MPCs), creating jobs and accelerating exports. For all these reasons, the competition between countries and regions in attracting FDI becomes more and more intense, giving Trans-national companies a choice in their localization.

This study is aimed at answering following questions: what is the role of the investment climate, the regulatory framework and economic policies introduced by the host countries in the Mediterranean compared with the Central European region? Where do these regions' experiences in attracting FDI converge and where do they differ? What lessons can be drawn from the experience of Central European countries who seem to be winning the competition for FDI inflows, in particular those from Europe?

This paper will look closely at the institutional environment in which potential investors have to work when investing in MPCs, trying to assess if governments really aim to attract FDI to their countries with such policy measures as an imperative dictated by their needs in this field. The first section of the paper sheds light on the 17-year history of attracting FDI to Central European countries, especially to Poland. It points specifically to those policy instruments and FDI determinants which were crucial for Central and Eastern European Countries. We argue that both good and bad choices by Polish policy makers could be used as a lesson for authorities in MPCs. The second section of the paper analyzes the interaction between internal and external policy instruments concerning transparency, corruption, dispute settlements, expropriation and national treatment. Our goal is to show how investment diplomacy – Bilateral Investment Treaties concluded by MPCs and WTO obligations – complements or supplements the lack, or poor performance, of domestic rules and regulations regarding investment protection or promotion. Each of the sections concludes with several policy recommendations which can guide MPCs and international bodies cooperating with them on their way to strengthening the Mediterranean region's potential in attracting FDI.

1. The Polish experience in attracting FDI flows 1989-2006 as policy advice for Mediterranean Partnership Countries

Central and Eastern European Countries' (CEECs) experience and Polish practice in this field can be considered as a good indication of what is important and what matters in making an economy attractive for FDI flows. Globalization, with its liberalization and some universal solutions in economic systems, had an impact on what is considered as a stimuli for investors taking decisions about their engagement in an economy. Some investors still follow old guidelines, while the majority take into account new indicators while they make decisions concerning FDI flows. This chapter of the paper will show what mattered in the CEE region and what set Poland apart in attracting FDI. Such an approach can be seen as an indication of what patterns of policies can be followed by MPCs.

What mattered in the region of CEE in competing for FDI flows?

Opening of the CEE economies for foreign capital inflows was conducted according to different patterns of approach. In most cases, FDI was prohibited until changes in 1989. There were some exceptions from that rule, but being very rare, these could be omitted in addressing this problem. (Some investors were approved into the Soviet economy before 1989). Openness for FDI flows differed from the rule in Poland, where so-called "Polonia" investments were allowed since the 1970's. Polonia investments were investments made by Polish emigrants. Further opening for FDI flows proceeded in several stages:

- Political decisions concerning FDI flows within privatization as well as within engagement of long-term capital flows after 1989;
- Effects of OECD membership decisions on liberalization of capital flows (long-term, medium-term and short-term)[1];
- Decisions undertaken within the Uruguay Round of WTO concerning liberalization of capital flows;
- EU membership in 2004.

All CEE economies went through a macrostabilization stage in their reforms. Despite declarations that all states apply their stabilization more or less in the same period, some where doing this earlier, others later. Poland went through a 'shock-therapy' stabilization of its economy, which resulted in a bigger gap between demand and supply in comparison with the The Czech Republic or Hungary. This had an impact on so-called "inflationary overhang",

[1] The Czech Republic, Hungary and Poland became members of OECD in 1995 and 1996. Estonia opened her economy for capital flows autonomously. Difference between autonomous opening and within OECD membership concerns mainly reciprocity. Autonomous decision excludes reciprocity, while within framework of OECD it is based on reciprocity. Catching up economies traditionally have limited savings what means that they are more interested in importing capital than in exporting it.

which after liberalization has resulted in high inflation indicators in the first stages of systemic transformation. At the same time as the decision on liberalization of prices, the decisions concerning foreign trade liberalization were undertaken. All transforming economies went through a phase of falling production (transformation depression) which lasted until prices were stabilized. In the case of Poland, the depression was deeper (resulting from the shock) but the period which the depression lasted was shorter and the economy started to grow sooner (May 1992) and then achieved highest rates of growth in the region. Remaining economies started their macro-stabilizing policies later – they were applying the so-called gradual approach to stabilization. Their indicators of production fell, unemployment rates were lower than in the Polish case, but at the same time they enjoyed a lower rate of growth. Postponed depression has attracted – in the first phase of transformation – capital flows to the Czech Republic and Hungary. Poland at beginning of 1990's was losing the competition for FDI with these two economies. Further on, with advancement of transformation, the Polish economy started to win that competition. One remark here is important:

> Capital moving from western economies to eastern takes into account its ability to compete while keeping previous engagement (not moving completely to a market characterized by lower labor costs). In other words there are two reasons why such capital moves: (1) competitiveness based on level of costs; (2) low level of innovation.

Comments: the first wave of capital moving to CEE economies was considered the most sensitive. It has created jobs, using much more advanced technologies in comparison to those applied previously in those economies, but it could not be considered as innovative in global terms. With creation of wealth such capital will move further to economies which have lower costs of production.

> Watching tendencies in crowding out capital from advanced market economies one can draw very specific conclusions. It is better to be the front runner in stabilizing the economy, as it frightens those who move their capital and seek opportunities to invest, although such policy requires strong political structures which are able to conduct such policy. It is better to be a late comer as far as capital inflows are concerned. First waves of capital flow are less innovative and less competitive, in long run, than the flows which take place with progress of structural reforms in advanced market economies.

Investors approaching new markets follow guidelines and indications which are similar to evaluations concerning advanced economies. Investors very often take decisions following their intuition. This is especially the case with new and so-called emerging markets. Evaluations and rankings given also by such centers as Standard and Poor or Charles Schwab, BERI, PEPS, Cooks or Fowler guide investors, as do some analyses made by 'armchair specialists' who collect readily available information like those selected in *The Economist*'s last three pages or available on the internet. Self-made evaluations often are misleading, as is specialized analysis, when dealing with emerging markets, as in preparation of the evaluation the same tools and knowledge applied for developed markets is used. Sometime their opinions are based on selective and internationally incomparable information.

Is Poland a FDI loser or winner among CEECs?

As previously stated, in 1989-1995 Poland was a loser in attracting inflow of capital compared to the Czech Republic and Hungary. After the Polish economy started to grow, Poland became a winner in that competition, attracting the biggest share of foreign investments in CEECs. This had two causes:

- The Polish economy started to grow at the highest rate of growth in the region;
- The Czech Republic and Hungary entered delayed transformation depression.

In a short time Poland has exceeded the cumulated values of capital that were engaged in CEE region. Bearing in mind also the remark made about the sensitivity of capital and its reaction to increased competition, one can assume that in general Poland could be considered here as a winner.

Table 1. FDI stock in The Czech Republic, Hungary and Poland in 1990, 2000, 2004 (mill. US$)

Country	FDI Inward stock			FDI outward stock		
	1990	2000	2004	1990	2000	2004
The Czech Republic	1363	21644	56415	-	738	3061
Hungary	565	22870	60328	197	1280	4472
Poland	109	34227	61427	408	1018	2661

Source: WIR, 2005, p. 308.

There were two strong waves of capital exports from EC states to CEECs. The first wave was stimulated by opening of the eastern markets during the stabilization of the economy, which was part of the macro-stabilization package. The second wave can be linked with introduction of the EMU, which enabled more accurate calculations of costs and comparisons of competitiveness of goods produced in factories located in Europe. Capital flowed from developed economies to CEECs from the moment capital markets were opened and convertibility was introduced.

Traditional approaches to FDI flows take into account such indicators as: size of the internal market, availability of skilled labor and its price (embracing direct and indirect costs), productivity, increases of productivity, inflation, taxes, interest rate levels, special conditions given to new investors (for example special economic zones), tax evasions or tax reductions, subsidies, infrastructure, administration, laws and requirements needed for establishing business, methods applied for machines amortization.

In practice, each of these indicators requires detailed explanation and should not be seen as simple information, which traditionally was needed in such evaluation. Let us for instance look at the size of the market. This approach is no longer limited to the size of the national market as it also takes into account prospects of exporting the goods which are produced in the corporation located in the market, which increases the role of all free trade agreements a country has signed with partners. As far as the internal market is concerned, its size is no longer estimated by the of number of inhabitants but by evaluation of prospects of selling goods to people with a certain level of incomes (consumers) or those who will shortly achieve that level of income (potential consumers).

Skilled labor and specialization of available skilled labor is determined by the educational system which functions in the country. This in turn is defined by the number of universities, higher schools and technical universities as well as centers enabling whole life education and education of elderly people.

Productivity in a catching-up economy is always lower than in a developed economy but the rate of growth of productivity is traditionally higher, which can be considered attractive for investors.

Inflation, when controlled, guarantees that invested capital will not decrease considerably in value. Poland recently had the lowest inflation in Europe, which was achieved by:

- Strong action reducing demand inflation (equilibrium between demand and supply by liberalizing process and foreign trade at the same time);
- Action in reducing cost inflation (by stimulating competition).

The role of taxes is relatively simple. Investors choose economies in which they have to pay lower taxes. They also move their investments from economies with higher burdens to those with lower.

Traditionally, markets representing lower level of development have higher interest rates. Interest rates illustrate the availability of the capital on the market. Higher interest means higher costs of capital on the market, indicating its availability. Traditional approaches in economics state that low interest rates can stimulate the growth of the economy. However, such economic law does not any longer illustrate the real economic situation as liberalization of capital flows on world-wide scale enable taking credits on markets were interests are low and invest then in markets, where interests are higher, increasing thus the profitability of the investment additionally. An example which proves that this finding is real can be taken from Japan. Japan has one of the lowest interest rates among developed economies (0,02%) and has experienced 4 years' recession beginning in 2000. Low interest did not stimulate growth there. Stimulation, delayed in time, was achieved by investments made on foreign markets, what in turn started to increase imports to those markets and thus stimulated the economy by indirect effects of foreign investments.

Finally we look at special treatment of foreign capital. The general approach is to treat foreign and local investors as equals. What really matters here is the effect of creation of special economic zones (SEZ), as they create competition for national producers, forcing them to lower costs before further liberalization of trade (each protection creates incentives to keep costs higher than it is really necessary). Moreover, the closure of a SEZ with the promise that conditions granted at its starting point will last f.i. 5-10 years increases interest in investments in such areas. Other special treatments create only costs for the budget and as such should be avoided if only possible. Moreover, governments find that it is relatively difficult to withdraw from all granted privileges, so when granting them it is better to specify the period in which they apply.

Foreign direct investments need developed infrastructure for communications, purchasing, and transport. Such requirements have to be met, otherwise investors will not be attracted. This requirement means that often investments are centered in towns or in specially prepared centers (called technical parks).

Investors should not be threatened by long list of requirements which they have to do before getting all the needed documents for starting up a business. Their time costs if they see that they lose time for simple activities which can be done in one window, while are organized in different buildings and number of different offices – he loses interest in locating his capital in such economy.

Laws should be transparent, clear and predictable (even if they change within the process of harmonization). This concerns also amortization. Quick amortization stimulates innovation, which is one of the decisive factors of competitiveness.

Export of capital (accompanying debt repayments) can be considered as two factors which can limit the scale of national currency appreciation. Appreciation attracts capital flows but at the same time can be considered as a factor counteracting the drive to increase exports.

Direction of flows of capital can be used as a factor which stabilizes the exchange rate of the country. Privatization stimulates inflows, while debts repayments and imports, as well as exports, of capital have the opposite impact on the value of currency.

What are determinants attracting FDI?

Poland has used all opportunities to attract FDI. This was so with application of law, which was same for domestic and foreign investors. Taxes were lower only in branches which desired special treatment and had a quick and direct impact on the attractiveness of the produced goods (for example. packing). Poland has created 17 SEZ and their closure in 2000 has attracted a big wave of inflow of FDI, the highest in the region. Today, FDI to Poland is attracted by:

- Lowest inflation in the region;
- Relatively high rate of growth;
- High productivity increases;
- Relatively low corporate tax (19%) 1% lower than in the Czech Republic and Hungary;
- Interest rates higher than in the EU;
- Appreciation of the national currency;
- Access to big and rich markets (membership in the EU, meaning free trade with all EU members as well as with EEA members and all associated members and future partners, with whom trade is not free but liberalized more than by WTO decisions on liberalization);
- Well developed labor market supplying skilled labor force;
- Prospects created by EU policy towards S&M companies.

The list enumerates only the main factors that played an important role in attracting FDI to the Polish economy. All of them should be discussed in detail, proving the trends which they have created in the Polish economy, explaining what and how was used and why it had importance. Some of the policies applied here are discussed in publications which were prepared in researching Polish preparation to Eurozone enlargement. Others can be discussed during further meetings or after arising specific interest in MPCs.

Globalization and liberalization has changed the policies which are applied in an open economy. This fact is reflected not only in the decisions concerning capital flows but also in evaluations of risks of a foreign investment. A number of new factors have to be taken into account in decisions on long-lasting engagement in the economy, and some old factors gain new meaning in the new globalizing circumstances. This means that a country which wants to attract foreign capital in the form of FDI has to acquire new knowledge on things that really matter for the investors taking decisions to engage their capital. The first and most attractive method of gaining foreign capital is to privatize state assets, open up the economy and stabilize it. Law and infrastructure are also points high on the list of risk evaluators. The currently most effective method in attracting FDI inflows to MPCs by implementing different instruments and policies is the subject of the next chapters of this paper.

2. The adoption of a new internal FDI legislation in MPCs

It appears that macroeconomic stability without a business friendly environment is not enough to attract foreign investment. Foreign investors consider the legal framework as one of the business climate determinants. Thus structural reforms changing investment landscape must be undertaken. MPC countries are more and more aware of this fact so they undertake reforms towards friendlier and more attractive legislation on FDI. Some of the MP countries[2] take part in the MENA-OECD Investment Programme which requires establishing National Investment Reform Agendas (NIRA) whose main target is to improve investment laws in MPCs and make their investment policies more open and transparent, as the lack of transparency proves to be a crucial problem.[3]

During the 1990s almost all Arab countries passed new investment legislation.[4]One of the decisive reasons for imposing legislation reforms was strengthening worldwide competition for FDI attraction especially from China, India and most of all CEECs.[5] The reforms undertaken in the 1990s concentrated on implementation of more liberal policy in order to become more open, guarantee foreign investors easier rules for their activity in the host country and thus attract FDI. Many countries created at that time special agencies for FDI promotion and provided better business conditions for private foreign and domestic investors. The new investment laws abolished differentiation in the treatment of foreign and domestic investors and banned nationality-based discrimination and lifted some of quantitative restrictions (i.e. Tunisia). The first countries to proceed to liberalise access of foreign capital were Morocco (1983), Egypt (1989) and Israel (1990).

[2] Morocco, Egypt, Jordan, Lebanon, and the Palestinian National Authority
[3] NIRAs are also supposed to lead to developing Investment Promotion Agencies and Business Associations in the way that they would act as driving forces to economic reform.
[4] FDI in the Arab World, 2002
[5] Eid F., Paua F., Foreign Direct Investment In the Arab Word: The Changing Investment Climate, 2002

Environmental Conditions

From the foreign investor's point of view environmental conditions are important for the assessment of a potential investment location. In this phase of the decision-making process a foreign entity shall need some general information concerning FDI legislation and constraints on foreign ownership. Information concerning excluded sectors and treatment of foreigners will also be important.

Despite the fact that some of Mediterranean countries (i.e. Egypt, Morocco, Tunisia) have started to proceed economic reforms and change in FDI legislation at the same time as CEECs, namely in the 1990s, CEECs still pose a major threat in the field of FDI attraction. All the policies implemented were in line with the international tendency to leave behind relatively closed economic strategies, however they were not complete and did not result in abolishing all existing constraints for the foreign investments. According to the OECD,[6] potential investors continue to highlight several constraints on investment existing in the MENA region such as difficulty in application and enforcement of a legal framework, prohibited or restricted foreign ownership of real estate as well as corruption and bureaucracy. Although in many MPCs (i.e. Moroccan, Lebanese, Tunisian, Jordanian, Algerian) foreign investors are guaranteed by the rule of law the same treatment as the local investors, restrictions on investment on nationality grounds rank highly in business surveys concerning investment climate in the region. Alessandrini (2000) divides the MENA countries into those in which the liberalisation has been generally applied, although there might be some limitations[7] (Algeria, Morocco, Jordan, Lebanon, Tunisia and Israel), and others (Egypt[8], Turkey and Syria) where liberalisation has been applied with limitations and some sectors remain excluded with quantitative limitations on foreign ownership.[9] Nevertheless, in almost all of the MPCs legislation imposes a variety of restrictions such as sectoral limitations, foreign ownership ceilings, prior governmental approval and minimum capital requirements.[10] In the MPCs there are difficulties in property of land and real estate legislation. There are a

[6] Investment Climate and Regulation of International Investment in MENA Countries, Assessment of Available Information and General Recommendations, MENA-OECD Investment Programme, 2005

[7] These limitations consider sectors strategic for the country's economy or related to national security e.g. transport and gas extraction in Algeria and phosphate mining in Morocco, defence industry in Israel; in Lebanon limitations concern real estate acquisition by foreigners and sectors related to the national security whereas in Tunisia foreign ownership is allowed in all sectors but some of them namely restaurants, real estate and retail are excluded from the incentives and electricity, mining and finance are subject to specific regulations.

[8] At that time Egypt offered 100% foreign ownership permission only in free zones which were less attractive than other areas, where foreign investments were allowed however the local input was required. The value of local input used to depend on a case and General Agency for Investment particular decision. Such activity was perceived as discouraging for the foreign investors. (Alessandrini, 2000).

[9] Alessandrini S., FDI In the MENA Region, "L. Bocconi" University, Milan (Italy), February 2000.

[10] Investment Climate and Regulation of International Investment in MENA Countries, Assessment of Available Information and General Recommendations, MENA-OECD Investment Programme, 2005.

large number of procedures to be completed in order to acquire a property by a foreigner. It is often difficult to buy an agricultural land, as in Tunisia foreigners are banned from ownership of agricultural land as well as in this sector foreign investors are denied national treatment. In Morocco on the other hand, foreigners can invest in the agricultural sector but they cannot own agricultural land. In Lebanon in order to encourage investments in industry the new law (2001) eased legal limits on foreign ownership of property.[11] In Jordan there are limitations only when it comes to activities relevant to military and national security.[12] In general there are restrictions on acquisition of real estate for FDI purposes in almost all MENA countries, except for Algeria.[13]

Red tape, transparency and promotion

The quality of business regulations and institutions responsible for imposing laws are of equal importance for FDI attractiveness as macroeconomic policies and market size are. Although for MPCs it is crucial to attract more foreign investment, bad government policies regulating investment often emerge as a major obstacle for mobilising investment.[14] Bureaucratic procedures and institutional rigidities must be banned in order to establish more friendly business environment for both foreign and domestic investors.

Transparency of the legal and regulatory system and clarity of a host country's administration operation is often decisive in the process of choosing localisation for foreign investors' activity because it helps to assess easy investment opportunities. In general it can be said that MPCs legislations lack transparency. Publication of lists informing on restrictions that remain to foreign investments could influence positively a host country's transparency but only Tunisia and Jordan provide them. In Lebanon clear regulations and transparency have never been the rule. The Moroccan regulatory system on the other hand is to become increasingly transparent. Recently the government introduced a law requiring public announcements for significant government projects. Also, Jordan is slowly implementing policies to improve competition and foster transparency.[15]

Another important factor here is corruption, bureaucracy and red tape. Corruption not only affects increased business costs but also complicates and slows down obtaining business permits, the lack of which prevents operations in the host country. MPCs do wrestle with the

[11] Foreigners can acquire up to 3,000 square meters of Real estate without a permit
[12] Investment Climate Statement 2006, U.S. Department of State, (www.state.gov.com).
[13] Investment Climate and Regulation of International Investment in MENA Countries, op.cit.
[14] Strengthening the Investment Environment In MENA-Recommended Action from Business, BIAC Discussion Paper to the OECD-MENA Investment Steering Group Meeting, Amman, Jordan 1-30 July 2004.
[15] Investment Climate Statement 2006, U.S. Department of State, (www.state.gov.com).

problem of corruption as one of the major or at least important obstacles to investments in the region. However, this obstacle is comparable to in other developing countries.[16] According to the Transparency International Corruption Perception Index (CPI) for the year 2005, Jordan and Lebanon are among those countries in the region that have improved their ranking compared with the year 2004. Jordan has the best CPI score - 5.7 - which means that corruption there is not a serious problem[17]. Close to such assessment is Tunisia (4.9), while other countries lag far behind.[18] Although most MPCs (except Lebanon) are signatories of the UN Anticorruption Convention (2005), an objective for the region should be to fight and prevent of bribery and corruption activities.

Complexity of bureaucratic procedures in the region is also a problem. Time consuming procedures are discouraging potential investors. According to the World Bank[19]weak governance might be the origin of the factors responsible for region's bad economic performance. When comparing with similar economies of other regions, levels of bureaucracy in most of the MPCs tend to be still much higher. Less complex starting-up business procedures together with increased transparency would reduce uncertainties and unpredictability in the application of country's rules and regulatory framework. All these changes would definitely result in higher FDI inflows to the MPCs.

According to the "Doing Business Report"[20] for the year 2006, MENA countries still require high minimum paid-up capital, which is actually the highest in the world and makes a new entry into the host country's market almost impossible. Tunisia was the only MPC country that in 2004 lowered the capital requirements. Egypt, on the other hand, facilitated the registration procedures by centralizing start-up in a single building, so that now the registration can even take only one day. The problem is only that fees increased by 80%. The average number of days needed to start a business in MENA region amounts to 39. The most time consuming is West Bank and Gaza strip (106 days) and the least Morocco (11 days) and Tunisia (14 days).[21] The average for OECD countries is 25 days. In the worldwide ranking of ease of doing business the highest rank has Tunisia – 58th. Higher is only Israel – 29th place. The country that worst performed in the ranking is Egypt – 141st position.[22]

[16] Investment Climate and Regulation of International Investment in MENA Countries, op.cit..
[17] According to TI a score of 5.0 is considered to be a borderline figure distinguishing countries that do and do not have serious problems with corruption, (www.transparency.org).
[18] Turkey-3.5, Syria and Egypt-3.4, Morocco-3.2, Lebanon-3.1, and Algeria-2.8.
[19] Better Governance for Development In the Middle East and North Africa, World Bank Report 2003.
[20] www.doingbusiness.org.
[21] Algeria – 26 days, Egypt – 34, Israel – 34, Jordan – 36, Lebanon – 46, Syria - 47 days.
[22] Jordan – 74th position, Turkey – 93rd, Lebanon – 95th, Morocco – 102nd, Syria – 121st, West Bank and Gaza Strip – 125th, Algeria - 128th .

Moreover, the OECD recommends further simplification of screening and approval procedures although many MPCs have already worked on that. Screening procedures serve to control investment flows and minimize FDI impact on local competitors but they do not affect better transparency of administration activity. It creates additional impediments for entry and establishment of foreign investors. In MPCs such procedures apply for all or for specific sectors, so it is recommended that if such procedures are to remain, to include them in the general investment law as well as to limit the number of sectors being subject for screening.
One of the recently introduced actions for reduction of red tape and bureaucratic procedures as well as for simplifying approval procedures is the establishment of the so-called One Stop Shops (OSSs). So far they have been introduced in Egypt, Lebanon, Jordan and Morocco. Due to that administrative procedures were simplified, and investors can save time and costs. The Jordanian government also established a unique board for bureaucratic procedures, namely Jordan Investment Board (JIB). JIB is responsible for licensing investment projects and obtaining approvals for such projects from other authorities.[23]
Investment promotion is the additional tool to make investors aware of a business climate in the host country and existing opportunities. Thus many MPCs establish Investment Promotion Agencies. IPAs make up a good source of information on governments policy activities and decisions that influence investments. So far in most of the MPCs results of IPAs activity have not been satisfying. Still, much needs to be done to change substantially foreign investor's idea of host countries. First of all, IPAs need more resources to be granted as well as policy functions. They also should gain better impact on policy decision making. It must be stressed that both IPAs websites and governmental web pages usually do not provide relevant information for a business start-up.

3. FDI and fiscal policy in MPCs

MPCs have implemented different programs targeting different economy sectors, some of them are granted permission to invest in the whole territory, others are limited to the Free Economic Zones (FEZ). Although the efficiency of tax incentives in attracting FDI has been questioned over the years, MPCs increasingly resorted to such measures during the1990s. The conduction of comparative analysis of chosen MPCs[24] will allow assessment of the efficiency of their programs.

[23] Policy Framework for Investment, OECD, 2006.
[24] This study covered Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia, Turkey (see: Annex 1). However for the final report only Egypt, Jordan, Morocco and Turkey were chosen.

Egypt

Since 2005, the Egyptian tax system has been under reform, which has made it more transparent and attractive for foreign investors. The implemented changes have reduced overall tax burdens and reductions have been made in personal and corporate income taxes (from maximum 42% to 20%).[25]. The OECD report (2006a) found new taxation law more transparent, eliminating discretion and complicated compliance procedures. Although foreign investors are entitled to remit abroad returns, profits and other capital in convertible currency, the rate of tax on dividends is held at a rather hampering level – 32%. The Egyptian government offers a range of fiscal incentives, which were intended to attract foreign investment in to the country.[26] The approved projects are entitled to import capital assets and construction materials at a unified import duty rate of 5%. Tax exemptions for new investors are dependent on geographical localisation of project and vary from 5 to 20 years (OECD, 2006b). Some other fiscal and financial incentives are offered in FEZs. At present in Egypt there are 6 zones functioning, including one industry zone and one economic zone.

Table 2 Free economic zones in Egypt

Name	Type	Main activities
North West Gulf of Suez	SEZ	Chemicals, pharmaceuticals and metals
Alexandria	FZ	Oil, chemicals and textiles
Nasr City	FZ	Diverse industrial activities
Port Said	FZ	Ship building, marine equipment and textiles
Suez	FZ	Petroleum, fertilizers and ship building
Ismailia	FZ	Electronics, ICT and metal products
Damietta	FZ	Chemicals, textiles and maritime services
Media Production City	FZ	Radio, television and cinema
Under development		
Tenth of Ramadan	IZ	Textiles
Shibin el Koum	IZ	Textiles
Keft	IZ	Pharmaceutical products

Source: OECD, 2006, Investment Climate And Regulation Of International Investment In MENA Countries, MENA-OECD Investment Programme; http://www.gafinet.org/freezones-Egypt.htm.

SEZ – Special Economic Zone – customs-free areas with a regulatory environment of their own.
FZ – Free Zone – this category covers the ground from free ports to export processing zones.
IZ – Industrial Zone – their target specific sectors or economic activities.

All the mentioned FEZs have a strong sectoral orientation, which reflects an objective of government policy to attract investments especially in the petrochemical industry. The participation in the free zones, apart from general incentives offered to foreign investors, enables lifetime exemption from all Egyptian taxes and regulations related to import and

[25] See Annex I.

[26] In Egypt there are now general restrictions in takeovers of Egyptian companies by foreign investors, but all projects involving military products, tobacco and tobacco products require prior approval.

export duties. This very attractive offer is additionally supported by preferential rates on land rental, electricity and water. The only requirement for companies which want to establish premises in free zones, is an obligation to export at least 50% of their production.

Jordan

The Jordan foreign investment program was formulated in the middle of the1990s and oversaw fiscal exemptions in areas such as certain industrial sectors, agriculture, hotels, hospitals, convention centres, theme parks and maritime/rail transport and the distribution of water, oil and gas products. Jordanian fiscal policy is a rather complicated, multi-layered structure – for example, Jordan's Free Trade Zones constitute independent tax territories and are regulated by separate tax laws.

Table 3 Geographical structure of income tax exemptions in Jordan

Zone A – developed	Zone B – less developed	Zone C – least developed
Sahab, which includes developed areas with Amman and surrounding areas	Ibrid and under-developed areas near the larger cities	Kerak with the least developed areas, mainly rural areas
Level of exemptions		
25%	50%	75%

Source: Riegel V., 2004, Policies for business in the Mediterranean Countries. Jordan.

Companies' income taxes are differentiated by sector and range from 15% to 35%.[27] To complicate matters further, for purposes of income tax reduction the country is divided into three zones – A, B and C, which are weighted by geographical location and preferable industries. According to the OECD's report (2002a) the Jordanian tax incentives program is complicated and inefficient. Incentives only favour the selective sectors[28] and exemptions are conditionally dispensed, in fact the FDI incentives discourage capital investment in the region. Additionally, various economic zones offer different levels of tax incentives and different periods to qualify for them. The research funded by the U.S. Agency for International Development points found that there are at least 11 different income tax treatments of business activities in Jordan (Chen, 2004). The study suggests replacing the inefficient investment incentives program with a simpler and more efficient model that is directly linked to capital investment. The program should be equally accessible to all business sectors, in all geographical locations and at any stage of a company's life. Additionally, any pre-approval conditions should be eliminated.

[27] See Annex I.

[28] The Jordanian Investment Promotion Law promotes selected sectors by offering facilities and tax incentives. The strategy directs development of tourism, telecommunications, manufacturing and hospitals.

In Jordan there are two types of FTZs – public and private. The latter are established by joint ventures between large public corporations and foreign corporations. The FTZs in Jordan profit from the following:

1. All the goods imported are exempt from taxes and customs fees;
2. Salaries of non-Jordanian workers in free zones are exempted from income and social taxes;
3. Project profits can be freely transferred from abroad.

Morocco

In particular Morocco has introduced various tax incentives for investors since 1995, for example exporting companies are fully exempt from general income taxes, license fees, corporate taxes for first 5 years of activity and then the reduction of taxes is maintained (up to 50%) on profits from exporting. Morocco's fiscal law treats domestic and foreign investors equally and private investment is permitted in most sectors. No restriction on repatriation of investment and profits is observed, nor are there any controls on capital transfers, although the tax on dividends is relatively high – 15%.[29] The State Enterprise Contract is an incentive program offered by the Moroccan government, which underwrites the cost of on-the-job vocational training, land acquisition, and building construction for qualifying start-up businesses. The financial incentives are offered for companies investing into selected markets including electronics, information technology, vehicle subcontracting, leather processing, and ready-to-wear clothing. The oil industry is also supported by other government programs. Additional sectoral incentives are available to businesses that invest in Morocco's Free Trade Zone. Fiscal incentives include exemptions from: duties and taxes associated with the acquisition of land, license and "urban taxes" for 15 years, VAT on all exported goods, and corporate taxes for five years, with a reduced 8.75 % corporate tax thereafter. The financial incentives are also available in the form of state financial aid to subsidise the acquisition of plots and the construction of production units. The main economic activities in Tangier Free Zone focus on industrial, real estate, selected services and trade.

Although Morocco's liberalization of FDI inflows has been taken very early in comparison to other MPCs, its fiscal system needs some modernization. According to the OECD (2006a) and IMF (2006) assessments, complicated taxation systems should be unified and rationalized. Morocco's Finance Ministry has already taken steps in order to simplify VAT and extend its scope, a reduction in the number of taxes is also planned (42 different taxes). A mess in exemptions is also a problem to be solved. The government plans to fulfil the realization of fiscal harmonization and introduction of more comprehensive tax reform in

[29] See Annex I.

2008. The first priority is the elimination of tax exemptions. Further incentives for venture capital firms are currently being discussed by the government. The implementation is being prepared with the cooperation of the European Investment Bank, and presumes structural measures to foster the operation of capital funds in Morocco.

Turkey

At the beginning of 2000 the Turkish fiscal system was found to be overly complicated and bureaucratic. The reforms implemented in 2002 and 2004 aimed to harmonize the whole system of investment on one hand, and compliance with EU laws and simplification of the taxation procedures on the other hand. In 2002 a medium-term Turkish strategy was put in place in order to improve stability and transparency.

Turkey has unified its VAT rates,[30] particularly by replacing a raised rate of 26% for luxury items. A single Special Consumption Tax was introduced, which allowed abolishment of 16 different taxes, fees, charges and two VAT rates. As a result of reform, three rates have been left: the standard rate is 18%, the two reduced rates are 8% and 1% (OECD, 2006c). At the beginning of 2004 the corporate income tax was reduced from 33 percent to 30 percent and finally to 20%. The change in CIT rate has naturally contributed to limitation in other fiscal incentives, such as allowances and exemptions. Effective from 1 January 2006, the Investment Tax Allowance is removed. However, the transition period was applied to protect the vested interests of investors. The tax legislation reform has also reduced the maximum personal income tax rate down to 35% and a number of rates itself. Additionally a new tax on dividend was introduced at the level of 10%, this reduction reflects the positive changes in corporate taxes. The modification of tax burdens in Turkey was introduced in parallel with rationalization of fiscal incentives in FTZs. Several tax incentives and exemptions have been reduced or replaced with job creation incentives in low income regimes. Fortunately, the 21 FEZs operating in Turkey still have some benefits left. Corporate income tax exemptions are still available for those that received the operation licence prior February 2004. Goods imported to Turkish FEZs are still the subject of exemption from custom duties. Profits derived from sales on good manufactured in FEZs will be exempt from income tax until the end of the year in which Turkey will become an EU member (Deloitte, 2005). 21 FTZs[31] have been established in Turkey since 1987 and are engaged in the following types of activities: trade, production, storage, assembly, financial leasing, banking, insurance.

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[30] See Annex I.

[31] More information on particular FTZs on: http://www.investinturkey.gov.tr and http://www.foreigntrade.gov.tr/.

According to the Turkish Industrialists' and Businessmen's Association (2004) domestic FTZs face strong competition in FDI attractiveness especially from CEECs like Poland, the Czech Republic and Hungary. In the FDI Confidence Index prepared by ATKEARNEY in 2005 Turkey was ranked 13th among Eastern European countries with a rising tendency in investors confidence, which is its best result since the index opened. According to the survey Turkey's great position can be attributed to relatively faster growth rates, lower corporate taxes and favourable productivity levels (ATKEARNEY, 2005). It is worth to mentioning that possible, although uncertain EU accession and the process of introduction of fiscal and monetary reform under the IMF have strongly influenced the standing of Turkey in attracting FDI.

The level of corporate taxes in the examined MPCs varies from15% to 35%, the average level is 30%[32], which should be considered high in comparison to Central and Eastern European Countries. Lebanon and Egypt, which introduced the new fiscal levels in 2005, are currently showing the lowest fiscal pressures of the region.

Although the level of corporate taxes is one of the main aspects of investment promotion, the liberalization of capital flows should also be taken into account. The reforms undertaken in the 1990s in MPCs entitled foreign investors to free transfer of profits and repatriation of capitals in convertible foreign currency. However it is only in Tunisia that dividends are not subject to the taxation, in other countries the rates varies from 5% to 32%. The highest level of tax on dividends is observed in Egypt, furthermore the tax is obligatory only for foreign companies. The same situation was noticed in Lebanon, where dividends are subject to the tax only when the company is exempted form the corporate tax or is a holding or an offshore company. Legislation of these two countries raises the issue of fairness and equal treatment of investors.

Having examined the cases of chosen MPCs, the general conclusion is that they use different kinds of investment incentives to attract FDI, some of them are granted the right to investment in the whole territory, or only investments in FTZs. Different regulatory, fiscal and financial incentives contribute to different levels of attractiveness for foreign investors. The general output is dependent on overall cohesion, transparency and simplicity of all mentioned criteria. This is especially clear in the example of Lebanon. Although Lebanese government has incorporated a 15% corporate income tax, political instability has contributed to low increase in FDI in last years. It should be pointed out that all kinds of direct subsidies or income tax incentives should not only be established, but regular assessment of them should be made in

[32] See Annex I.

order to check if the balance between investor attraction and sustainable tax revenues continues to serve the public interest and that the tax regime remains internationally competitive.

4. Investment Diplomacy: Substitute or Complement to the Internal Investment Promotion Strategies? Promoting FDI in the MPC countries via International Investment Agreements (IIA)

Establishing a regulatory framework aimed at attracting FDI should focus however not only on implementing national laws and regulations but also on entering into different International Investment Agreements (IIAs), among which we can find Free Trade Agreements, Regional Integration Agreements, specific WTO provisions, The OECD Code of Liberalization of Capital Movements, the OECD National Treatment Instrument and, attracting more and more attention, Bilateral Investment Treaties (BITs).[33]

According to the theory, BITs and other IIAs should provide strong guarantees to foreign investors in countries with low domestic institutional, administrative and regulatory quality high investment risk and insufficient potential investors protection. This is the case of most MPCs[34]. Despite increasing efforts aimed at creating investment-friendly environment, MPCs were classified in the high risk categories[35].

Recent trends show that more countries conclude Free Trade Agreements (FTAs) and Regional Investment Agreements (RIAs) containing provisions related to investment protection and promotion so far included in BITs. The example of this consolidation trend is an American TIFA – Trade Investment Framework Agreement or European Association Agreements between the EU and the MPCs. The MPCs are following the global trend with a growing number of BITs signed and much time and resources devoted to the negotiation process. To some degree they "trade sovereignty for credibility",[36] seriously restricting themselves from regulating foreign investment. The main reason for this policy is governments' expectation that a large number of treaties will contribute to attracting more investment to the country. The recently conducted studies try to approach this relation in a

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[33] MENA-OECD Investment Programme, Inventory of International Investment Agreements concluded by MPC Countries, p. 2.

[34] MPC countries: Algeria, Egypt, Israel, Morocco, Tunisia, Jordan, Lebanon, Turkey.

[35] Country Risk Classification of the Participants to the Agreements on Officially Supported Export Credits, Valid as of 29th June 2006, OECD. To compare with, Ukraine and Moldova – the EU neighboring countries rank the same, followed by candidate countries – Turkey and Croatia. Poland and The Czech Republic are placed close to the lowest risk categories. The IIAs in can play an important role in the qualitative assessment of the result which supports the Country Risk Assessment Model (CRAM).

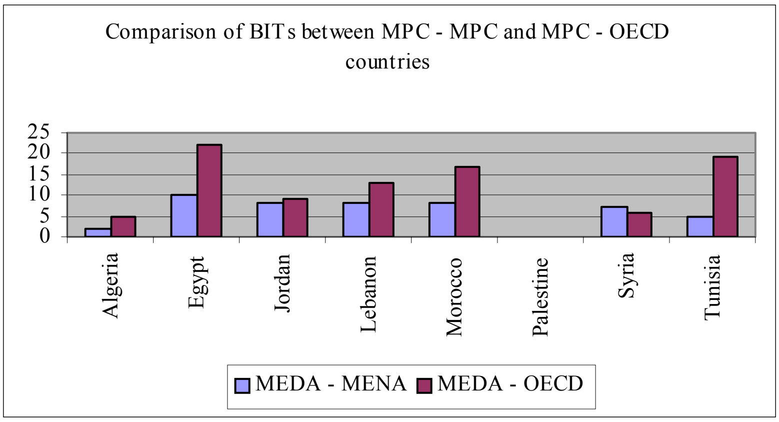
[36] Elkins, Z., Guzman, A., Simmons, B., Competing for capital: The diffusion of bilateral investment treaties, 1960-2000. Working Paper, University of Illinois, University of California at Berkley and Harvard University, 2004.

measurable way[37] and answer such issues as: do treaties really enhance investor protection?; Do BITs have an impact on FDI inflows to the host countries?; Are IITs complements or substitutes to good internal institutional quality?
Studies by Hallward-Driemeier[38] and Tobin and Rose-Ackerman[39] rather support the opinion that BITs have only a complementary function to the other elements of a developing country's investment strategy. This strategy should involve foremost: liberalization commitments, transparent administration governance and a competitive environment as main determinants of FDI location.[40] However considering the scope of BITs provisions, the strength of their enforcement mechanisms and the actual disputes involving MPCs, potential investors are signaled that the governments are aware of the growing importance of investor-state arbitration to investors. Algeria (1996), Egypt (1972), Jordan (1972), Lebanon (2003), Morocco (1967), Tunisia (1966)[41] are signatories of the Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID) which deals with the majority of publicized investor-to-state disputes. About 60% of all cases are pending under BITs. Up until May 2005, MPCs were involved in 9 cases and 20 disputes were still pending.[42] Finally, the study by Neumayer and Spess[43] provides the first quantitative evidence that a higher number of BITs signed by the developing countries results in growing FDI flows. According to this study, concluding a BIT with one of the world's main exporters for example Germany, the US, Japan or France sends a signal to investors from other countries that the host country protects their rights.[44] However, recent trends show an ever-growing number of BITs concluded among non-OECD countries. It can be highly relevant especially nowadays, when the latest statistics show that Gulf States and other MPCs became third block

[37] Using the fixed-effects estimation models.
[38] Hallward-Driemeier, M., Do bilateral investment treaties attract FDI? Only a bit…and they could bite, Washington DC: World Bank, World Bank Policy Research Paper WPS 3121, 2003.
[39] Tobin, J., Rose-Ackerman, S., Foreign direct investment and the business environment in developing countries: The impact of bilateral investment treaties, Yale Law School Center for Law, Economics and Public Policy Research paper No. 293, 2005.
[40] Those studies failed to discover any statistically significant effect of concluded BITs on FDI flows.
[41] MENA-OECD Investment Programme, op.cit., p.34.
[42] Cases concluded: Morocco – 2, Egypt – 3, Jordan – 1, Algeria –1. Cases pending: Egypt – 4, Morocco – 1, Tunisia – 1, Algeria – 1, Jordan – 1, Lebanon – 1. Ibidem, p. 32.
[43] Neumayer, E., Spess, L., Do Bilateral Investment Treaties Increase Foreign Direct Investment to Developing Countries?, London School of Economics and Political Science, World Development, www.elsevier.com/locate.worlddev. They even found some limited evidence that signing a large number of BITs in case of countries with poor domestic regulatory and institutional quality can work as substitute.
[44] It would mean that it is not necessary for a developing country to sign more and more agreements – few completed with the OECD countries should be enough. Especially when we consider the latest evidence of another study by Tobin and Rose-Ackerman – Bilateral Investment Treaties: Do They Stimulate Foreign Direct Investment? saying that "each extra BIT has a decreasing effect on inflows of DI to the country that is party to the BITs" – pp.21-22.

investing in MPCs[45]. Since 2000 MPC countries concluded 20 BITs with other MPC countries.[46]

Figure 1 – BITs between MPC-OECD and MPC-MPC countries



Source: MENA-OECD Investment Programme, op.cit., p.9.

MPCs should be aware that they will be confronted with an even more complex network of investment treaties whose provisions change significantly over time creating a new generation of investment treaties.[47] These new tendencies challenge the governments of MPCs ability to adjust their internal legal environment in the process of signing new investment treaties. One recent example of negotiating an FTA between Egypt and the USA shows that the USA forced Egypt to abide by an additional treaty regarding intellectual property – TRIPS PLUS – while Egypt's preference is to abide by the "Treaty Related Aspects of Intellectual Property Rights" issued by the WTO. TRIPS PLUS requires that the government would prevent the entry of imitated commodities regardless of any complaint from the owner of the trade mark.[48] This case perfectly illustrates how an International

[45] Foreign Direct Investment in MEDA region 2005, Anima Papers and Documents, Number 20, May 2005, p.13-14. This report includes Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, and Turkey to the group of MEDA countries when MENA are MEDA countries plus non-MEDA Arab countries plus Iran, Afghanistan and Pakistan. Their share in FDI inflows has risen from 6,5% in 2003, 11% in 2004 to 15% in 2005. At the same time the investors from North America remain at the second place with their share of 18% while European investors lost their major share of 54% in 2004 to 49% in 2005. Behind those changes stand Turkish privatization of their large telecom industries, American investments in Israeli IT and Gulf States investment in Mashreq, especially in banking and real-estate sectors.

[46] MENA-OECD Investment Programme, Op.cit., p.37.

[47] The example of this new type of investment treaty is US-Jordan Treaty Concerning the Encouragement and Reciprocal Protection of Investment, signed on 2 July 1997 which entered into force in 2003 and US-Jordan Free Trade Association: http://www.jordanusfta.com/free_trade_agreement_text_en.asp and also FTA-Morocco-USA, Section C, FN 9, http://ustr.gov.html. The new model introduces a comprehensive, finite definition of investment, excluding some assets that are not covered investment as well as revised wording of some substantive treaty obligations which clarify the interpretations of eg. the minimum standard treatment and indirect expropriation in order to facilitate the decisions of arbitral tribunals

[48] www. bilaterals.com, Intensive talks to solve disagreement over Free Trade Agreement Egypt-USA, Economics, 9/30/2005, assessed on 25 July 2006.

Investment Treaty, in particular the BIT, can enhance the country's internal law system. Especially the recent American policy in the region, characterized by an investment strategy aiming at supporting the host countries on their way to the WTO membership, then signing BITs, TIFAs and finally concluding FTAs in order to establish a US-Middle East FTA by 2013, should strengthen the Mediterranean negotiators knowledge' about recent developments in this regard.[49] A similar process is under way between the MPCs and the EU. The Association Agreements however, tend to include much narrower provisions establishing only a framework for cooperation on investment protection and promotion. Compared with the AAs of the CEECs they do not spell out clearly their commitments to national treatment of foreign investors or granting the general right of establishment.[50] Although the right of establishment is one of the objectives in the EMP, no target date was established in the Associations. The second difference lies in provisions concerning capital movement. The Euro-Med Association Agreements state that "capital relating to direct investment in Tunisia in companies formed in accordance with current laws can move freely",[51] while the Europe Agreements of CEECs went further, requiring free movement of capital and unrestricted liquidation and repatriation of the investment and any profits.[52] Starting from the date of the Agreement's entering into force, Poland had 5 years to ensure these provisions[53].

It may be necessary for the EU and MPCs to reconsider the scope and reach of their agreements in regards to investment in order to better match the latest developments in the international investment law and the interests of potential investors. Signing the Neighborhood Association Agreements proclaimed in the EU-Med Action Plans as the future institutional framework between the EU and its Neighbors could enable this process in the future.[54]

[49] So far Israel (1985), Jordan (2000), Morocco (2004), Bahrain (2004), Oman (2006) concluded their FTAs with the US.
[50] Compare : Lebanon Euro-Med Association Agreement and Poland-EU European Agreement.
[51] The EU-Tunisia Association Agreement, Art 34.
[52] Poland's Europe Agreement, Title V, Art. 60.
[53] Ibidem, Art.6.
[54] The EU-Morocco Action Plan envisages some future changes like adoption the EU acquis screening of Moroccan law, identifying barriers to establishment in order to widen the scope of the AA in relation to establishment and capital movement. The challenging process of acquis adoption on their way to the EU was worth its costs in case of CEECs since it improved the business climate and made the CEECs more attractive to the EU investors. However, the lack of accession perspective in relation to MPC needs both on the European and MPC side a good understanding and calculation of costs and benefits of the existing provisions of the acquis.

Investment issues and MPC countries in light of WTO rules

Most of the MPCs are members of the WTO or have observer status.[55] They all are obliged (or are getting prepared) to implement obligations related to investment. There are four main areas of WTO activity on trade and investment:

- A Working Group established in 1996 which conducts analytical work on the relationship between trade and investment. The subject is one of the four areas called the "Singapore issues" which refer to competition policy, transparency in government procurement and trade facilitation.[56]
- The Agreement on Trade-Related Investment Measures ("TRIMs Agreement"), which is one of the Multilateral Agreements on Trade in Goods that prohibits trade-related investment measures, such as local content requirements that are inconsistent with basic provisions of GATT 1994. However many developing countries want either to continue to use them or to have more time to eliminate them under the TRIMs provisions.
- The General Agreement on Trade in Services (GATS) addresses foreign investment in services as one of four modes of supply of services. GATS provides a right for foreign investments, which set up operations in a host country to supply services through foreign investments. The need to increase the flow of investments in the Mediterranean area was enhanced by the EU on the Euro-Mediterranean conference on investments held in Lisbon on 1 March 2000. Participants agreed on the importance of increasing the efficiency of the service sector in MPCs. In this respect the representatives from the Euro-Med. region recommended the creation within the Euromed framework of a working group on services for exchanging information and sharing experiences in this field with a view to the objective of further liberalizing trade in services as provided for in the AAs.[57]
- TRIPs (Trade Related Aspects of Intellectual Property Rights) with provisions for liberalizing investment policies as it incorporates protections of intellectual property.

[55] Members of WTO are: Egypt (1995), Israel (1995), Jordan (2000), Morocco (1995), Tunisia (1995) and Turkey (1995); Observer status have: Algeria (1987), Lebanon (1999), Palestinian Authority(2005), Libya (2004); Syria has a vague status of accession working party.

[56] "Singapore issues "were set up at the WTO Singapore Ministerial Conference in 1996. Disagreements between developed and developing WTO member countries prevented to reach a resolution on these issues, despite repeated attempts to resume them, notably during the 2003 Ministerial Conference in Cancun, where no progress was made.

[57] Euro-Mediterranean Ministerial meeting on trade, Presidency Conclusions, Brussels, 29 may 2000.

Thus, it provides national treatment and most favored nation to foreign firms' intellectual property rights.[58]

There is no comprehensive multilateral agreement on foreign investment under the present WTO regulations. Investment rules that are to be laid out within a WTO Multilateral Investment Agreement (MIA) remain a central concern for developing countries. At the WTO Ministerial Conference in Cancun in September 2003, the developed members of the WTO tried to launch negotiations on MIA following seven years of preparatory work within the WTO Working Group on Trade and Investment. The EU has been one major advocate for creation of an international investment agreement. However, the efforts of highly developed countries failed, as a group of more than twenty developing countries (G21) and the group of 77 countries (G77)[59] united in demanding a fairer trade deal. Among Euro-Mediterranean countries it is only Egypt that belongs to the G21; Turkey is a former member. Remaining MPCs are members of the G77.

Major disparities have evolved around the following issues: definition of investment and investor; transparency; technical assistance; development provisions in a possible WTO investment framework and on a GATS-type positive list approach on modalities for pre-establishment commitments.[60] In the case of "Singapore issues", the G77 countries claimed that the impacts and/or the needs of developing countries as well as additional evaluation of implication of closer multilateral cooperation for their development policies and objectives needed to be considered.[61] The signatories of G77 stressed also a need for WTO to cooperate closely with UNCTAD[62] with the aim of ensuring integrated treatment of trade related issues in areas of investment, finance, technology and sustainable development.

Proponents of setting out negotiations on a multilateral framework for investment maintain that a WTO agreement on investment could complement the already existing large network of bilateral investment agreements.[63] A lack of rule and policy coherence in the investment area can pose then a danger to security and predictability – the key objectives of trade and investment agreements. Opponents doubt whether any multilateral agreement would be suitable for such negotiations, and if so, if the process should take place in the global forum of UNCTAD, a body which should facilitate the participation of all developing countries and

58 Understanding the WTO: Investment and competition: what role for the WTO? <http://www.wto.org/English/thewto_e/whatis_e/tif_e/bey3_e.htm>.

59 G77 - developing countries and the LDCs

60 Doha Round Briefing Series, The International Centre for Trade and Sustainable Development and the International Institute for Sustainable Development, Vol. 1, No 6, February 2006. p. 1.

61 Declaration by the Group of 77 and China on the fifth WTO Ministerial Conference in Cancun, Mexico, 10-14 September 2003, Geneva, 22 August 2003, p. 4.

62 UNCTAD - UN Conference on Trade and Development

63 The WTO's Working Group on Trade and Investment, 10-11.06.2003, Geneva.

which can be conducive to a full and free exchange of views. They claim also that the MIA would give foreign investors total rights without responsibilities, with drawbacks for developing countries. However, at the same time a multilateral agreement would attract more FDI to the South, prevent unilateral action, and reduce competitive incentives.[64]

5. Conclusions

Globalization, with its liberalization and adoption of some universal solutions in economic systems, has had an impact on what is considered a stimulus for investors making decisions about their engagement in an economy which wants to attract FDI. The first and most attractive method of gaining foreign capital is to privatize state assets, open up the economy and stabilize it. Law and infrastructure also rank highly in lists of risk evaluators' priorities. MPCs have introduced number of reforms which aim at upgrading the region's attractiveness to potential investors. However, a large number of obstacles still exist which make MPCs less competitive than the ECE countries. According to our research most of the MPCs' authorities efforts, as far as the institutional arrangements are concerned, should be focused on:

- Easing-up the complexity of bureaucratic procedures;
- Improving governance and lowering the level of red tape;
- Fighting corruption;
- Lowering transaction costs;
- Upgrading transparency of the regulatory framework (for example by publication of a list of still-existing restrictions and through improving the quality of essential information);
- Enhancing Investment Promotion Agencies via sufficient resources and adequate political support;
- Following the recent trends in international investment law and including more transparent provisions concerning national treatment, expropriation, dispute settlements and property rights;
- Accelerating the ratification process of BITs already signed and renegotiating older treaties to make them more suitable to international law developments;

[64] Bhagirath Lal Das, (a former Director of UNCTAD's Trade Programme division during the Uruguay Round negotiations, and a former Indian Representative to the GATT), A Critical Analysis of the Proposed Investment Treaty in WTO, July 2003, <http://www.globalpolicy.org/socecon/bwi-wto/wto/2003/07critical.htm >.

- Modernizing internal rules and regulations concerning the protection and promotion of investment because BITs serve more as complements to sound domestic regulatory and institutional framework than as substitutes;
- Sending timely and effective information to potential investors about new treaties signed and ratified to make use of the IIAs' signaling effect which corresponds with the need for a more transparent and coherent information strategy implemented by IPAs.
- Widening the scope of investment provisions of the future Euro-Med Association Agreements;
- Further lowering tax burdens – CIT, PIT, tax on dividends;
- Facilitation of complicated, multi-layered tax systems (e.g. in Jordan);
- Lowering inflation rates;[65]
- Policy aimed at reduction of exchange rate volatility;
- Further transition towards floating exchange rate systems.

[65] The last three policy recommendations come from the research conducted within this package by the Polish team. The text concerning the monetary policy of some MPCs which is not included in this report can be found at the GO-EuroMed web page as a part of the Polish paper. It will be developed in the next year's GO-EuroMed Working Package concerning the reforms implemented in the MPCs.

Annex I Fiscal policy in MENA countries.

Country	Tax on dividends	VAT	Income taxes	Corporate taxes	Social security contribution	Tax deduction	Other taxes
Algeria	n.a.	17%; reduced rates are 7% and 4%	Progressive rate from 0% to 40% (0%, 10%, 20%, 30%, 25%, 40%)	30%	26%	Yes, different for different schemes	Tax Specific Additional – from 10% to 50% Wealth tax – variable rate Donations – 14% Successions – 8%
Egypt	32% *	10%; reduced rate 5%; raised rate is 25% for some products	Progressive rate from 5% to 25%	20%	24%	Yes	Land taxes – from 10% to 40%
Jordan	10%	13%; exempt products exist	Progressive rate from 5% to 30% (5%, 10%, 15%, 20%, 25%, 30%)	15%-hotels, mining, industry, contracting, transportation 35% - finance and banking, insurance, exchange companies 25% - other	11%	Yes, different for different Zones, up to 75% deduction	Property tax – 10%
Lebanon	5%	10%; reduced rate for some products - 0%	Progressive rate from 2% to 20% (2%, 4%, 7%, 11%, 15%, 20%)	15%	21.5 %	Yes	Tax of land transfer – 6% Successions and donations – 3% to 33% Municipal tax – 6.5% to 11.5%
Morocco	15%	20%; reduced rates from 7% to 14%	Progressive rate from 13% to 44% (13%, 21%, 35%, 44%)	35%; plus levy 10% out of corporate tax; non resident may apply for 8%	17,7 %	Yes, different for different regions	Tax on royalties – 10%, Tax of urban property – 13.5% Tax on transfers – 0.25 % to 6% License 5% to 30%
Tunisia	Not subject to the tax	18%; reduced rates 10% and 6%; extra rate 29%	Progressive rate from 0% to 35% (0%, 15%, 20%, 25%, 30%, 35%)	35%; 10% applies to agricultural, fishing, craft. Exporting resident are exempt from any tax	16%	Yes	Tax on royalties – 15%, Succession – 6%, Tax on establishments with industrial of commercial character – 0,2% of the turnover
Turkey	10%	18%; reduced rates are 8% and 1%	Progressive rate from 15% to 35% (15%, 20%, 27%, 35%)	30%	19.5 %	Yes	Succession and donation – from 1% to 30%, Tax of bank deals and insurance: 5% Tax on royalties 10%

Source: Own aggregation. * only for foreign companies
** when the company is exempted form the corporate tax, as well as for holdings and offshore companies

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