# Foreign Direct Investments in the MEDA Region in 2007: Euro-Med Integration or Euro-Med-Gulf Triangle?

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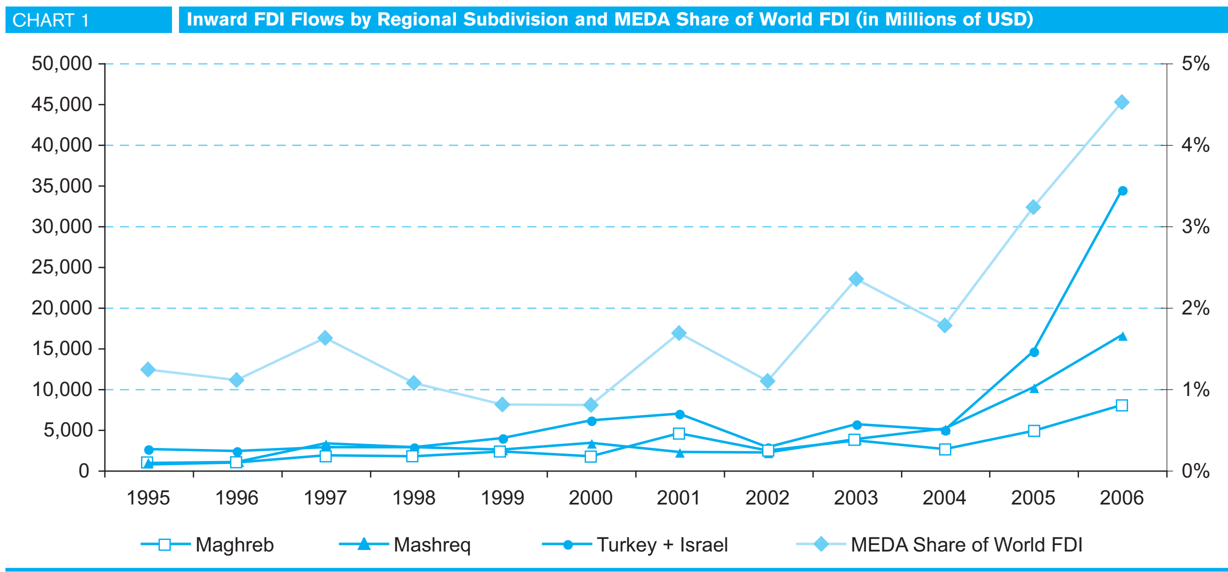
Investors from the Gulf made many headlines in 2007 with their large-scale real estate or tourism projects (the Emaar project in Algeria for example) and major acquisitions (privatisation of the Al Watany Bank in Egypt in favour of the National Bank of Kuwait, etc.). These media coups have given them the reputation of being conquerors with deep pockets, ready to pay above the going rate for assets in order to accumulate income, securing the best land and contributing to the property speculation and inflation and affecting construction materials. As in any caricature, this hardly flattering portrait contains a kernel of truth. The contribution of these investors in the development of the MEDA region is more positive than might appear: whereas the European Union invests relatively little in its Mediterranean neighbours, the Gulf could bring to the region the capital necessary for a real lift-off. How should these investors from the Gulf be received? What benefit can the region derive from them? If Euro-Mediterranean integration on its own cannot boost the development of the South, an economic cooperation framework including the Gulf and its investors would probably be a good idea.

## Context: Slight Consolidation of FDIs in 2007

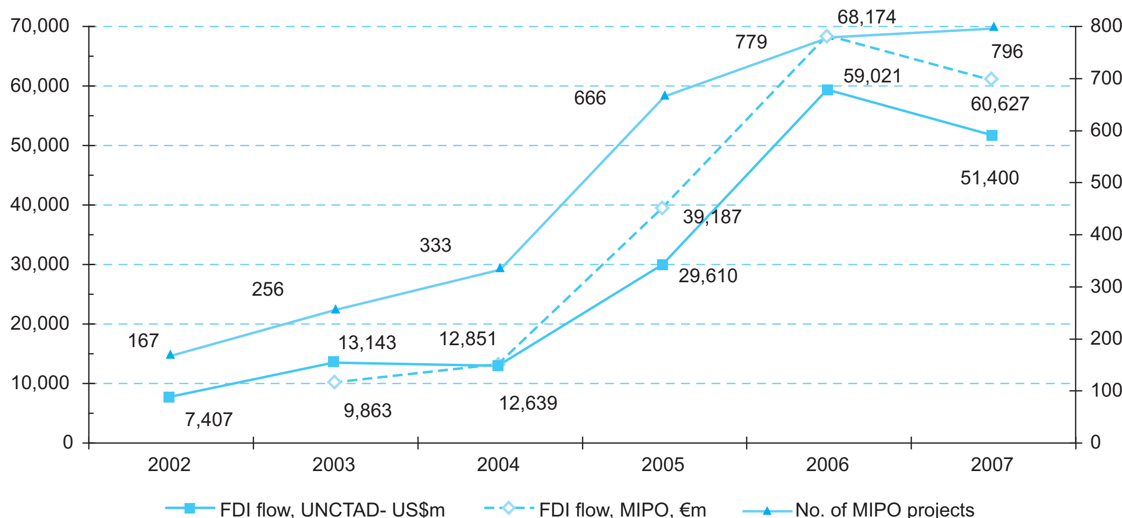
As world Foreign Direct Investment (FDI) flows in 2006 broke through the 4.5% threshold, according to the United Nations Conference of Trade and Development (UNCTAD), the MEDA region (Mediterranean Partner Countries of the European Union: Algeria, Tunisia, Morocco, Egypt, Jordan, Lebanon, Palestine, Syria, Turkey, Israel and Libya as observer), with its young population of 268 mil-

CHART 1 Inward FDI Flows by Regional Subdivision and MEDA Share of World FDI (in Millions of USD)




Source: United Nations Conference of Trade and Development – World Investments Report (UNCTAD-WIR)

**CHART 2** **FDI Flows (in Millions of Dollars for UNCTAD, and in Millions of Euros for MIPO) and Number of Projects for 10 MEDA Countries (excl. Libya)**




Source: UNCTAD figures for 2007 are estimates published at the start of 2008 by UNCTAD for Egypt, Lebanon, Morocco, Tunisia and Turkey, and estimates by ANIMA for Algeria, Israel, Jordan, Palestine and Syria, calculated from the database of the reporting country, data taken from MIPO or other sources.

lion inhabitants (4% of the world population), for the first time secured a "normal" part of world FDI flows.

According to ANIMA-MIPO (Mediterranean Investment Project Observatory), which monitors announcements of FDI projects with MEDA countries as their destination, 2007 saw a decreasing FDI value against an ever greater number of projects. Barring accident, this consolidation should not mark a reversal of the trend. The root causes for this enthusiasm are not, after all, about to disappear: petrodollars, proximity to Europe, Turkey's booming economy, a realisation of MEDA's market potential and renewed interest shown in the Euromed area generally.

The Barcelona Process has played a positive role in the spectacular growth in FDI by making the southern shore more attractive – more accessible. The integration of the Euro-Mediterranean economic area is, however, progressing too slowly, and it has been the businesses from the Gulf, from emerging countries, from China and India, that have thrown themselves into this new intermediate and well located market at the gates of Europe.

This revival of interest is welcome, but it is not certain that it will be enough. The contribution of these new investors is important quantitatively, but the quality of their projects is sometimes poor (weak multiplier effect, limited repercussions) compared to the importance of their stakes: millions of long-term jobs need to be created each year simply to maintain the current rate of unemployment of young people.

## Euro-Mediterranean Integration, a Necessary but not Sufficient Condition for Economic Take-off in the MEDA Region

Available macroeconomic data seem to show that Europe and its Mediterranean neighbourhood have entered into a period of (weak) convergence since 2000. The MEDA region benefits each year from a per capita growth almost 1% higher than Europe's. But with a GNP of US$ 6,209 per person in 2007 (MEDA average, PPP adjusted), MEDA has reached the level enjoyed by Western Europe in the 1950s, or Romania in 1975. At the current rate (although it can, and must, pick up) it will take the MEDA countries 157 years to reach the standard of living in Europe, an achievement that took Greece and Portugal 25 years (Saint-Laurent, 2007).

Barcelona certainly encouraged an evolution in trade between Mediterranean partner countries and the EU. These ten countries so far account for 9% of total external exports of the EU-27 - against 5% not too long ago. Intra-MEDA trade levels are, however, very weak (5% of MEDA's global trade), while Europe's importance as a trade partner is extremely variable from one MEDA country to another, besides being asymmetric (heavy trading dependence by a MEDA region which to the EU represents an outlet of lesser importance). The EU is thus a top commercial partner for the Maghreb, while its weight in terms of Jordan's exports is only 3%.

As regards FDI, the same asymmetry can be observed: although Europeans continue to be the

| TABLE 1 | Distribution of European FDI Outside the EU by Destination Region (in %) | | | | |
|---|---|---|---|---|---|
| **Destination Region** | **2001** | **2002** | **2003** | **2004** | **2005** |
| **Total Emerging Markets** | 34% | 29% | 26% | 45% | 36% |
| **Southeast Asia** | 21% | 14% | 11% | 19% | 15% |
| **Latin America** | 10% | 8% | 4% | 14% | 4% |
| **MEDA** | 1% | 3% | 3% | 3% | 3% |
| **East Europe-Russia** | 2% | 4% | 8% | 8% | 13% |
| **Other Non-EU** | 66% | 71% | 74% | 55% | 64% |

Source: *European Union Foreign Direct Investment Yearbook 2007*. Other non-EU: principally EFTA, USA, Canada, Japan. The Commission distinguishes between these developed economies that share in the major part of European FDI and the "emerging markets" category (Southeast Asia, Latin America, Russia, MEDA and East Europe-ex TACIS – Technical Assistance to the Community of Independent States – countries), that receives the rest.



principal investors in the region, the proportion of European FDIs invested in the Mediterranean neighbourhood is extremely low when compared to American flows into Mexico, or from Japan into its neighbouring area. Latest figures produced by the European Commission (European Commission/EUROSTAT, 2007) show for instance that investments outside the EU accounted in 2005 for less than a third of the total FDI emitted by Member States this year (172 billion euros out of a total of 600 billion, i.e. 28%). Amongst destination regions, Canada-USA, Japan and the countries of the European Free Trade Association (EFTA: Switzerland, Norway, Iceland etc.) took up 72 of those 172 billion euros, i.e. 42%. The MEDA region followed a long way behind: after Asia, Latin America and Central and Eastern Europe, with a share that amounts to just 3% of these outward investment flows from the EU.
The development of trade exchanges and the progressive acceleration of European FDI towards MEDA would therefore seem to be insufficient to ensure an economic lift-off by MEDA countries. Among the external funding available, migrants' remittances, traditional development aid, or indeed funds invested in the private sector by development banks (EIB-FEMIP, World Bank-IFC, etc.) certainly have their effect, but it is a FDI boom that appears necessary. FDI is a powerful vector for economic integration and sustainable structural change, whereas it may not be the answer to everything.
Where will the necessary extra investment come from? With the fresh impulse brought by the French initiative of the Union for the Mediterranean, the time of the assessment came for the Barcelona Process: is it enough to stick to a deepening of the economic relations between Europe and its Mediterranean neighbourhood? Or is it necessary to integrate in the equation the growing interest in the Mediterranean expressed by another neighbour, the Gulf?

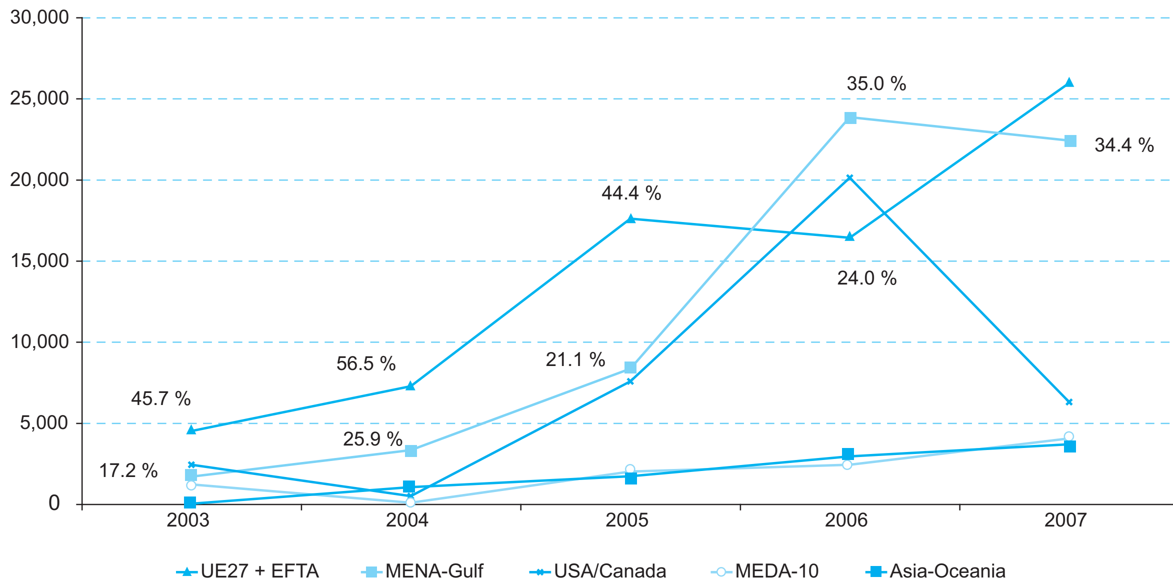
## The Gulf's Presence in the Mediterranean: Opportunistic Investments or Injection of New Blood?

A great geographic, cultural and linguistic closeness has led North Africa, Europe and the Near East to weave a complex network of relations. With the awaited physical infrastructures that will reinforce that proximity even further (power grids, telecoms, pipelines, a trans-Maghreb motorway, the project for an Egypt-Saudi Arabia causeway, the proposed tunnel under Gibraltar?) and the advent of a large-scale EuroMena free trade area (the FTA envisaged by the Barcelona Process for 2010, the intra-MEDA Agadir Agreement, the 1988 EU-GCC Cooperation Agreement, Customs Union and future Common Market in the Gulf), FDIs constitute a powerful means of tying in these three blocks durably by fostering the material convergence of their economic interests.

### *The Gulf and Europe: The 2 Pillars of Foreign Investment in the Mediterranean.*

Gulf investors (GCC or the broader "MENA-Gulf" with Mauritania, Libya, Sudan, Yemen, Iran, Iraq, Afghanistan and Pakistan) overtook Europe in 2006 as the main issuers of FDI into the MEDA region (Chart 3).
With the surge in European investors recorded in 2007 and the net decline in North American projects, the Gulf and Europe appear to constitute now the two pillars of foreign investment in the Mediterranean, representing 35 and 40% respectively of the amounts announced for 2007 (18% of 2007 projects for the Gulf and 47% for Europe). The Gulf cumulates 30% of all the amounts announced since 5 years ago, against 37% for Europe. The relative weight of these two regions together is thus 67% of all amounts announced over the last 5 years, and 66% of the number of projects, bearing in mind that the share that European investors represent in the stock of projects announced since 2003 remains broadly dominant, with 48% of the number of projects.

CHART 3 **FDI by Region of Origin (in Millions of Euros, and % of Total for Europe and Gulf)**




Source: MIPO

Three linked movements feed these flows of investment from Europe and the Gulf:

- the boom in energy and commodities, which prompts a race for the base industrial input points and affects extraction industries as much as processing ones (chemicals, fertilisers, plastics, metallurgy, cement, etc.);
- the quest for growth shifts or competitive gains in activity sectors that have reached maturity or saturation in developed countries, or Gulf businesses seeking to attain a critical scale by going outside their limited domestic markets (notably telecom services, banking, etc.). Large and small European businesses (or those operating in Europe) are under pressure from a strong euro, constrained by employment markets that are inflexible (labour laws and social protection regimes) and fettered (aging active population, political resistance to the idea of a renewed mass immigration). Even if relocations are less frequent than would appear, a substantial number of businesses now prefer to build new production capacity outside Europe, as shown by the establishment of Renault-Nissan in Tangier or again, the case of the aeronautical sector, where Airbus requires its subcontractors to follow its redeployment in the dollar zone. These investments are as much aimed at meeting demand arising from the increase in local purchasing power as to addressing external needs (free trade treaties, duty free zones, etc.);
- the channelling of trade surpluses (Gulf revenues from oil and gas) into residential, commercial or tertiary property, into tourism infrastructures but also into manufacturing (metallurgy, fertilisers) or services (banking and telecoms), whether directly by agencies of sovereign funds or thanks to funding that can be raised effortlessly by the rising stars in the Gulf at their over-liquid stock exchange locations (see the largest deals announced in 2007 in the box).

These three movements dovetail into a single effect: a new competition between established multinationals and challengers from the emerging world, most often the Gulf, that have substantial means available to them in the service of their ambitions.

## Competing or Complementary Investment Strategies?

### *A Certain Geographical Complementarity*

Map 1 shows that the principal areas that are sources of FDI into the MEDA region are driven by distinct preferences. The strong affinities are initially the product of geography; the most significant flows being established between the closest blocks (Europe and North Africa or Europe and Turkey, Gulf and Mashreq). This geographical link, though, can be counteracted or reinforced by cultural or historical affinities: privileged business relations based on family and patri-

monial capitalism between the Gulf and Jordan, Lebanon, Syria or Egypt, intimate relations between California's Silicon Valley and Israel's Jordan Valley. The complementary nature of the principal investment flows is striking:

- Europe invests especially in Turkey, the Maghreb and Egypt;
- the Gulf principally in the Mashreq;
- the United States concentrates on Israel, and Canada on the Maghreb and Egypt;
- investors from Asia and other emerging economies (Russia, South Africa, etc.) put their money into the Mashreq (Egypt and Syria), Turkey and Morocco.

Another phenomenon, though barely visible, nevertheless deserves to be highlighted: the steady progression in the number of intra-MEDA projects, with cumulative flows approaching 10 billion euros over 5 years (2 billion euros in 2005, 2.5 in 2006 and over 4 in 2007) for a total of 163 projects, of which 55 in 2007 alone. The most important flows are by far those from Egypt to Algeria (and also to Turkey), from Jordan to Egypt, and from Lebanon to Jordan and Egypt.

*Individual Preferences of Gulf Countries*

Among GCC members, United Arab Emirates is the biggest investor in the region: 30.6 billion euros since 2003, which is over half of the GCC total, and 183 projects. Saudi Arabia and Kuwait are level-pegging, each having flows slightly above 11 billion and over 100 projects. Bahrain and Qatar are a level below (2.3 and 2.9 billion euros and around 20 projects), while the Sultanate of Oman does not figure in the table below (Table 2) for lack of projects.

As regards amounts invested, Egypt is the preferred destination for Emirate, Kuwaiti and Qatari investors, and the second most important destination for the Saudis. However, it is Turkey that attracts the greatest number of Saudi investors, thanks to 8 significant projects announced in 2007: huge investments by Oger in telecoms and banking, repurchases of banks and food-processing industries. Bahraini investors stand out for preferring Jordan and Morocco (Batelco owns Umniah Telecom in Jordan, property and tourism projects by Gulf Finance House in both countries).

*Greenfield Projects Are Often Oversized*

Gulf countries' projects in the Mediterranean are notable, firstly for the significance of the forecast budgets announced: the average budget exceeds 268 million euros, as against 70 for European projects. 171 direct jobs per project are created from the Gulf, compared with 95 for a European project, taking into account that the Gulf and Europe are the principal employment creators in the region. The sustainability of these jobs is harder to judge, but it can be supposed that part of the employment created by the investments from the Gulf will only last as long as the time taken in completing the construction site, while European projects generally generate more sustainable jobs in services or industry.

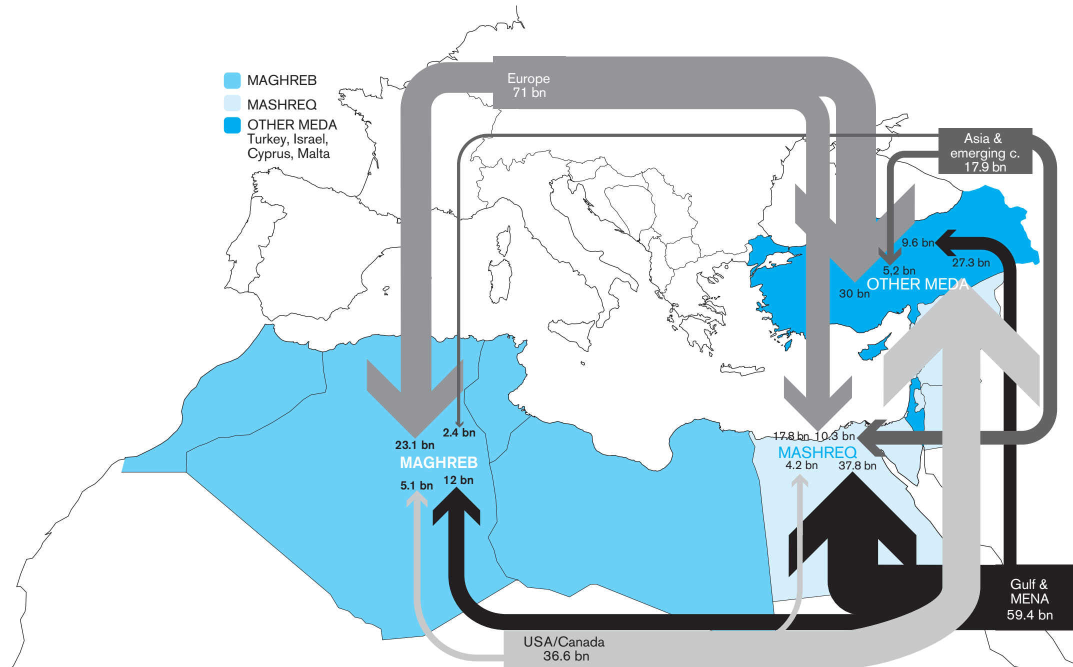
The majority of projects identified are those of large private or public capital funds, but it is fair to assume that the level of projects identified is lower in the case of the Gulf than for Europe, to the extent that investors in the former are subjected to less transparency. A greater part of medium and small projects might go unnoticed by the MIPO observatory. Small and medium enterprises (SMEs) are therefore logi-

TABLE 2 **Number of FDI Projects and Flows 2003-2007 by Country of Origin and of Destination**

| **Origin** | **Bahrain** | | **Kuwait** | | **Qatar** | | **Saudi Arabia** | | **UAE** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Destination | No. | Flows | No. | Flows | No. | Flows | No. | Flows | No. | Flows | No. | Flows |
| **Palestine** | | | 2 | 288 | | | 3 | 89 | 2 | N.R | 7 | 377 |
| **Algeria** | 1 | 73 | 6 | 2,081 | | | 13 | 425 | 10 | 1,132 | 31 | 3,711 |
| **Egypt** | 4 | 229 | 23 | 2,890 | 4 | 1,067 | 35 | 2,360 | 44 | 16,548 | 111 | 23,093 |
| **Jordan** | 10 | 1,497 | 18 | 1,359 | 4 | 710 | 12 | 1,211 | 35 | 1,588 | 80 | 6,365 |
| **Lebanon** | 1 | N.R | 13 | 478 | | | 10 | 493 | 19 | 1,040 | 43 | 2,010 |
| **Libya** | 1 | N.R | 1 | 55 | 1 | N.R | | | 5 | 138 | 8 | 192 |
| **Morocco** | 4 | 484 | 9 | 201 | 1 | 54 | 14 | 425 | 34 | 2,110 | 62 | 3,275 |
| **Syria** | 3 | 87 | 28 | 2,245 | 6 | 669 | 15 | 1,220 | 12 | 1,056 | 64 | 5,277 |
| **Tunisia** | | | 7 | 295 | 1 | 403 | 6 | 61 | 12 | 3,783 | 26 | 4,543 |
| **Turkey** | | | 7 | 1,116 | 1 | N.R | 12 | 4,983 | 10 | 3,277 | 30 | 9,375 |
| **Total** | **24** | **2,369** | **114** | **11,009** | **18** | **2,903** | **120** | **11,266** | **183** | **30,672** | **462** | **58,219** |

Source: ANIMA-MIPO, Flows in Millions of Euros and No. of Projects

MAP 1 **Cumulative FDI Flows 2003-2007 by Region of Origin and of Destination**




Source: ANIMA-MIPO

cally under-represented (less than 5% of Gulf projects over the 2003-2007 period).

The Gulf and Europe are rather similar in the preference given to projects known as “greenfield” (creation of new assets, 35% of the total of European projects over 5 years, and 40% of those from the Gulf), even if the budgets diverge: asset creation amounted to only 20% of sums invested by Europe over 5 years against 53% for the Gulf. External growth by acquisition of shares (including privatisation) makes up 27 and 23% of projects from Europe and the Gulf respectively, but accounts for over 60% of total European flows as against less than 30% for the Gulf. These figures mean that Gulf investors are not afraid to launch into greenfield projects with substantial budgets, while European entrepreneurs prefer acquiring existing companies or units, including SMEs, to develop them.

*Limited Positive Spillovers*

An FDI’s quality is measured, among others, by the importance of direct and indirect local spillovers, and in particular according to the multiplier effect of the investment, meaning the incidence of the project in the local value chain (clients, suppliers, sub-contractors). As regards Gulf investments in MEDA, the very clear preponderance of real estate, tourism and American-style shopping mall projects (53% of total amounts and 48% of the number of projects in 2003-2007) could be regarded as regrettable. Energy, heavy chemistry industry, cement and metallurgy account for 13% of the total, while on the services side, telecoms and banking represent respectively around 15%. This sector mix is a reflection of the unbalanced development model of the Gulf economies, where consumer goods industries and light industries have scant presence.

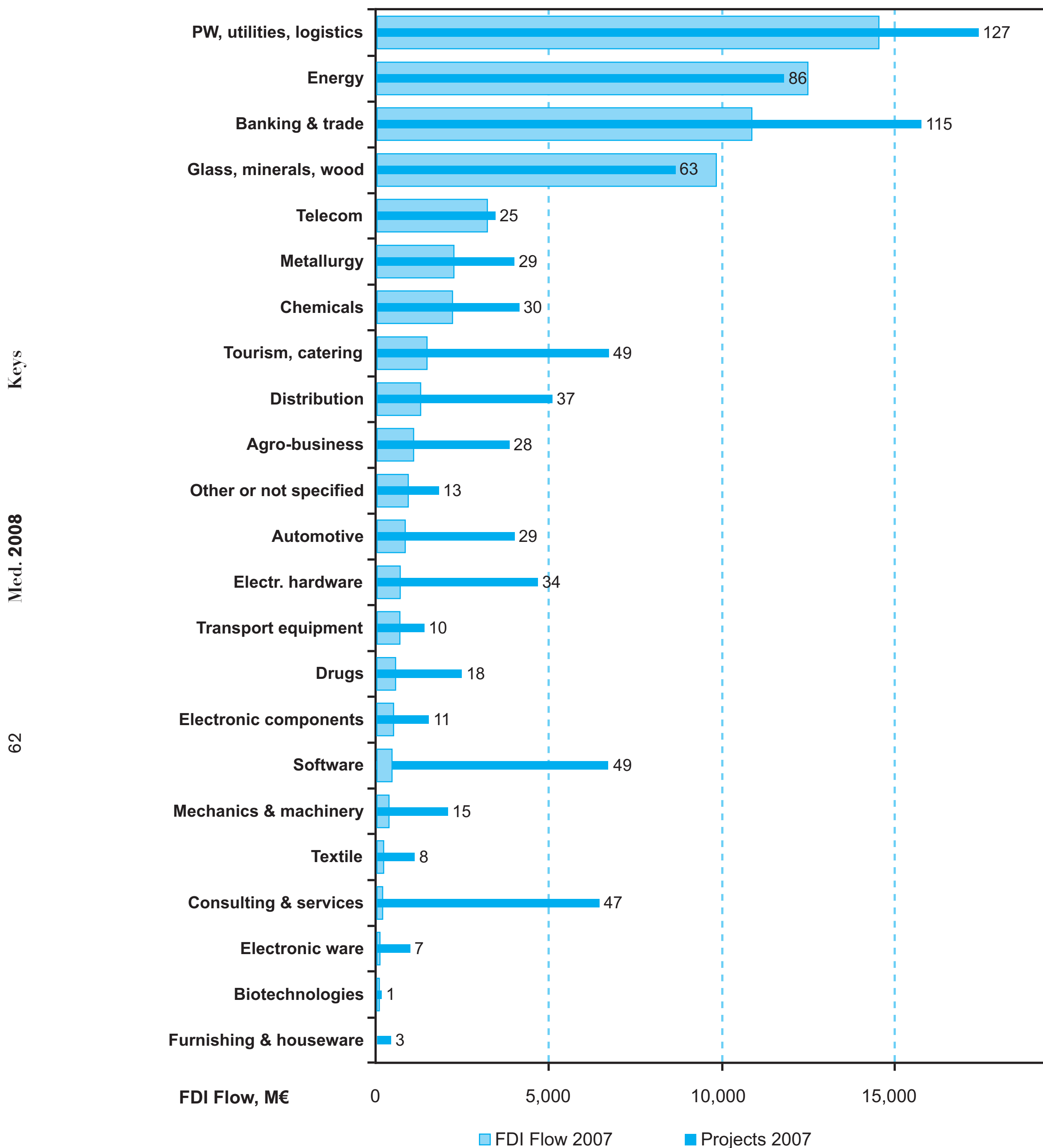
The impact of investments flowing from the Gulf on sector distribution of FDI projects in the MEDA region is extremely clear. The correlation between the principal investment sectors of Gulf business and the top 10 sectors from Chart 4 is practically a perfect one.

## Conclusion

Some thirty private or public holdings make up the major part of Gulf FDI in the Mediterranean. Some are globally recognised names while others aspire to become so.

The champions of the Gulf have changed substantially. They have been able to attract chief executives (CEOs) and other senior executives from the biggest multinationals (half the top management at Dubai Ports World are Anglo-Saxon, for instance) and their personnel is trained in the most modern management techniques. Their investment strategies are ration-

CHART 4 **Number of Projects and FDI Flows by Sector in 2007 (in Millions of Euros)**




Source: ANIMA-MIPO

alised, less linked to prestige stakes and more to profitability and long-term success strategies.
Moreover, the complementary nature of flows from Europe and from the Gulf in the Mediterranean allows all MEDA countries to benefit from some of the manna that FDI brings. Investments originating in the Gulf usefully come to compensate for the lack of enthusiasm of European companies, and can sometimes create beneficial emulation.

The considerable resources Gulf businesses choose to invest in productive sectors nevertheless represent a risk which it would be unwise to underestimate: the absorption capacity of MEDA countries is limited, and the many crowding-out effects which affect many local operators feed a rumbling discontent that could become troubling if it reached more substantial proportions. The rapid urbanisation and establishment of large polluting industrial complexes

TABLE 3 **Gulf Holdings Investing in the Mediterranean**

| Saudi Arabia | Kuwait | Bahrain | UAE | Qatar |
|---|---|---|---|---|
| •Savola/ Bin Laden / | •KIPCO / NBK / | •Ahli United Bank/ | •Aramex / Abraaj Capi-tal / | •Diar |
| •National Com-mercial | Global Investment House/ | Gulf Finance House/ | Damac / | |
| •Bank (Alahli) / Al Rajhi / | •M.A. Kharafi / Zain / | Batelco | •Dubai Holding / | |
| •Dallah al Ba-raka/ Nesco / | Na-tional Industries | | •DP World / | |
| •Oger | Group (Noor)/ | | •Majid al Futtaim / Emaar / | |
| | •Al Aqeelah | | Etisalat / Dubal / | |
| | | | Gulf Finance House | |

along the Mediterranean littoral involve significant environmental risks.

Improving the quality of FDI is essential, for which primary responsibility falls to MEDA regulators who must define limits and enforce them. Governments can maximise the local impacts of FDI by requiring counterparts, in terms of local content, long-term prospects, etc., in return for the preferential treatment which is often granted to the Gulf champions (low cost provision of land, etc.). The unbalanced development which is taking place also has its hidden costs, especially in societies that are already very fragile.

If there were a means of combining the Gulf's financial resources with European technology and know-how, it would seem possible to meet the social needs of MEDA countries in a triangular relationship that would be mutually beneficial and profile.

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Saint-Laurent (de), Bénédict. *Barcelona, unfinished process…*, www.animaweb.org, December 2007.


**THE 20 MOST IMPORTANT PROJECTS OF THE GULF IN THE MEDA REGION IN 2007**
**(FOREIGN SHARE IN THE OVERALL BUDGET IN MILLIONS OF EUROS)**

1. *Tunisia*. **Dubai Holding / Sama Dubai** (UAE) lays the foundations for 'Century City & Mediterranean Gate' at the Southern Lake, Tunis, a project of 14 bn USD over 15 years (10,231 M €).
2. *Egypt*. **Damac** (UAE) unveils a project of 30 bn Egyptian pounds in Cairo, where the 1st phase will be called Hyde Park (4,072 M €).
3. *Algeria*. **Emaar Properties** (UAE) invests in a tourist complex at Colonel Abbès, west of Algiers (2,923 M €).
4. *Algeria*. **Mubadala Development + Dubal** (UAE). A JV composed of Moubadala and Dubal holds a 70% share in a 5 bn USD aluminium plant project, with Sonatrach and Sonelgaz allocating the rest to themselves (2,558 M €).
5. *Egypt*. **Majid Al Futtaim (MAF)** (UAE). 12.5 bn pounds over 5 years to set up 12 shopping or commodity distribution centres (1,697 M €).
6. *Egypt*. **Abraaj Capital** (UAE). The Dubai capital-investment firm takes control of Egyptian Fertilisers Company for 1.4 bn USD (1,023 M €).
7. *Egypt*. **Barwa Real Estate** (Qatar) acquires 2,000 feddans of land for 6.44 bn Egyptian pounds (829 M €).
8. *Egypt*. **Dubai Holding / Dubai Financial Group** (UAE). The Dubai investment holding corporation repurchases for 1.1 bn USD the 25% stake in EFG-Hermes acquired in 2006 by Abraaj Capital for 500 million (804 M €).
9. *Turkey*. **National Commercial Bank** (Alahli) (Saudi Arabia). The prime Saudi Arabia bank pays 1 bn USD for a 60% holding in Türkiye Finans Katılım Bankasi, a major Islamic bank (731 M €).
10. *Egypt*. **Emaar Properties** (UAE) invests 1 bn USD in a new project, the New Cairo City residential complex (731 M €).
11. *Egypt*. **National Bank of Kuwait (NBK)** (Kuwait) secures 93.77% of all Al Watany Bank shares following the acquisition of a first block of 51% in August 2007 (689 M €).
12. *Egypt*. **Etisalat** (UAE). The Egyptian affiliate in which Etisalat has a 66% share-holding invests 1.4 bn USD over 3 years to develop its local infrastructure (675 M €).
13. *Egypt*. **Damac** (UAE) purchases 1,500 feddans of land for 4.74 bn Egyptian pounds for future projects (643 M €).
14. *Turkey*. **Dubai Holding / Sama Dubai** (UAE) acquires land in Istanbul and announces real estate projects for 5 bn USD (621 M €).
15. *Morocco*. **Al Maabar / Reem** (UAE). The Al Maabar consortium establishes Reem Morocco, a subsidiary to develop Atlas Garden in Marrakech, a 6.5 bn MAD project (586 M €).
16. *Turkey*. **Oger / Turk Telecom-Avea** (Saudi Arabia). Mobile phone operator Avea, controlled by Oger through Turk Telekom, invests in its infrastructures with the benefit of a 1.6 bn USD credit (521 M €).
17. *Egypt*. **Emaar Properties** (UAE). The Emirates developer invests in a new 700 million USD project on the desert road between Cairo and Alexandria (512 M €).
18. *Egypt*. **DP World** (UAE). The Dubai port operator takes a 90% stake in Egyptian Container Handling which controls the Port of Sokhna for 670 million USD (490 M €).
19. *Turkey*. **Abraaj Capital / Almond Holding** (UAE). Almond Holding AS, a subsidiary of Abraaj Capital, secures 34% of the private hospital group Acibadem for 600 million USD (438 M €).
20. *Syria*. **Al Aqeelah** (Kuwait). Construction social housing close to Damas and project at Sayedah and Zeinab for 400 million euros (400 M €).

Source: ANIMA MIPO (further projects can be found online: www.anima.coop)