2 Foreign investment trends and sustainable development benefits

This chapter reviews trends in foreign investment in the eight MENA focus economies, including top investing partners and which countries and sectors attract the most greenfield investment. The chapter also explores the development benefits of FDI in the region, including the impact of investment on productivity, jobs, skills, gender equality and carbon footprint, based on the OECD FDI Qualities Indicators.

Summary

Middle Eastern and North African economies have the market, resource and human capital potential to attract high levels of foreign direct investment (FDI). Yet they have not been as successful as other emerging and developing economies at attracting FDI, or leveraging investment to advance socio-economic goals. Reliance on a few industries, periods of political instability, and macroeconomic and labour market challenges have, and continue to negatively affect economic and investment growth.[1] In the past several years however, most MENA governments have undertaken meaningful reforms to improve the investment climate. These important efforts are explored in the subsequent chapters of this report. Some countries have already seen positive returns to reforms, including more investment in sectors that can advance job creation, exports and productivity, and more diversified sources of FDI. An analysis of recent FDI trends in the region points to several challenges ahead however.

The coronavirus (Covid-19) health and economic crisis has significantly reduced FDI inflows across the globe. In the first half of 2020, global flows fell by 50% compared to the preceding six months (OECD, 2020[1]). Initial data shows an acute decline in investment in MENA region. In the first half of 2020, greenfield investments to the eight economies covered in this report (MENA focus economies) were 80% less, in total announced value, than in the first half of 2019, a substantially sharper decline than in emerging and developing economies as a whole and OECD countries (fDi Markets by the FT). The pandemic and related supply disruptions, demand contractions and pessimistic outlook of economic actors are likely to depress global FDI flows through the end of 2021 at least (OECD, 2020[1]). Low oil demand and prices will particularly affect energy exporters in the region. There may be opportunities for some MENA countries to take advantage of potential changes to global supply chains in the aftermath of the crisis; some governments have begun to market themselves to European MNEs as an alternative to Asian labour markets. But several countries remain reliant on a few source investors, making them even more vulnerable to external shocks. Worsening political and security dynamics in some MENA countries are also likely to negatively affect FDI inflows in the near to medium term.

The ongoing global and regional economic challenges make improving the positive impact of investment all the more important. The sectors that attract the most FDI in the MENA region – including real estate, construction, mining and fuels – do not contribute the most to productivity, employment or green growth. Nearly 50% of all jobs created by FDI in the eight focus economies have been in manufacturing, but despite some growth, the sector only accounts for 25% of total FDI, compared to 40% in most ASEAN economies (OECD, 2018[2]). In the MENA region, the benefits of FDI for productivity, labour market outcomes and the environment do not always materialise, and not as much as host governments expect. The extent of the benefits of FDI differ across MENA countries, highlighting that local economic factors and policy play key roles in shaping the impact of FDI on sustainable development.

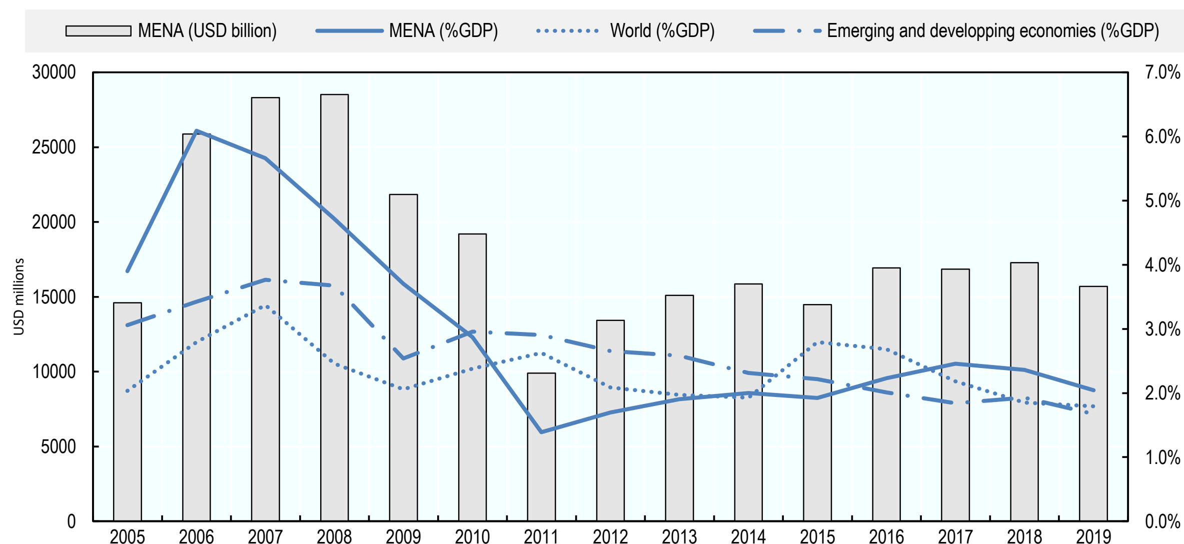
Investment trends point to challenges ahead

FDI to the MENA economies remains below potential

Before the pandemic, investment in the eight focus economies had been stagnating. On average, the region did not recover from the 2008 global financial crisis and Arab Spring movements of 2010-11 (Figure 2.1). Inward FDI rose following weak inflows in 2011, and by 2014 FDI performance was fairly strong relative to the size of the regional economy. But inflows then plateaued and slightly declined, mirroring an overall decline in global FDI flows in recent years. In 2018, inflows to the eight MENA focus economies were only half the levels reached ten years prior. There are some positive outliers: investment in Morocco in 2019 surpassed 2008 levels, and Egypt achieved six years of steady increases in FDI until 2016. But in the years before the pandemic, FDI in most countries in the region had stagnated, decreased, or in the case of Libya, halted.

Figure 2.1. MENA inward FDI flows: trends and performance

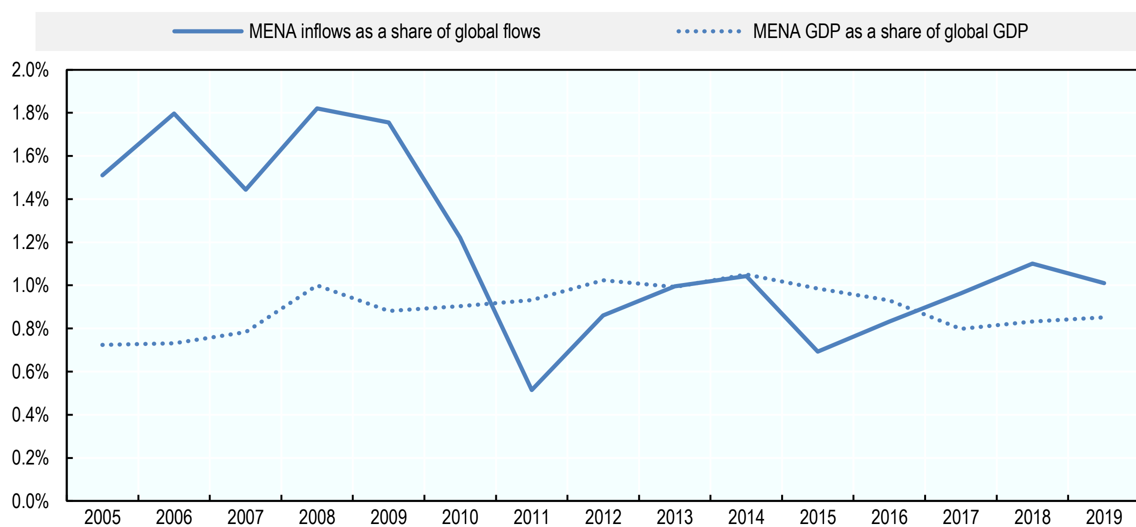
MENA FDI inflows in USD millions (left axis); FDI inflows as a share of GDP (right axis)



Note: Data for the eight economies covered by the report. MENA inflows as share of GDP exclude the Palestinian Authority.
Source: IMF Balance of Payments database, IMF World Economic Outlook database and OECD FDI statistics database.

Global competition for investment in the aftermath of the 2008 global financial crisis has been high, particularly among developing economies, and the MENA region has remained a minor destination for FDI (Figure 2.2). In 2019, FDI inflows to the eight focus economies accounted for less than 1% of global FDI inflows; comparatively, ASEAN countries and Latin American and Caribbean countries each received 11% of global inflows in 2018.[2] This was the highest share the MENA region received in almost a decade, however, and in recent years the focus economies have attracted a higher share of investment relative to their weight in the global economy.

Figure 2.2. MENA FDI attractiveness relative to the rest of the world

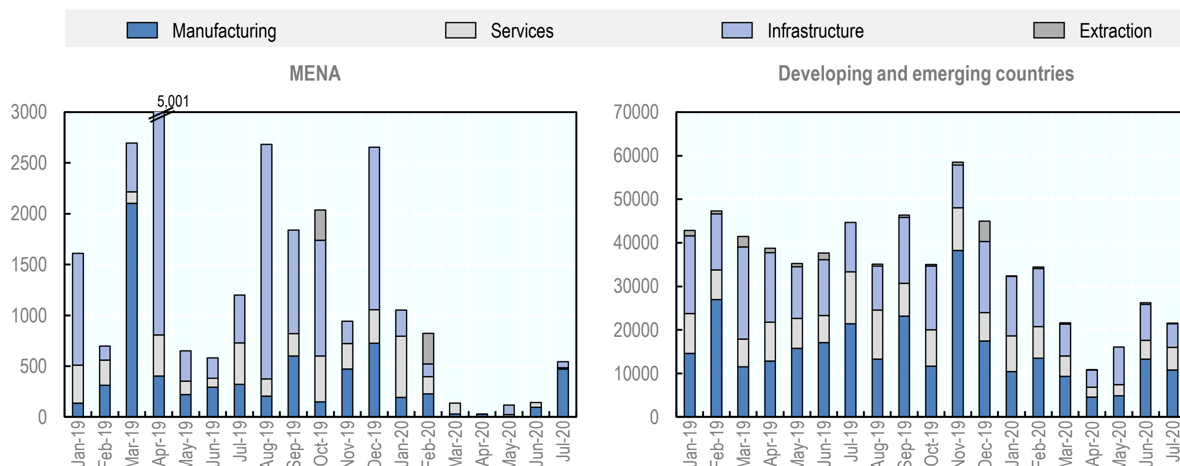


Note: MENA GDP as share of global GDP for the eight focus economies except the Palestinian Authority.
Source: IMF Balance of Payments database, IMF World Economic Outlook database (GDP) and OECD FDI statistics database.

FDI inflows to the MENA region, and to all countries, have declined sharply due to COVID-19 pandemic and resulting global supply disruptions, demand contractions, and pessimistic outlook of economic actors. In the first stages of the pandemic, the OECD projected a 40% decline in global FDI flows in 2020 under the most pessimistic scenario, but this percentage could drop even lower as new investment projects and earnings of MNEs remain depressed (OECD, 2020[1]). Greenfield investments – the dominant mode of entry of FDI in most of the MENA focus economies – have been significantly affected. Initial data shows that capital expenditures on announced greenfield projects declined by 80% in the eight focus economies in the first half of 2020 compared to the first half of 2019 (Figure 2.3). This is a significantly greater decrease than in emerging and developing economies as a whole and OECD countries, which saw declines of 42% and 17% respectively.

Figure 2.3. Effect of Covid-19 on greenfield FDI

Announced capital expenditure, USD millions



Source: OECD based on Financial Times fDi Markets, as of 10 September 2020.

Some MENA economies were more resilient to economic shocks than others

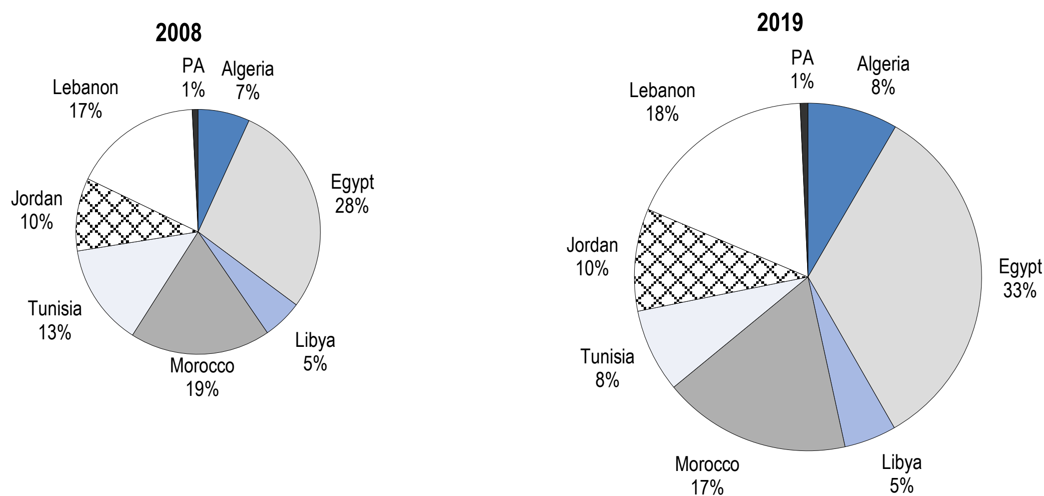
Despite stagnating or declining FDI flows, total inward FDI stock in the region increased by 80% between 2008 and 2019, similar to increases in the EU, though less than half the average increase in developing countries overall (UNCTAD, 2020[3]). There has been little movement in the share of inward FDI stocks obtained by each country since 2008 peaks, with one exception: Tunisia's share of regional FDI stock has substantially decreased (Figure 2.4). Tunisia is the only economy in the region where FDI stock declined following the Arab Spring protests and subsequent political changes. Egypt, the largest of the eight focus economies in terms of GDP and population, has consistently attracted the most FDI, holding a third of total FDI stock in the region in 2019. Morocco and Lebanon follow, holding just under one-fifth of the region's stock each.

The share of FDI stock held by each economy relative to its neighbours gives some indication of the country's attractiveness as an investment destination. But this may be due to location-specific factors, including market size and the presence of natural resources. The share of FDI relative to the size of the domestic market gives a better indication of the country's success in attracting investors and the importance of FDI to the economy. The average FDI-to-GDP ratio in the eight MENA economies is fairly high compared to other emerging economies, as well as the average for OECD and G20 countries (Figure 2.5) (OECD, 2020[4]). This is partly explained by Lebanon, where investment in real estate and the financial

sector contributed to a stock level equal to 116% of GDP in 2019. Algeria, Egypt, Libya, Morocco and Tunisia have all seen increases in FDI relative to the size of their economy in the past decade; this ratio has decreased in Jordan, Lebanon, and the Palestinian Authority. In Libya however, the growth of FDI stocks as a share of GDP is largely due to a drop in GDP following the start of armed conflict in 2010, rather than an increase in FDI.

Figure 2.4. Changes in distribution of FDI stock within MENA focus economies

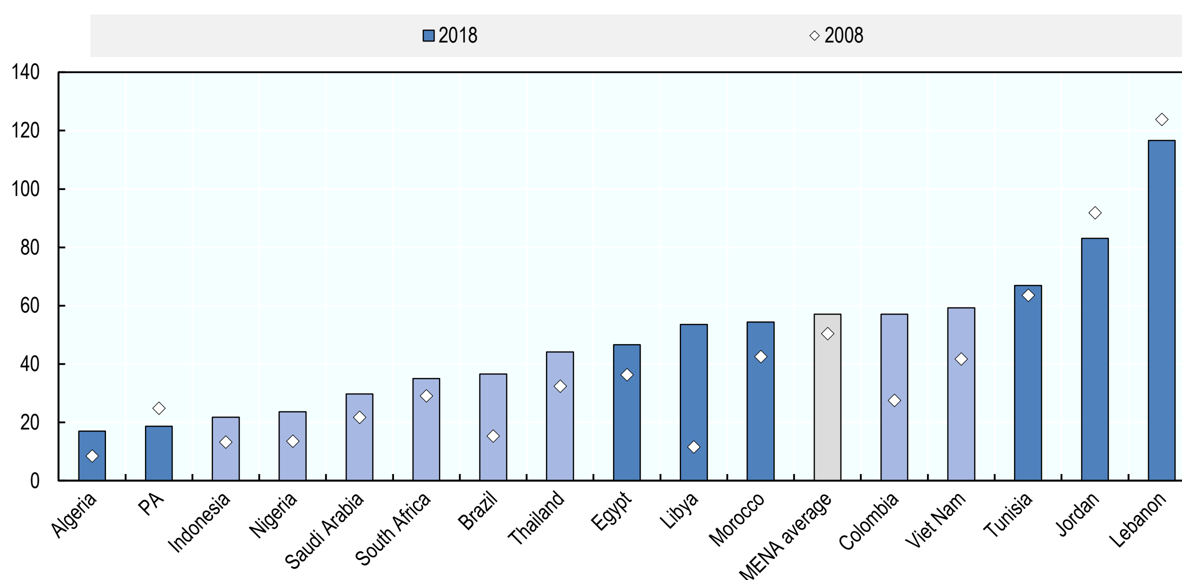
Share of total inward FDI stock to the 8 economies



Note: Figure not to scale. Inward FDI stocks in 2019 were 1.8 times more than stocks in 2008. P.A. refers to Palestinian Authority.
Source: UNCTAD Statistics.

Figure 2.5. Importance of FDI to GDP in MENA and other economies

Inward FDI stocks as % of GDP



Source: UNCTAD Statistics.

MENA economies primarily attract FDI from Gulf countries and increasingly from Asia-Pacific

Not all MENA countries collect data on FDI inflows by partner country, and those that do can sometimes differ in their methodology and in their degree of compliance with international guidelines (Box 2.1). Discrepancies in the definition, coverage or estimation methods used to compile the statistics are common.[3] In absence of comprehensive and comparable official statistics on bilateral and sectoral FDI flows, data on announced greenfield investment projects can be helpful to support a comparative analysis for the eight focus economies.[4] Greenfield investment is the dominant mode of entry of FDI in most MENA countries, as in many developing economies (Burger, Ianchovichina and Rijkers, 2013[5]). Greenfield projects data also gives an indication of growth of a sector, as it captures new investments or expansions, as opposed to changes in ownership or mergers of existing activities.

Box 2.1. OECD's Benchmark Definition for FDI, 4th edition

FDI is one of the major types of investment included in the balance of payments (BOP) and international investment position (IIP) statistics. The IMF in its Balance of Payments and International Investment Position Manual, 6th edition (BPM6) and the OECD in its Benchmark Definition of Foreign Direct Investment, 4th edition (BMD4) set the international standards for compiling FDI statistics. BMD4 is completely consistent with the guidance in BPM6 but provides more detailed guidance on the compilation of FDI statistics; for example, BMD4 provides more detailed guidance for compiling FDI statistics by immediate partner country and by industry than BPM6. BMD4 also provides guidance on compiling inward FDI statistics that produce more meaningful measures of inward investment, such as an inward FDI statistics by ultimate investing country. This presentation provides information on the country of the investor who ultimately controls the investment. It also identifies the amount of inward investment that results from round-tripping, which is the channelling abroad of local funds and their subsequent return to the country in the form of direct investment.

The recommended measures of FDI statistics in BMD4 produce FDI statistics that are part of the larger System of National Accounts (SNA), on internationally agreed standard set of recommendations on how to compile measures of economic activity, such as GDP, gross national income, trade, and foreign borrowing and lending.

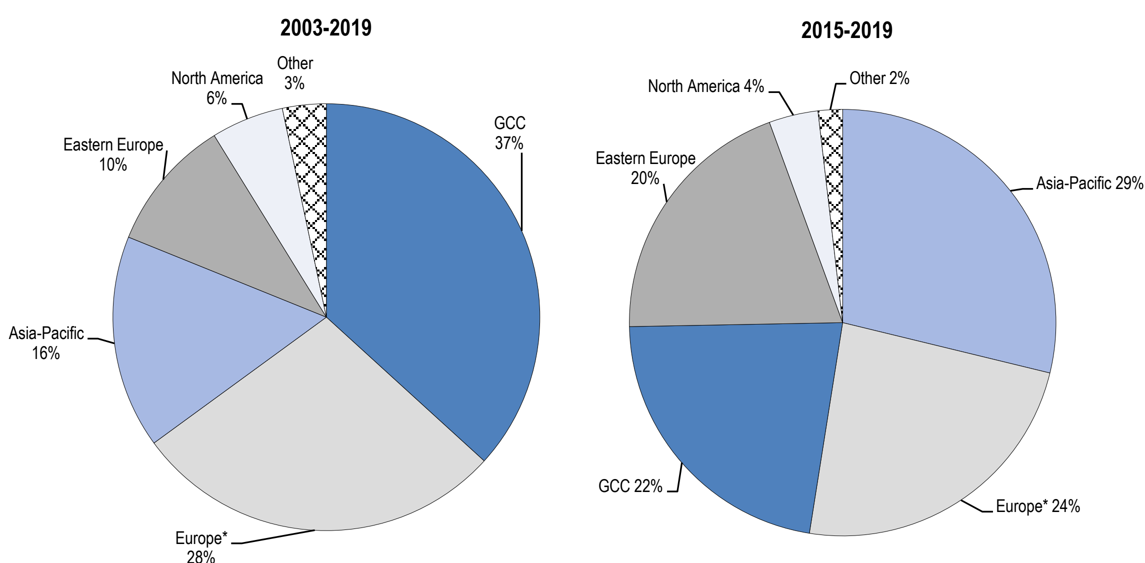
FDI statistics can be an important input for evaluating the impact of reforms to improve the investment climate in countries. To support informed policy-making, the OECD has undertaken reviews of four MENA countries' compilation of FDI statistics (Egypt, Jordan, Morocco and Tunisia). These reviews assess their implementation of the international guidelines for FDI statistics, including the OECD's BMD4, and make concrete recommendations for improvement. The reviews are available at: https://www.oecd.org/investment/foreign-direct-investment-statistics-review-series.htm.

Most greenfield investment to the eight focus economies comes from within the wider MENA region (Figure 2.6). Between 2003-2019, 37% of all greenfield investment to the eight economies came from Gulf Cooperation Council (GCC) countries. Europe (including the EU, EEA, the UK and Switzerland) was the second largest regional source of greenfield FDI over the same period, followed by Asia-Pacific and eastern Europe (notably Russia and Turkey). North America has been a much less prominent source of investment, though some US firms may invest through EU affiliates.

Countries in East and South Asia have become more important investors in the MENA region in the past five years (Figure 2.6, right panel). Firms based in Asia have supplied more FDI to the eight MENA economies since 2015 than any other region, although this high percentage is largely due to one Chinese megaproject in Egypt, an agreement in 2016 to invest 20 billion USD to build a new administrative capital.[5]

Figure 2.6. Greenfield FDI to MENA focus economies by source region

As a % of total announced greenfield FDI 2003-2019 (left) and 20015-2019 (right)



Note: Europe* refers to countries in the EU and EEA, as well the UK and Switzerland. Eastern Europe includes Russia, Turkey, Ukraine and Belarus. Other includes non-GCC MENA countries, Africa, Latin America and the Caribbean.
Source: fDi Markets by the FT.

High intra-MENA greenfield investment contrasts with overall low regional trade integration. Among the eight focus economies, the share of intra-regional trade in goods as a share of total trade was just 4% in 2017, a substantially lower share than for regional economic communities in West Africa (intra-regional trade among ECOWAS members is around 9%) and Southeast Asia (ASEAN intra-regional trade in goods is around 23%).[6]. Trade restrictions (including tariffs and non-tariff barriers), poor regional infrastructure, and geopolitical relations have all negatively affected trade integration (OECD, 2018[6]), (Kireyev et al., 2019[7]). While intra-regional investment is stronger, it is primarily in the non-tradeable sector and one-directional. Gulf countries are important sources of investment for other MENA countries, but FDI flows between non-GCC MENA economies are marginal, representing only 1% of total greenfield investment since 2003.

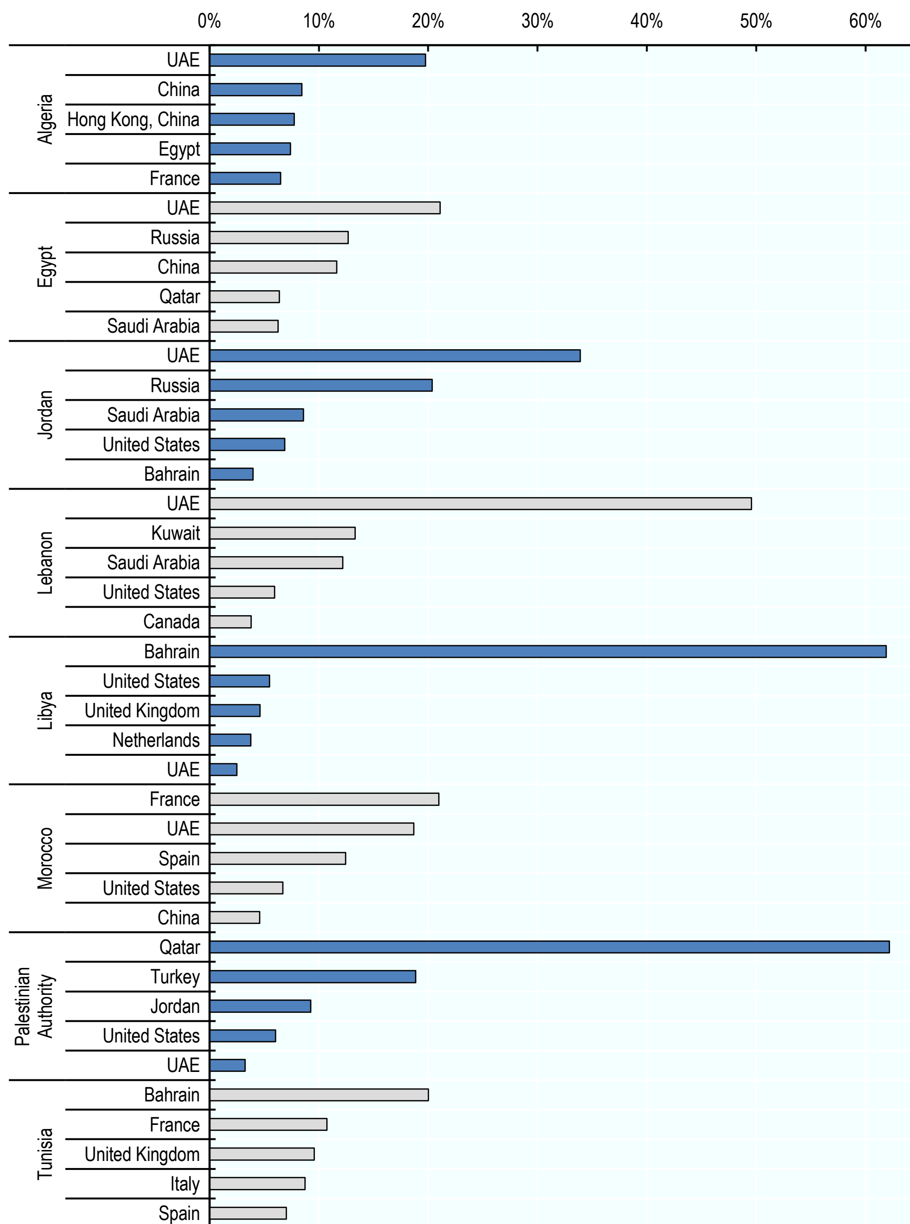
Within the GCC, the UAE has been the largest individual investor in the eight economies; more than half of all greenfield investment from MENA countries between 2003 and 2019 came from Emirati-based firms. Bahrain, Saudi Arabia and Qatar follow, each providing between 10 and 16% of greenfield investment from MENA countries over the 17 year period. Saudi Arabia has become a more important investor in focus economies in recent years, however; around a third of greenfield FDI from MENA countries in the past five years came from firms based in the Kingdom. This follows a push by the Kingdom to diversify the economy, including investments in its sovereign wealth portfolio, away from oil and gas.

Investors from the GCC have overwhelmingly favoured projects in real estate and construction. Just under two-thirds of GCC investment to the eight focus economies between 2003-19 has been in the sector. Moreover, 70% of all investment in real estate and construction has come from GCC firms. Investors from Eastern Europe have also primarily invested in one sector; nearly 80% of investment from the region over the 17 year period went to mining and fuel projects. Conversely, investments from Asia-Pacific and Europe have been slightly more diversified; both regions have primarily invested in manufacturing projects, followed closely by real estate (for Asia Pacific investors) and mining and fuels (for European investors).

Maghreb countries have generally attracted more investors from Europe than the other MENA economies covered in this report, corresponding to historical and linguistic ties, as well as trade networks, between Europe and North Africa. Of the eight economies, Tunisia is the most reliant on European investors, four out of the top five source countries (in terms of announced greenfield investment since 2003) are European (Figure 2.7). Other economies in the region are more dependent on one source country for FDI. In Lebanon, Libya and the Palestinian Authority, half or more of all announced greenfield investment since 2003 has come from one country (UAE, Bahrain and Qatar, respectively). High reliance on one or small group of economies leaves the host country vulnerable to changes in economic and geopolitical conditions in those source countries.

Figure 2.7. Top five source investors to MENA focus economies

% of total announced greenfield investment 2003-2019



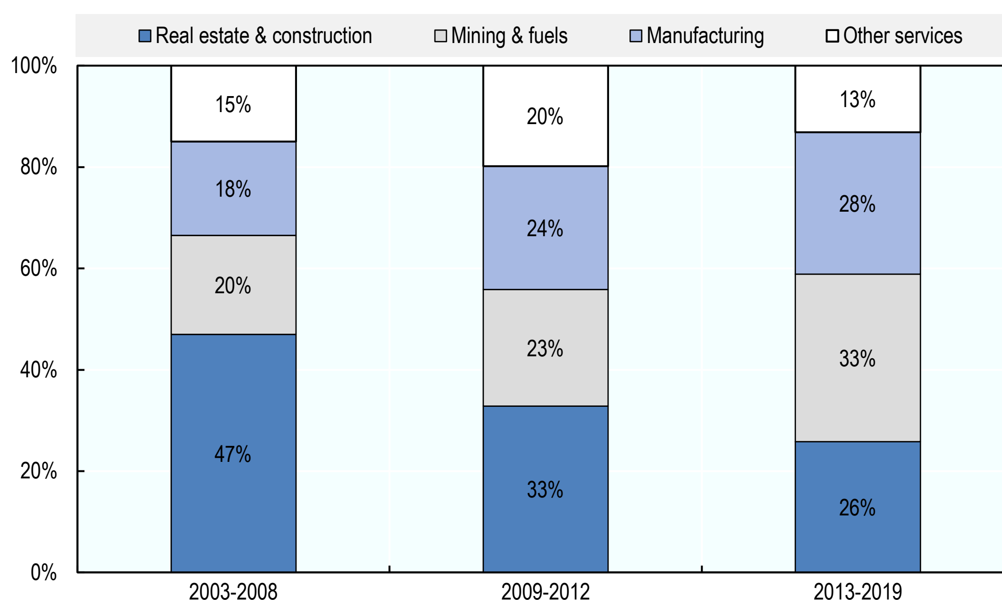
Note: Sources of greenfield investment can differ substantially from bilateral FDI positions as reported by central banks.
Source: fDi Markets by the FT.

Based on greenfield data, Algeria and Morocco have the most diversified sources of investment, their top five investors come from the MENA region, Asia-Pacific, Europe, and in the case of Morocco, North America. It is notable that sources of greenfield investment can differ substantially from bilateral FDI positions as reported by central banks, which take into account other types of FDI and historical inflows. These data, while not comparable across countries due to different methodologies used in collection, also reveal substantial reliance on investors from the EU and Gulf countries.

Mining and fuels have attracted the most greenfield investment in recent years, but manufacturing investment is growing

FDI to the MENA region has long been concentrated in a narrow group of sectors. Real estate and construction has attracted the most greenfield investment in the focus economies, receiving more than one-third of total announced greenfield FDI between 2003 and 2019. Mining and fuel projects follow with around one-fourth of FDI, while manufacturing industries attracted just under one-fourth during the same period. Service sectors, including transport and warehousing, business services and tourism received 15% of announced greenfield FDI. Comparatively, around 40% of greenfield FDI to ASEAN countries goes to manufacturing, and 40% to services (excluding Singapore and Malaysia) (OECD, 2018[2]).[7] A closer look at variations between years reveals a different ordering of sectors, suggesting some of the implications of the economic and political shocks that most affected the region from 2009 to 2012, and market developments since then (Figure 2.8). FDI inflows increased in most of the focus economies after 2012; it is therefore useful to consider how investment evolved in the period 2013-19, during which many MENA governments implemented important investment and economic reforms.

Figure 2.8. Greenfield FDI in MENA focus economies by sector



Note: Investment as percentage of total announced greenfield FDI in the eight economies during years indicated.
Source: fDi Markets by the FT.

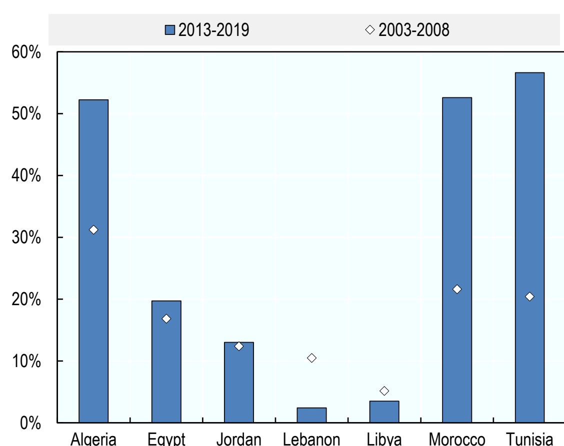
The share of investment in mining and fuels increased substantially from 2013 to 2019 compared to the period before the last economic crisis (2003-2008), while the share of FDI in real estate and construction nearly halved (Figure 2.8). That minerals and fuels received a greater percentage of greenfield investment in the region, relative to other sectors, is in line with research that shows that FDI in natural resources is

fairly insensitive to political instability (Burger, Ianchovichina and Rijkers, 2013[5]). The substantial increase in mineral and fuel investments was largely driven by a few mega-projects: Egypt attracted USD 20 billion to its off-shore gas fields in 2017, while Jordan reached a USD10 billion agreement in 2013 for the creation and operation of a nuclear power plant.[8] Egypt has consistently attracted the vast majority of investment in mining and fuels among the eight focus economies.

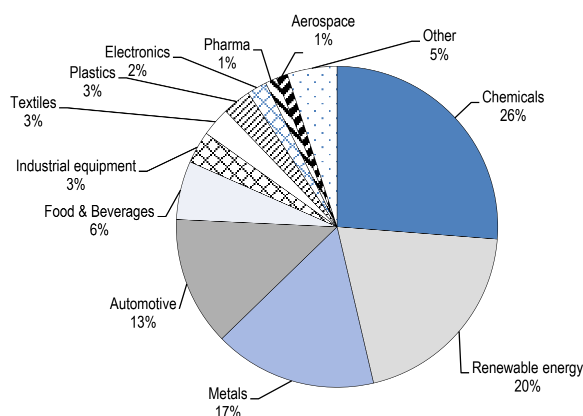
Notably, investment in manufacturing has also increased in recent years, though some countries have been more successful than others at growing this sector (Figure 2.9). FDI in manufacturing has considerably increased as a share of total greenfield FDI in Algeria, Morocco and Tunisia – more than half of greenfield investment to these economies in recent years has gone to manufacturing. Manufacturing investment has also increased in Egypt, which receives the most investment in the sector in terms of capital expenditure. Despite a relative increase in Algeria, in absolute value greenfield investment in manufacturing in the country has declined. FDI in manufacturing in Lebanon has also declined in absolute value and as a share of total greenfield investment. Jordan and Libya have not seen an increase in manufacturing FDI relative to other sectors or in absolute value.

Figure 2.9. Greenfield FDI in manufacturing has increased in recent years

A. Manufacturing as % greenfield FDI



B. Manufacturing FDI by sub-sector, 2003-2019



Note: A. Palestinian Authority omitted due to absence of data. B. Percentage of greenfield manufacturing FDI received by each sub-sector.
Source: fDi Markets by the FT.

Within manufacturing, the sectors that have received the most investment in the region since 2003 are chemicals, renewable energy, metals, and automotive components (Figure 2.9, panel B). Renewable energy has become a more important manufacturing sector in the region in recent years, receiving around one-third of all manufacturing greenfield FDI since 2013, more than any other manufacturing sector.

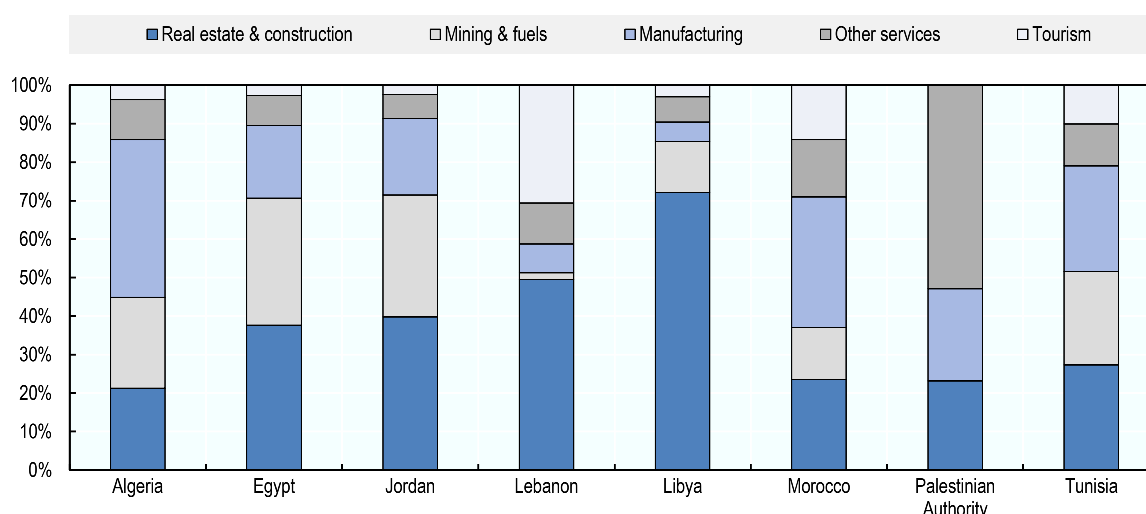
Service sectors have consistently attracted the least greenfield investment in region; services other than transport and warehousing received only 7% of total greenfield FDI between 2013 and 2019. There are nonetheless a few examples of increased investments in services in recent years, notably in Lebanon, Morocco and Tunisia. In Lebanon, one-quarter of FDI in recent years has gone to services, including communications, transport and warehousing, and financial services, compared to only 5% before the 2008 economic crisis.

The growth of FDI in manufacturing in recent years is notable, but manufacturing still attracts a relatively small amount overall investment in most of the focus economies, and the service sector even less (Figure 2.10). The vast majority of FDI to MENA region has been, and continues to be, in capital-intensive sectors. These sectors have contributed little to productivity and job creation, key to sustainable economic growth.

This report argues that further diversifying investment will require adapting policies and addressing challenges across the investment policy framework. Subsequent chapters provide analysis and policy recommendations to this end, in order to boost investment that will support development aims. MENA policymakers could consider, for example, reassessing remaining statutory restrictions on foreign investors, particularly in service sectors (Chapter 4), as well assess whether investment promotion strategies and tools, including investment incentives, are clear, targeted and well aligned with national development strategies (Chapters 6 and 7). Supporting investment in infrastructure and greater linkages between multinational and local firms can help promote FDI in more diverse locations and sectors, and advance participation in global value chains (Chapters 8 and 9). As the rest of this chapter will explore, there is substantial opportunity to harness FDI for sustainable development.

Figure 2.10. Greenfield FDI by sector per MENA economy

% of announced greenfield FDI 2003-2019



Source: fDi Markets by the FT.

Harnessing FDI for sustainable development

FDI can play a crucial role in advancing the Sustainable Development Goals (SDGs) in MENA countries, as well as in supporting their recovery from the Covid-19 pandemic and subsequent economic crisis. FDI can create quality jobs, enhance productivity growth and innovation, develop human capital, and raise living standards and environmental sustainability. By linking domestic firms to multinational enterprises (MNEs), FDI also serves as a conduit to access international markets and integrate in global value chains (GVCs) (see chapter 8).

However, realising the positive contribution of FDI to sustainable development is not a given. Maximising benefits and minimising potential risks associated with FDI may not be a primary concern for profit-seeking investors, and may not receive sufficient attention by policymakers seeking to attract investment. While in principal FDI has the potential to advance sustainable development, private sector incentives and both home and host country policies require careful consideration as they play a critical role in realising this potential.

This section reviews how FDI relates to sustainable development outcomes in the MENA region. It draws on the findings of the OECD FDI Qualities Indicators (Box 2.2), which measure the relationship between

FDI and five sustainable development goals: productivity and innovation, employment and job quality, skills, gender equality, and carbon footprint.

Box 2.2. The OECD FDI Qualities Indicators

FDI Qualities Indicators describe how FDI relates to specific aspects of sustainable development in host countries. They are structured around economic, social and environmental sustainability. An in-depth assessment of all 17 SDGs, and their corresponding targets, was undertaken to identify the full spectrum of FDI Qualities – that is, areas where FDI may contribute to achieving the SDGs. This assessment further considers the extent to which FDI potential for advancing the SDGs is reflected in the OECD Policy Framework of Investment, including related frameworks and guidelines, such as the OECD Guidelines on Multinational Enterprises and the OECD Policy Guidance for Investment in Clean Energy Infrastructure.

The FDI Qualities Indicators focus on five clusters: productivity and innovation, employment and job quality, skills, gender equality, and carbon footprint. For each of the five clusters, a number of different outcomes are identified and used to produce indicators that relate them to FDI or activity of foreign multinationals, allowing for comparisons both within and across clusters so as to identify potential sustainability trade-offs.

Taking into account the country-specific context, policymakers can use FDI Qualities Indicators to assess how FDI supports national policy objectives, where challenges lie, and in what areas policy action is needed. Indicators also allow cross-country comparisons and benchmarking against regional peers or income groups, which, taking into account the country context, can help to identify good practices and make evidence-based policy decisions.

Source: (OECD, 2019[8]).

The sectors that receive the most investment in the MENA region do not create the most jobs

MENA governments devote large resources to attract foreign investment in the hope that it will create jobs. Unemployment in the region has worsened since 2011; the average unemployment rate before the Covid-19 crisis was 14.6%, and twice as high among youth (ILOSTAT, 2020[9]). The extent to which FDI creates jobs varies depending on the host country's economic structure and level of development. FDI in capital intensive sectors, including natural resources and real estate, generate fewer jobs per dollar invested than those in labour-intensive industries or services (OECD, 2019[8]).

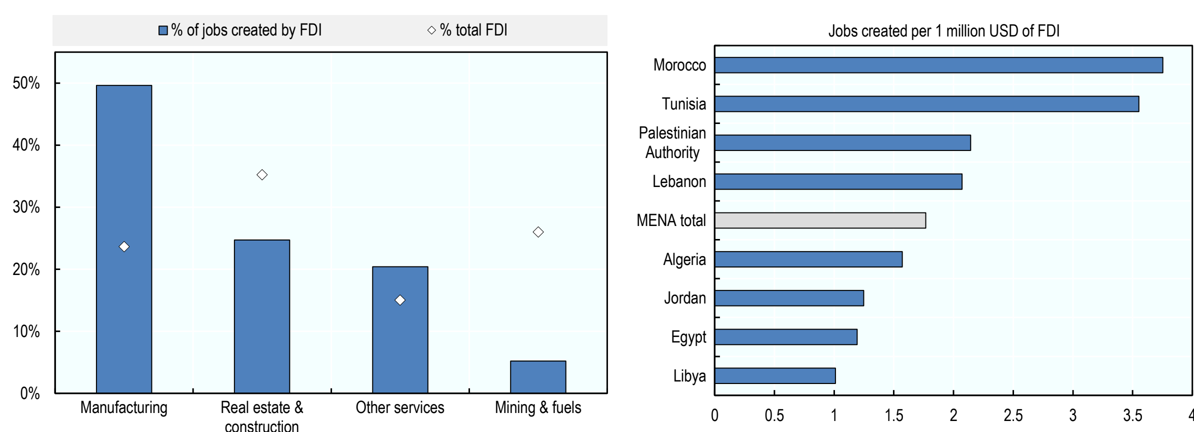
In the MENA region, as described above, periods of political instability in many countries has skewed the sectoral composition of FDI towards the natural resources sector, thus limiting the creation of new job opportunities. Overall, countries with stronger industrial sectors, such as Morocco and Tunisia, see larger effects of greenfield FDI on employment than countries where natural resources or other capital-intensive sectors dominate, including Algeria, Egypt, Jordan and Libya (Figure 2.11, panel A). FDI projects hosted by the relatively small Lebanese and Palestinian economies created more jobs than in the average host country.

Across the eight MENA focus economies, half of all jobs created by greenfield projects are in the manufacturing sector, which only receives one-fourth of the region's FDI (Figure 2.11, panel B). Within manufacturing, automotive components have created the most FDI-related jobs, followed by textiles, food and beverage, and metals. These results are only a partial picture of the impact of FDI on jobs however, as they reflect greenfield projects and not foreign takeovers (M&A). They also do not take into account indirect job creation or destruction through FDI spillovers to other firms. For instance, FDI in Jordan led to

a partial crowding-out of old and small domestic firms operating in the same sector, but had positive employment spillovers among service providers and young firms (World Bank, 2015[10]).

Figure 2.11. FDI is not concentrated in sectors with greatest job-creating potential

Total announced greenfield FDI 2003-2019, aggregate for the eight MENA focus economies (left)



Note: Based on total (announced) Greenfield FDI in the eight countries between 2003 and 2019. Panel A. (left) compares which sectors receive the most FDI in the region and which sectors generate the most jobs (based on the total number of jobs created by FDI investments). Panel B. (right) shows the estimated number of jobs created per 1 million USD of FDI per country.
Source: fDi Markets by the FT.

FDI has the potential to improve working conditions, but benefits are often not realised in MENA

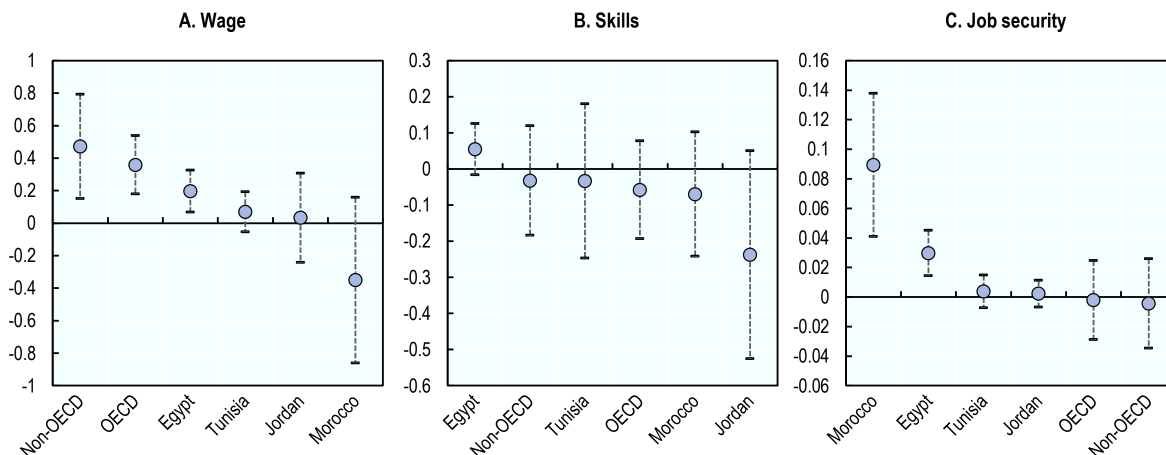
While job creation is crucial, job quality is equally important to advance inclusive development. Wage is one aspect of job quality. On average across OECD and many non-OECD countries, foreign affiliates pay higher wages than domestic firms (Figure 2.12, panel A). This is because foreign firms are often more productive, larger and have more skilled worker than their domestic peers (see next sub-section). However, except in Egypt, there is no significant difference in wages between foreign and domestic firms in observed MENA focus economies. This is consistent with the findings that foreign firms in these economies tend not to be more productive or employ more skilled workers than domestic firms (see next sub-sections).

Morocco is an interesting exception; MNEs in Morocco are on average more productive, but do not pay higher wages. This could be because foreign firms may be concentrated in sectors with competitive labour costs. It could also be that MNEs are active in highly-concentrated markets with little competition – which in turn can generate rents. In most countries, higher productivity of foreign firms does not fully translate to wage benefits for workers. On average across OECD and non-OECD countries, foreign firms are twice as productive as domestic firms, but they pay only 50% higher wages (OECD, 2019[8]).

FDI also has the potential to foster skills development in host countries. Foreign firms are often more technologically advanced, and tend to hire more skilled workers than domestic firms operating in the same sector. Across sectors, the average foreign firm in the MENA region do not employ more skilled workers than its domestic peer, an outcome also observed in OECD and non-OECD countries (Figure 2.12, panel B). As outlined in this chapter, greenfield FDI in the eight focus economies is largely concentrated in sectors with lower shares of skilled workers, including construction, mining and light manufacturing (such as textiles). In general, countries with a large labour force and relatively low labour costs tend to attract more FDI in labour-intensive and low-skilled manufacturing activities. This can also result from a shortage or inadequate supply of skills needed for foreign investors' activities.

Figure 2.12. Wage and non-wage working conditions of foreign and domestic manufacturers

Are foreign firms more performant than their domestic peers? (yes if score > 0)



Note: The figure includes confidence intervals that indicate statistical significance at the 95% level. If the confidence interval crosses the zero line, the difference between foreign and domestic firms is statistically insignificant. Job security is measured as the share of workers with permanent contracts. For further details, see OECD (2019a).
Source: Based on OECD (2019a) and World Bank Enterprise Surveys of Egypt (2020), Jordan (2019), Morocco (2019), and Tunisia (2020). Jordan's indicator on wage is based on the 2013 Survey.

Attracting FDI in low-skilled activities is not necessarily a negative outcome if foreign firms can expand and upgrade workers' skills in these sectors. On-the-job training is one avenue by which companies can contribute to skills development, and some MENA governments provide fiscal or financial incentives to firms that provide skills training (see Chapter 7 on investment incentives). Across countries in the region with available data, foreign affiliates in Egypt, Jordan and Tunisia do not offer significantly more job training than domestic peers, an outcome observed in other developing countries too (OECD, 2019[8]).

Also important to job quality are non-wage aspects such as job security or occupational health – the latter has become even more relevant since the outbreak of the Covid-19 pandemic. Across countries, foreign firms tend to rely more on temporary workers than domestic firms (Figure 2.12, panel C). But this less the case in some MENA economies, particularly in Morocco and Egypt, since foreign firms offer more permanent contracts than domestic peers. In general, a higher reliance on temporary work could reflect MNEs concentration in sectors with more exposure to global trade fluctuations, or in special regulatory regimes with more flexible labour rules, such as special economic zones.

FDI can enhance productivity, but foreign firms in MENA are not always more productive

Foreign firms are on average more productive and innovative than domestic ones (Figure 2.13). This is not surprising, as affiliates of foreign firms are often larger, and bring advanced technology and managerial knowhow. This positive outcome of FDI can be observed in Egypt and Morocco, as labour productivity is significantly higher among foreign firms compared to domestic peers. They also engage more in R&D activities (Panel B) and rely more on foreign technology in their production (Panel C). Foreign firms in Jordan and Tunisia are not significantly more productive or innovative than their peers, however.

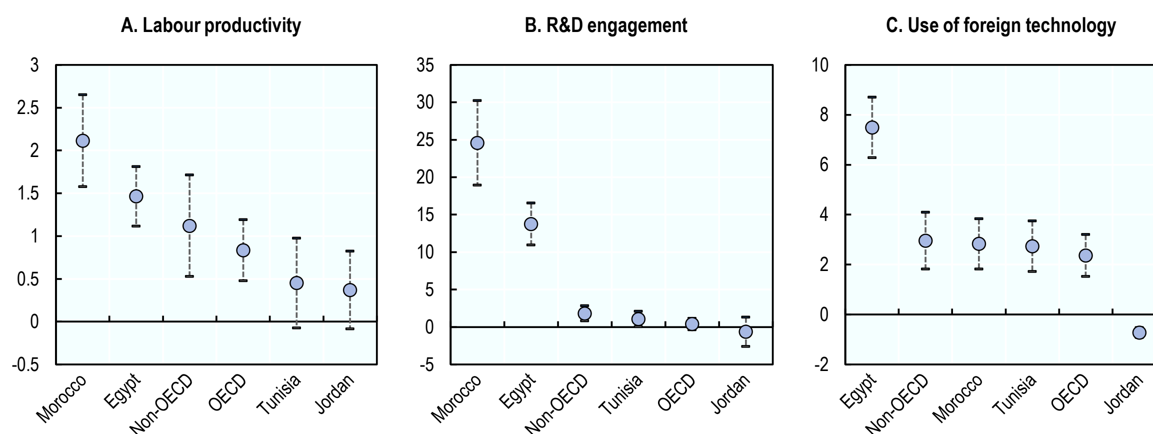
In some cases, the absence of a productivity premium among foreign businesses may be because they are concentrated in low-productivity sectors. In other cases, some domestic firms (such as state-owned or linked- enterprises) may have significant advantages, market protection and rents in some sectors (OECD,

2020[11]). For instance, in Tunisia prior to 2011, 64% of politically connected firms operated in sectors subject to restrictions on FDI, relative to only 36% of non-connected firms (World Bank, 2015[10]).

While the existence of a productivity premium among foreign firms is a positive outcome for host countries, excessive performance gaps between foreign and domestic firms could also impede MNEs from forging linkages with, or passing knowledge to, domestic firms (see chapter 8 on SME linkages with foreign firms). This may be the case in Morocco, where global leaders in the automotive and aeronautic sector have only partially connected with local SMEs. Large productivity gaps could also lead to crowding out of domestic competitors.

Figure 2.13. Productivity and innovation outcomes of foreign and domestic manufacturers

Are foreign firms more performant than their domestic peers? (yes if score > 0)



Note: The figure includes confidence intervals that indicate statistical significance at the 95% level. If the confidence interval crosses the zero line, the difference between foreign and domestic firms is statistically insignificant. For further details, see OECD (2019a).
Source: Based on OECD (2019a) and World Bank Enterprise Surveys of Egypt (2020), Jordan (2019), Morocco (2019), and Tunisia (2013). Jordan's indicator on productivity is based on the 2013 Survey.

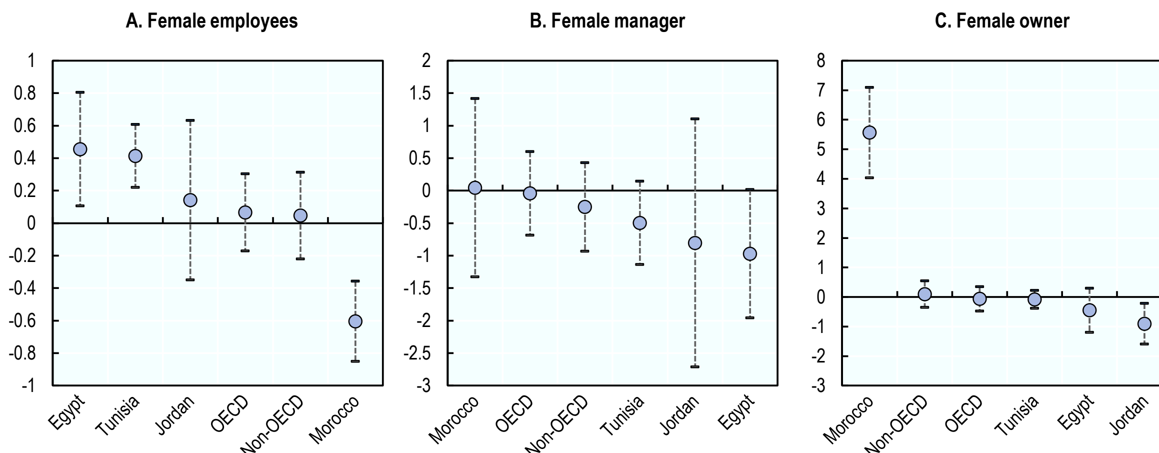
Foreign firms tend to perform better than domestic firms on measures of gender equality in MENA

Women face particular challenges when it comes to labour market participation and access to decent job opportunities in the region. In the average MENA focus economy, the female unemployment rate is 12 percentage points higher than the overall unemployment rate, and the unemployment gender gap is nine percentage points wider than the world average (ILOSTAT, 2020[9]).

FDI could affect gender equality in host countries by altering the relative demand for female labour. However, across most economies, FDI is concentrated in sectors with lower female employment and high gender pay gaps, such as construction, finance and transport. Within the manufacturing sector however, FDI is in some cases positively related to female employment, notably in countries with large textile and food sectors, which tend to employ more female workers. This is the case in Egypt and Tunisia, where foreign firms have significantly higher shares of female workers than domestic businesses (Figure 2.14, panel A). While working in labour-intensive, low-value added sectors has allowed more women to participate in the labour force, it has also increased the risk of locking them in low-paid, low-skilled positions, perpetuating gender segregation in the labour market.

Figure 2.14. Gender outcomes of foreign and domestic manufacturers

Are foreign firms more performant than their domestic peers? (yes if score > 0)



Note: The figure includes confidence intervals that indicate statistical significance at the 95% level. If the confidence interval crosses the zero line, the difference between foreign and domestic firms is statistically insignificant. Job security is measured as the share of workers with permanent contracts. For further details, see OECD (2019a).
Source: Based on OECD (2019a) and World Bank Enterprise Surveys of Egypt (2020), Jordan (2019), Morocco (2019), and Tunisia (2020).

Foreign investors may also affect career progression opportunities of women in host countries. Employment practices can depend on corporate culture and foreign firms from more gender-equal countries may incentivise domestic firms to adopt similar practices to attract and retain female talent. Evidence for MENA countries that foreign firms perform better than domestic peers on measures of female career progression is inconclusive, as it also for other countries (Figure 2.14, panel B and C). Only in Morocco significantly more foreign manufacturing firms are owned by women than domestic peers. These results might also reflect the labour market and cultural norms in the host country, and require more context to assess the role of FDI in improving (or discouraging) female labour outcomes (OECD, 2019[8]).

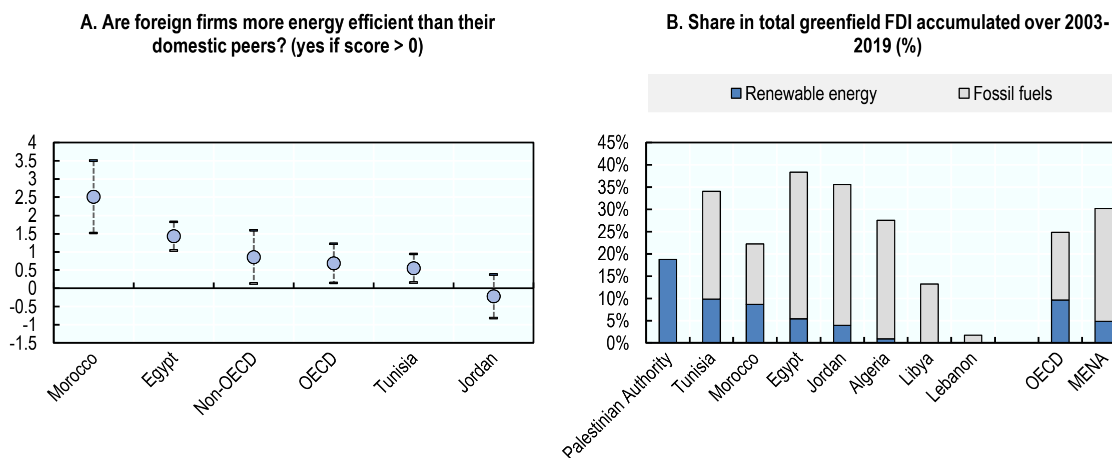
Foreign firms tend to be more energy efficient than domestic peers

FDI can affect host countries' carbon footprint by increasing the scale of economic activity, affecting the structure of economic activity, inducing the adoption of new energy-saving technologies, and influencing the uptake of clean energy sources. In most countries, FDI is concentrated in industries with lower CO2 emissions (OECD, 2019[8]). This is the case in Morocco and Tunisia, for example. FDI also tends to be prevalent in sectors that are more energy efficient, as measured by electricity and heat consumption. However, these findings do not necessarily hold for countries where fossil fuels dominate the economy. Aside from fuels, the MENA region is home to abundant non-fuel minerals resources. For instance, Algeria, Morocco, Tunisia, and Jordan produce more than 60% of the world's phosphate.

There is also evidence that foreign firms can be more energy efficient than their domestic peers. This suggests that FDI could lead to improvements in energy efficiency, which may be amplified if energy-saving technologies are diffused to domestic firms. In the MENA region, foreign firms are significantly more energy efficient than domestic businesses in Egypt, Morocco and Tunisia but not in Jordan (Figure 2.15, panel A). Local economic factors, policy considerations or both could drive the observed difference between the two groups of countries (see Chapter 9 on infrastructure investment).

Despite these positive indicators, fossil fuels in the MENA region attract more FDI relative to renewables, and in proportions that are higher than in the OECD area (Figure 2.15, panel B). The region also receives the lowest investment in renewables, as a share of total investment, than other regions. This is not surprising in light of the importance of fossil fuels in several MENA economies. The share of investment in renewables is higher in countries that are not fossil-fuel exporters however, such as Morocco and Tunisia.

Figure 2.15. Foreign and domestic firms' energy efficiency and FDI in renewable energy



Note: Figure A includes confidence intervals that indicate statistical significance at the 95% level. If the confidence interval crosses the zero line, the difference between foreign and domestic firms is statistically insignificant. For further details, see OECD (2019a).
Source: Based on OECD (2019a) and World Bank Enterprise Surveys of Egypt (2020), Jordan (2013), Morocco (2019), and Tunisia (2020).

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Notes

[1] See, among others, (OECD, 2020[11]), (Cammett et al., 2013[12]), (Burger, Ianchovichina and Rijkers, 2013[5]).

[2] Data from the IMF Balance of Payments Database and the OECD International Direct Investment Statistics Database.

[3] See OECD Review of FDI Statistics of Jordan, Tunisia, Morocco and Egypt for an in-depth assessment of statistical methods employed in these countries (OECD, 2020[13]) (OECD, 2020[14]) (OECD, 2020[15]) (OECD, 2018[16]).

[4] Greenfield data cited in this chapter is from the Financial Times' fDi Markets database The fDi dataset includes details on the source country of each investment project, based on the location of parent company headquarters. Data from FT FDI Markets differ from greenfield FDI as reported in BMD4.

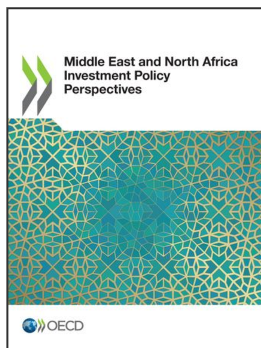
[5] Absent the Chinese megaproject in Egypt, and a Russian 30 billion USD investment in Egypt's gas sector in 2017 (the only two projects in the last five years that have exceeded 10 billion USD), Europe ties the MENA region as the most prominent source of greenfield investment in the eight economies in recent years.

[6] Data for 8 economies author's calculation based on COMTRADE for the year 2017 (last year available for most of the economies), except for Libya, for which 2016 data was used (last available). Total trade in goods is calculated as exports plus imports. Data for ECOWAS the average share for 2016-2018 (World Bank (2020), ASEAN data from 2017 (ASEAN, 2018).

[7] Based on announced greenfield FDI between 2000-2016, as recorded in fDi Markets by FT database.

[7] The FDI Qualities Indicators provide an average of the productivity premium across different sectors, and thus there could be a premium in industries where market distortions are lower.

[8] Nuclear power project captured under coal, oil and natural gas.



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