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The European Neighbourhood Policy and FDI: the Southern Dimension

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Joanna Stryjek

The European Neighbourhood Policy and FDI: the Southern Dimension*

Abstract: The launch of the ENP was accompanied by a significant increase in FDI inflows to MENA economies. This rendered the ENP's supporters hail its relevance. However, it is questionable if the rise in FDI inflows to the MENA region over the period 2004-2013 can be attributed solely to the launch of the ENP. This paper demonstrates that, while over time the volume of FDI inflows to MENA countries increased, it should be attributed to three groups of factors, i.e. positive FDI trends in the world economy; actions by MENA countries aimed at reforming their economies and making them more FDI-friendly; development of economic cooperation with the EU member states as well as with other countries and/or regions. In this view, the onset of the EU-MENA cooperation, the ENP framework included, constituted only one set of factors that influenced the volumes of FDI inflows to the MENA region over the period in question.
Keywords: FDI, European Neighbourhood Policy, ENP, Middle East and North Africa, MENA, EU

Introduction

The European Neighbourhood Policy (ENP) was launched in 2004 with the aim to complement, but not replace, the Barcelona Process. The latter, initiated in 1995, provided a framework for the development of economic and political relations between the European Union (EU) and the Middle East and North African (MENA) region.[1] The launch

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1 The Barcelona Process was launched in November 1995 by 15 EU member states, incl. Germany, Austria, Belgium, Denmark, Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, the United Kingdom, Sweden and 12 Mediterranean partners, incl. Alge-

of the ENP was accompanied by a significant increase in foreign direct investment (FDI) inflows to MENA economies making the ENP's supporters hail its relevance. Although desirable, it is questionable if the rise in FDI inflows can be attributed solely to the launch of the ENP. Indeed, the objective of this paper is to argue that the launch of the ENP and the increase in FDI inflows to MENA economies were coincidental events. The argument is structured as follows. First, drawing on theoretical insights into this issue, the determinants of the FDI inflow are examined. In what follows, the dynamics of the FDI inflow to the MENA region over the period 1995-2003 is traced. Next, the influence of ENP on FDI inflow to MENA economies is discussed. Conclusions follow.

1. Factors stimulating FDI inflows

A significant increase in the volume of global FDI flows has been recorded over the past three decades.[2] This positive trend constitutes a direct consequence of globalization and regionalization of the world economy and the resulting growth of international business activity driven mainly by multinational enterprises (MNEs). The dynamic increase in the volumes of FDI is driven by its mutually beneficial character, i.e. FDI constitutes potential business opportunity for MNEs as well as for the host country. From the point of view of the host country, FDI offers a more attractive range of desirable characteristics as compared to other types of international capital flows.[3] Specifically, FDI provides a relatively high degree of capital inflow stability, which in turn contributes to capital formation in the host country. It offers potential transfer of intangible assets such as technology, specialized

ria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, Turkey, the Palestinian Authority (Palestine/the State of Palestine).

2 UNCTAD data, see e.g.: UNCTAD, *World Investment Report 2015: Reforming International Investment Governance*, New York–Geneva: United Nations, 2015, p. 2. For the data concerning global FDI inflows before 1995 see e.g.: UNCTAD, *World Investment Report 2000: Cross-border Mergers and Acquisitions and Development,* New York–Geneva: United Nations, 2000, p. 18.

3 S. Iamsiraroj, H. Doucouliagos, 'Does Growth Attract FDI?', *Economics: The Open-Access, Open-Assessment E-Journal*, vol. 9, no. 19, 2015, http://dx.doi.org/10.5018/economics-ejournal.ja.2015-19 [2015-08-30], p. 2.

skills, management know-how, and entrepreneurship. For these reasons countries compete for the FDI inflow.

In order to successfully attract FDI inflows, it is necessary to possess good knowledge of factors that influence the MNEs' decision to invest in a given country. To this end, several theoretical models and empirical studies sought to explore determinants behind FDI flows. For instance, Faeth provides a very good overview of such models, which – *inter alia* – includes: (1) determinants of FDI based on the neoclassical trade theory; (2) the ownership, location and internationalization advantage framework; (3) horizontal and vertical FDI models; (4) the knowledge-capital model; (5) diversified FDI and risk diversification models.[4] There is no consensus as regards the determinants of FDI inflows and a variety of theoretical models compete to identify factors conducive to attracting FDI inflows.[5] Indeed, "empirical evidence strengthens the idea that the different approaches [to FDI inflows that exist] do not necessarily replace each other, [rather] every theoretical model [finds] some support through regression analysis"[6]. Overall, FDI should not be explained by a single theoretical model but more broadly by a combination of factors derived from a variety of models.[7]

Numerous factors have been identified in the literature on FDI flows as decisive in boosting a country's attractiveness in this regard.[8] These factors, *inter alia*, include political and economic stability, favourable investment climate, market growth potential and/or market

4 I. Faeth, 'Determinants of foreign direct investment – a tale of nine theoretical models', *Journal of Economic Surveys*, vol. 23, no. 1, 2009, pp. 165-196.

5 For an overview of empirical studies on FDI determinants, cf. B.A. Blonigen, J. Piger, 'Determinants of foreign direct investment', *Canadian Journal of Economics*, vol. 47, no. 3, 2014, pp. 775-812.

6 Faeth, op.cit., p. 188.

7 Ibid.

8 Apart from the literature presented earlier, for studies concerning different regions and sectors cf. S.E. Mohamed, M.G. Sidiropoulos, 'Another Look at the Determinants of Foreign Direct Investment in MENA Countries: An Empirical Investigation', *Journal of Economic Development*, vol. 35, no. 2, June 2010; J. Villaverde, A. Maza, 'The determinants of inward foreign direct investment: Evidence from the European regions', *International Business Review*, vol. 24, no. 2, 2015; E. Asiedu, 'On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?', *World Development*, vol. 30, no. 1, 2002; C. Tintin, 'The determinants of foreign direct investment inflows in the Central and Eastern European countries: The importance of institutions', *Communist and Post-Communist Studies*, vol. 46, no. 2, 2013; B. Ramasamy, M. Yeung, 'The Determinants of Foreign Direct Investment in Services', *The World Economy*, vol. 33, no. 4, 2010; I. Kolstad, E. Villanger, 'Determinants of foreign direct investment in services', *European Journal of Political Economy*, vol. 24, no. 2, 2008.

size, trade openness, labour cost and skills, quality of infrastructure and availability of natural resources.

With regard to political stability, the example of MENA countries confirms that *political stability* should be regarded as one of the most important FDI determinants. However, in the context of the MENA region, it is also necessary to point out that even if a given country or a region is politically stable, MNEs prefer to invest in stable democracies rather than in stable authoritarian regimes.[9] In reference to the factor of *economic stability*, it should be noted that unstable economic environment may constitute a source of business opportunities. However, such opportunities tend to be accompanied by high risk that a potential investor needs to face. Therefore, MNEs' investment decisions tend to be negatively affected by such risk factors as high exchange rate and interest rate volatility, uncertain prospects concerning economic growth, inflation, fiscal balance, unemployment, etc. The factor of *favourable investment climate* includes in particular high-quality laws, investment-friendly regulations, non-corrupt public administration and effective institutional framework. *Market growth potential* and/or *market size* constitute another very important factor in boosting a country's attractiveness. Interestingly, for developing and transition economies market growth potential seems to have become a more important FDI determinant than the market size itself.[10] This is particularly true in those cases when the size of the market can be offset by the country's proximity to other markets or consumers. From a different angle, should an MNE be engaged in the service sector, market size of the host economy may constitute the decisive investment factor.[11]

9 P.A. Barbour, P. Economou, N.M. Jensen, D. Villar, 'The Arab Spring: How soon will foreign investors return?', *Columbia FDI Perspectives*, no. 67, 2012.

10 K. Hornberger, J. Battat, P. Kusek, 'Attracting FDI: How Much Does Investment Climate Matter?', *View Point*, Note no. 327, August 2011, The World Bank, http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/327-Attracting-FDI.pdf [2015-05-29], p. 3.

11 A study conducted by I. Kolstad and E. Villanger shows that "FDI in the service sector is market seeking, and unaffected by the trade openness of host countries", see: I. Kolstad, E. Villanger, 'Determinants of foreign direct investment in services', *European Journal of Political Economy*, vol. 24, no. 2, 2008, p. 531. Cf. P. Nunnenkamp, 'Determinants of FDI in Developing Countries: Has Globalisation Changed the Rules of the Game?', *Kiel Working Paper*, no. 1122, July 2002, Kiel: Kiel Institute for World Economics, https://www.ifw-members.ifw-kiel.de/publications/determinants-

Trade openness, understood as the lack of barriers to international trade, is another factor that improves a country's attractiveness vis-à-vis FDI inflows. Barriers to trade not only discourage foreign investors but also increase the role of the market size as a determinant of FDI inflows to a given economy. *Labour cost* and *skills* are an important factor in that skilled labour is critical is high-skills industries are to be attracted; the same applies to the *quality of infrastructure*, including technology, research and development (R&D), *logistics* and *transport costs*. Finally, the *availability of natural resources*, especially those that are difficult and/or costly to import, is of relevance when discussing a country's ability to attract FDI.

The relative impact of specific FDI determinants has changed over time, reflecting the evolution of the international environment. On the one hand, globalization and regionalization of the world economy have made FDI incentives more important as seen from the national governments' economic policy point of view.[12] On the other hand, globalization and the accompanying trade liberalization have reduced the relative importance of market size as a factor determining the location of FDI; with the exception of FDI in the service sector. As a result, even small countries have gained the opportunity to successfully compete for FDI. In this view, opportunities exist for MENA countries to stimulate growth of their economies by means of attracting FDI inflows. They are able to compete for FDI on a similar basis as other countries, even if in most cases they have relatively small domestic markets and face limitations with regard to attracting FDI to the service sector.

Inter-regional cooperation among the countries from the MENA region and the EU member states constitutes another factor that, theoretically, could help MENA economies to reap the fruits of globalization by attracting FDI. However, a comparison of the FDI inflows to the MENA region and other regions/countries reveals that MNEs

of-fdi-in-developing-countries-has-globalization-changed-the-rules-of-the-game/kap1122.pdf [2015-07-25], p. 2.

12 The proliferation of investment incentives as a tool to attract FDI took place in the 1990s. As a result, in the mid-1990s more than 100 countries had already provided various investment incentives, and their number has been increasing rapidly, see: M. Blomström, A. Kokko, 'The economics of foreign direct investment incentives', *Working Paper 168*, Stockholm School of Economics, January 2003, p. 4.

have often preferred other investment destinations over MENA. This may reflect the global investment trends in that until 2014 the tendency had been for FDI to flow mainly to developed economies. This trend changed in 2014 when FDI inflows to developing economies accounted for 55 per cent of the global total[13]. From a different angle, FDI inflows to the MENA region appear to be relatively low even in comparison to other developing and/or transition economies. The following sections explore this issue.

2. Inward FDI flows to the MENA region prior to the launch of the ENP (1995-2003)

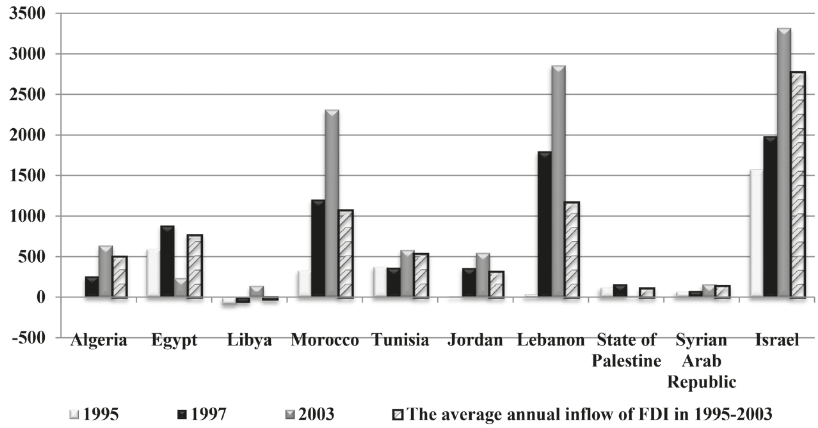
The ENP, launched by the EU at the time of the EU's eastward enlargement, has been a policy-innovation. It has transformed the EU's relations with its neighbouring countries and has drawn them into the orbit of processes of institutional adaptation, i.e. Europeanization, and economic integration, i.e. trade liberalization and preferential agreements.[14] However, from the international investors' point of view, the ENP has only complemented the existing policy framework that was established for the MENA region in 1995 following the adoption of the Barcelona Declaration.[15] Therefore, the FDI stimulus arising from the EU-MENA inter-regional cooperation was in place prior to the ENP's launch. It means that the ENP, in the best case, could only strengthen the existing stimulus and, hence only in this indirect way contributed to increased FDI inflows to the MENA region. In this view, the objective of this section is two-fold, i.e. to examine inward FDI flows to the MENA countries over the period 1995-2003 and to compare those results with the volume of FDI inflows in selected regions that may be regarded as the MENA economies' competitors for the FDI inflows originating from the EU.

13 UNCTAD, *World Investment Report 2015*, op.cit., p. 2.

14 V. Monastiriotis, 'Origin of FDI and domestic productivity spillovers: does European FDI have a 'productivity advantage' in the ENP countries?', *LSE 'Europe in Question' Discussion Paper Series*, no. 70/2014, p. 28.

15 The Barcelona Declaration was adopted by the EU member states and the following 12 non-member countries: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey.

Figure 1. The inflow of FDI to the MENA countries in 1995, 1997, 2003, and the average annual inflow of FDI to the MENA countries in 1995-2003 (USD in current prices and current exchange rates; in millions)

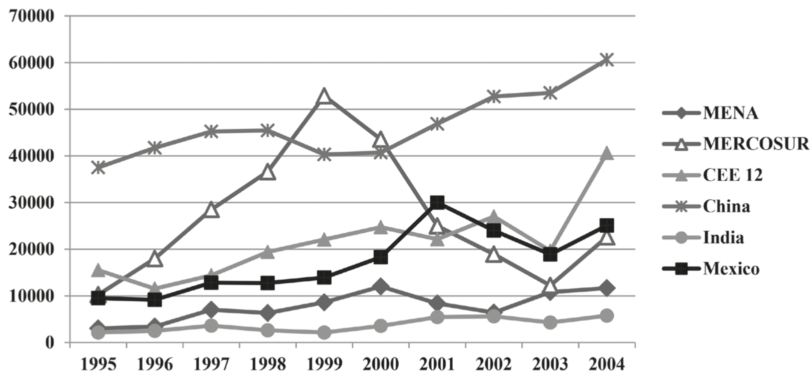


Source: The author's calculations based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

In 2-year time following the adoption of the Barcelona Declaration, the inflow of FDI to the MENA countries[16] almost doubled. Interestingly, by the time the ENP was launched, FDI inflow to the MENA region had tripled (Figure 1). However, in comparison to other developing as well as transition economies, the FDI inflow to the MENA countries was low (Figure 2) over the same period of time. One of the plausible explanations advanced in the literature is that the EU-MENA cooperation process, i.e. the process of implementation of the Barcelona Declaration, was affected by the process of the EU's eastward enlargement. In fact, the prospect of EU membership, perceived by the East-Central European countries (CEEs) as an absolute priority, i.e. a kind of national goal, proved conducive toward improving CEEs' attractiveness for foreign investors. Reduction in investment risk played a significant role in this respect. The following paragraph elaborates on it.

16 The data covers these MENA countries which later on would be participating as partners in the ENP (including Libya and Syria, even though they still remain outside most of the structures of the ENP).

Figure 2. Inward FDI flows to selected countries and regions in 1995-2004 (USD in current prices and current exchange rates; in millions)



Source: The author's calculations based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

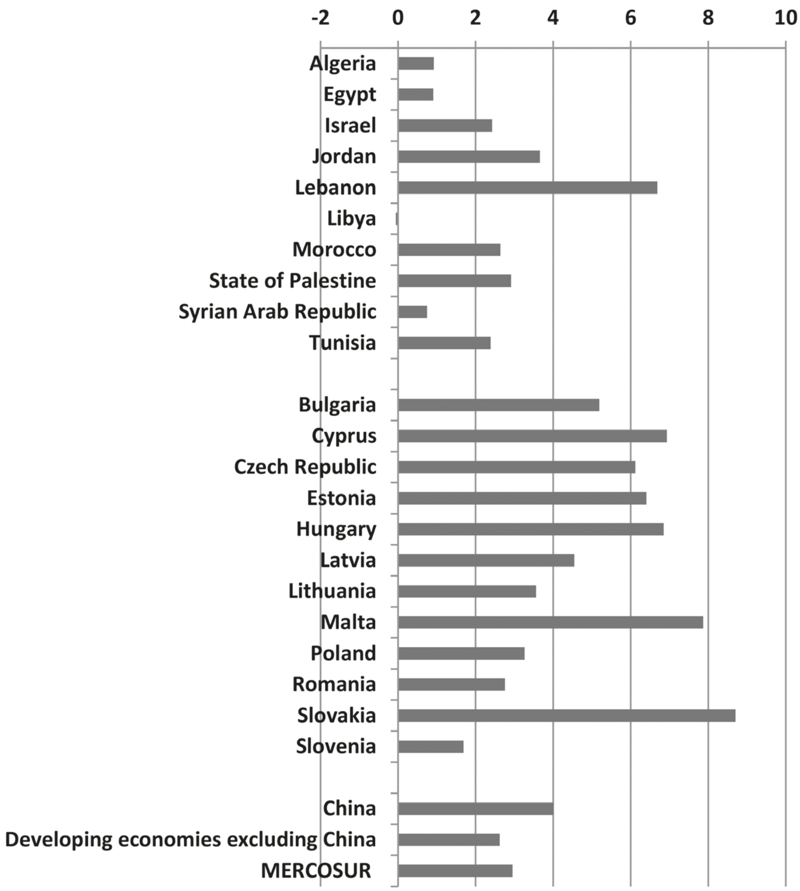
The EU-CEEs accession talks were effective in reducing investment risk in the CEEs in the following three ways. In the legal realm, harmonization of domestic legislation, including laws pertaining to ownership, employment practice, business organization and corporate taxes, with the EU standards has taken place.[17] With regard to micro-level policy, relaxation of regulation on trade-tariff policy was accompanied by a process as a result of which the economic environment became more transparent, predictable and simply investment-friendly[18]. To that end, competition and industrial protection policies were introduced, while free access to financial and capital markets was ensured. Finally, regarding macro-level policy, convertibility of home currency was established, inflation was curbed and fiscal discipline was strengthened[19].

In other words, the efforts undertaken by the CEEs due to their prospective EU membership made the MNEs, as well as other investors, believe that the CEEs were more trustworthy host economies than the MENA countries, at least those that collaborated under the aegis of the Barcelona Process. It held true even for those MENA countries,

17 I. Iwasaki, K. Suganuma, 'EU enlargement and foreign direct investment into transition economies revisited', *Transnational Corporations*, vol. 18, no. 3, December 2009, p. 37.
18 Loc.cit.
19 Loc.cit.

e.g. Egypt, Morocco, and Tunisia, that began the process of economic reforms and establishment of a more FDI friendly legislation at the same time as the CEEs.[20]

Figure 3. Average annual inward FDI flows to selected countries and groups of countries in 1995-2003 (percentage of GDP)



Source: The author's calculations based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

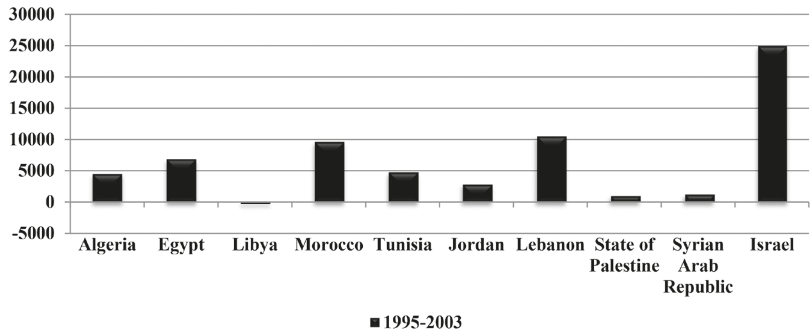
20 P. Czerpak, A. Galek, M. Grącik, M. Hussain, J. Stryjek, K. Żukrowska, 'FDI in Mediterranean Partnership Countries. How to Improve the Institutional Environment in the Mediterranean Region in order to Attract the FDI?', in: K. Żukrowska (ed.), *Euro-Mediterranean Partnership*, Warsaw: Warsaw School of Economics Press (SGH), 2009, p. 22.

The process of systemic transition and transformation in CEEs was unique worldwide. However, from the perspective of the EU policy of enlargement, the process of admitting countries at a relatively lower level of development did not constitute a novelty for the EU. For instance, it was the case when admitting Greece (1981), Spain (1986) and Portugal (1986). Therefore, there was a pool of experiences that the MNEs and other investors could draw when making the decision as to where and whether to invest. In this sense, economic developments in CEEs seemed more predictable to investors than those to be encountered in the MENA region. As a result, over the period 1995-2003 CEEs turned into serious competitors in the field of FDI attraction not only for the MENA economies but also for many other countries in the world.

The EU remains an active player on the international scene and hence is engaged in economic cooperation with many countries (and regions) in the world. In the mid-1990s, MERCOSUR constituted a good example of such cooperation. This integration grouping was created in 1991. The EU-MERCOSUR economic cooperation was established almost immediately following the creation of MERCOSUR. Very quickly a set of ambitious cooperation goals was outlined, including liberalization of trade and creation of an interregional free trade area.

All the above means that the MNEs and other investors from the EU had a wide range of alternatives when it comes to the location of potential investments. At the end, CEEs as well as MERCOSUR countries attracted more inward FDI from around the world than the MENA countries (Figure 2). The results achieved by individual MENA countries look much better, in comparison to other countries and regions, when they are presented as a percentage of GDP (Figure 3). From this perspective, Lebanon was the undisputed leader in the MENA region, having achieved results even better than most CEEs. It was followed by Jordan, Palestine, Morocco, Israel and Tunisia (Figure 3). In contrast, taking into account the total inflow of FDI in nominal terms, it was Israel that achieved the best results (Figure 4). It was followed by Lebanon, Morocco and Egypt.

Figure 4. Total inflow of FDI to the MENA countries in 1995-2003 (USD in current prices and current exchange rates; in millions)



Source: The author's calculations based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

To sum up, the eight-year period following the launch of the Barcelona Process was characterized by considerable FDI inflows to the MENA economies. However, in comparison to other developing and transition economies, these inflows should be considered as modest or even low. Nevertheless, these relatively weaker results achieved by the MENA countries do not mean that these countries did not seek to compete for FDI inflows. During the 1990s, MENA partner-countries implemented reforms and undertook efforts to liberalize their economies and attract foreign investors. They were hopeful that their position on foreign markets would strengthen and they would be able to reap the benefits of globalization. However, they were not successful in dealing with such problems as: high costs of doing business, especially high cost of starting a business, registering property, hiring employees, etc.; corruption/ bureaucratic red tape resulting in high transaction costs; lack of transparency in the countries' legal and regulatory systems as well as lack of clarity of the countries' administration operations; inefficiency of the judicial system; high corporate tax rates (e.g. Morocco, Syria, Tunisia); underdeveloped local financial systems (capital controls, restrictions on foreign currency operations); trade protection, including non-tariff trade barriers (e.g. taking the form of bureaucratic customs' clearance procedures) and resistance to lower tariffs (e.g. Syria, Tunisia); high level of government intervention in the economy, including price controls; unstable price levels; exchange rates volatility; prohibited or restricted foreign ownership of real estate; inadequate enforcement of the intellectual property rights legislation and – as a result – *de facto* lack of protection of the intellectual property; political instability.[21]

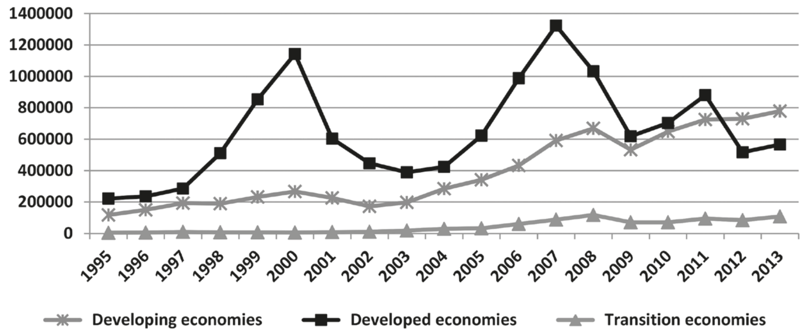
3. Inward FDI flows to the MENA region in 2004-2013

The inflow of FDI to MENA economies after 2004, following the launch of the ENP, was affected both by internal and external factors. In order to examine the influence of respective factors on the FDI flow, it is necessary that three shorter periods are distinguished for the purpose of the analysis, i.e. 2004-2007, including the launch of the ENP until the global financial crisis; 2008-2010, including the beginning of the global financial crisis up to the first demonstrations of the Arab Spring; 2011-2013, including the beginning of the Arab Spring through the most recent available statistics concerning the FDI flows. Figure 5 presents FDI inflows to the developing, transition and developed economies over the period 1995-2013. Admittedly, for each of the abovementioned groups of countries, the year 2004 constituted the beginning of a very strong upward trend as far as the inflows of FDI are concerned, the MENA region included. There was a considerable increase in inward FDI flows to the MENA economies from 2004 and this upward trend continued until 2007. Therefore, when examining FDI inflow to the MENA region, it is crucial to remember that the increase in investment inflows that began in 2004 reflected the general global trends. Other factors, e.g. the launch of the ENP in 2004, played in this view a secondary role.

As far as a comparative perspective for the analysis of inward FDI flows to the MENA countries is concerned, Figure 6 presents FDI inflows to the MENA and other selected regions (integration groups) and countries. It highlights an upward trend starting from 2003/2004 and lasting until 2007 or 2008. With regard to MENA economies, a considerable increase of FDI inflows was observed over the period 2004-

21 For more details see e.g.: B. Yilmaz, M.D. Başar, 'Developments and Determinants of Foreign Direct Investment in the Mediterranean Partner', in: K. Żukrowska (ed.), *Euro-Mediterranean Partnership*, op.cit., pp. 77-88; P. Czerpak, A. Galek, M. Grącik, M. Hussain, J. Stryjek, K. Żukrowska, 'FDI in Mediterranean...', op.cit., pp. 37-38; S. Onyeiwu, 'Analysis of FDI Flows to Developing Countries: Is the MENA Region Different?', http://www.mafhoum.com/press6/172E11.pdf [2015-05-28], pp. 1-13.

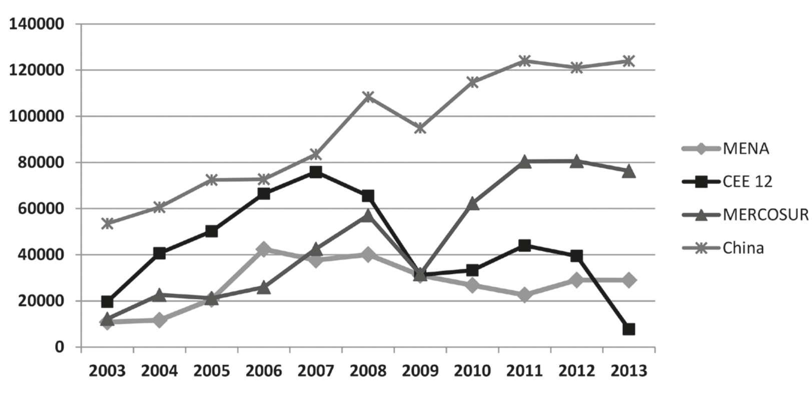
Figure 5. Inward FDI flows to the developing, developed and transition economies, 1995-2013 (USD at current prices and current exchange; in millions)



Source: UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

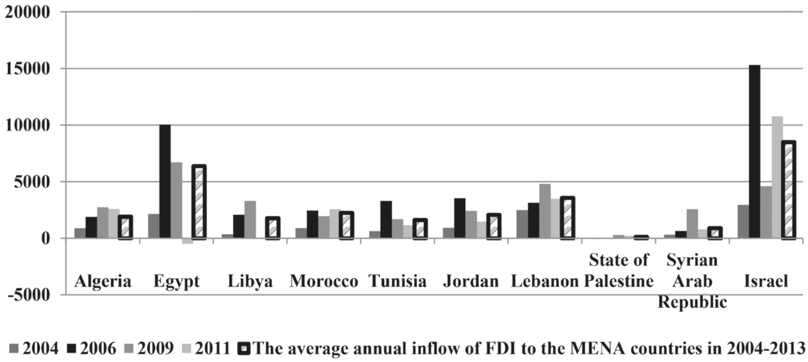
2006 to essentially stagnate thereafter. It is necessary to remember that FDI inflows to individual MENA economies varied and the average annual FDI inflow in 2004-2013 reached its peak in Israel, Egypt and Lebanon (Figure 7).

Figure 6. Inward FDI flows to selected countries and regions in 2003-2013 (USD in current prices and current exchange rates; in millions)



Source: The author's calculations based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

Figure 7. The inflow of FDI to the MENA countries in 2004, 2006, 2009, and the average annual inflow of FDI to the MENA countries in 2004-2013 (USD in current prices and current exchange rates; in millions)



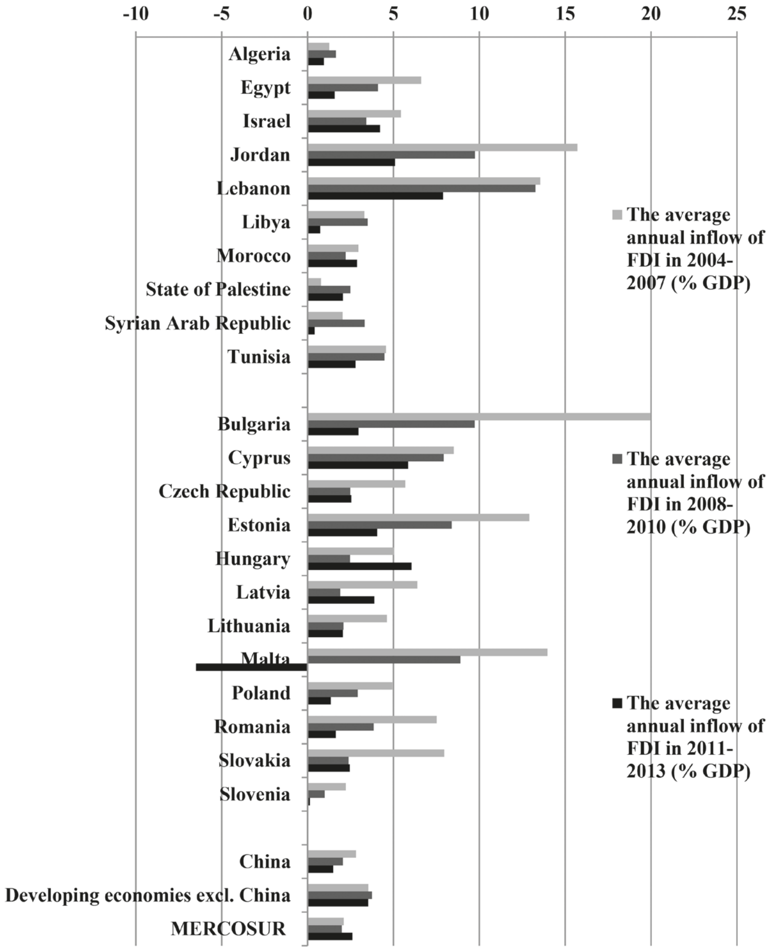
Source: The author's calculations and elaboration based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

However, once the data concerning FDI inflows is presented in relation to the GDP of individual countries, the results achieved by MENA economies, especially by Jordan and Lebanon, become comparable to the results achieved by individual CEEs (Figure 8). Apart from that, over the period 2004-2007 the inflow of FDI, expressed as a percentage of GDP, to several MENA economies was higher than the average inflow of FDI to developing countries, as well as to MERCOSUR and China (Figure 8).

Following the beginning of the global financial crisis, FDI inflow to the MENA region decreased from 40,1 billion USD in 2008 to 22,56 billion USD in 2011 (Figure 6). However, the investment decline was not as rapid as in the case of, for example, CEEs. As a result, in 2010 FDI inflow to MENA countries was still at a higher level than in 2004 (Figure 6). Consequently, in the period 2008-2010 the average annual FDI inflow to MENA countries was higher than during the world's FDI boom that was recorded in the period 2004-2007 (Figure 9).

The general downward trend in global FDI inflows to developed and developing countries reached the lowest level in 2009 (Figure 5). Afterwards, the inflows of FDI started to increase again. This time, MENA economies did not benefit from this (Figure 6). On the contrary, MENA countries experienced further decline in investment inflows in 2010. The decline reflected their economic and political

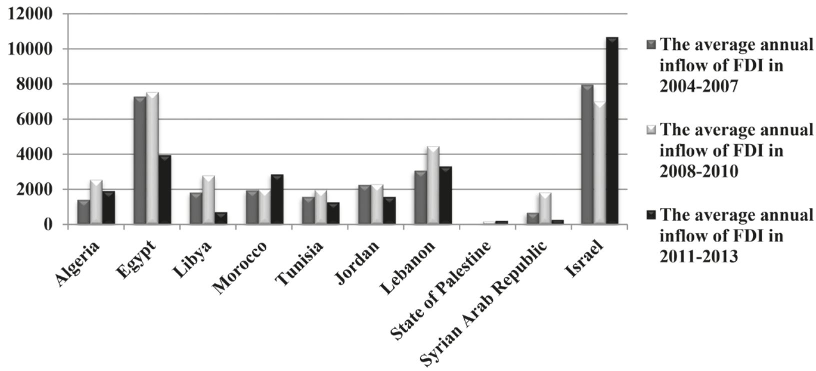
Figure 8. Average annual inward FDI flows to selected countries and groups of countries in the periods: 2004-2007, 2008-2010, 2011-2013 (percentage of GDP)



Source: The author's calculations and elaboration based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

problems. Although previously considerable amounts of FDI flew in MENA economies and stimulated their growth, respective countries were not able to overcome such problems as: crony capitalism, heavy regulatory burden, massive subsidies, corruption, unequal distribution of the gains of growth (both socially and geographically), increase in the cost of living, deficient educational systems and massive unemployment, including youth unemployment[22]. These problems led to a series of uprisings.[23] Consequently, Tunisia, Egypt, Libya, and Syria witnessed political upheavals in 2011 that resulted in regime change and/or civil war. Negative economic consequences for all countries in the region followed. As far as FDI inflows are concerned, the unstable political and economic situation discouraged MNEs from making investments in (almost) all countries in the MENA region. Consequently, the only MENA economies that experienced an increase of FDI inflows over the period 2011-2013 were Israel and Morocco (Figure 9).

Figure 9. The average annual FDI inflow to the MENA countries in selected periods: 2004-2007, 2008-2010, 2011-2013 (USD in current prices and current exchange rates; in millions)



Source: The author's calculations and elaboration based on UNCTAD data, UNCTADstat database, http://unctadstat.unctad.org [2015-05-29].

The Arab Spring, i.e. the uprisings and upheavals in the MENA region, serves as evidence that political reforms are as important as the economic ones in view of attracting FDI inflows.[24] Nevertheless, both the Barcelona Process and the ENP originated in the assumption that external liberalization coupled with domestic economic reforms should be given priority over political changes. It was argued that the

22 G. Grin, 'The Arab Spring and the European Neighbourhood Policy: An Economic Outlook', *Current Affairs in Perspective*, no. 5, June 2012, p. 2.

23 For more on this issue see, e.g. K. Górak-Sosnowska, 'Intra-regional cooperation in the Southern Dimension of the ENP: challenges and opportunities', *Yearbook of the Institute of East-Central Europe*, vol. 13, no. 4, 2015, pp. 145-158.

24 K. Górak-Sosnowska, T. Stępniewski, 'The geopolitics of the ENP: from Tahrir to Minsk', *Yearbook of the Institute of East-Central Europe*, vol. 13, no. 4, 2015, pp. 61-73.

provision of basic needs was most important for respective populations, and that political freedoms would follow suit.[25] However, as practice suggests, liberalization of the economy, as well as the financial support provided by the EU, proved to be ineffective without a system of democratic control.[26] The existing political regimes made it hardly possible for the society to benefit from the fruits of privatization and liberalization as they were reaped by political and business elites.[27] It is one of the factors that added to the logic behind the Arab Spring.

As far as the EU-MENA cooperation is concerned, the Arab Spring is harmful for the economies of both partners and reduces the level of security in the EU neighbourhood. The Arab Spring has made it apparent that there is a need of a policy change. Indeed, addressing this realization, following the 2010-2011 review of the ENP, the more-for-more principle was introduced. In line with its provisions, stronger partnerships will be developed and greater incentives offered to countries recording greater progress towards democratic reform, including free and fair elections, freedom of expression, assembly and association, judicial independence, fight against corruption and democratic control over the armed forces.

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Examining the influence of the EU-MENA cooperation on FDI inflows to MENA economies, one should remember that the Barcelona framework contained no specific provisions relating to FDI[28] and focused mainly on trade development. Taking into account the fact that the inflow of FDI to a given economy is regarded as a stimulus for its growth, it is surprising that the Barcelona Declaration did not highlight the challenges and benefits related to FDI. This is particu-

25 For more detail see: M. Tarnawski, 'Międzynarodowe implikacje Arabskiej Wiosny' [International Implications of the Arab Spring], *Przegląd Politologiczny*, no. 1, 2014, p. 22.

26 Ibid.

27 Ibid.

28 The Barcelona Declaration devoted only one sentence to FDI, acknowledging its role, together with internal savings, as a basis for economic development. See also: I. Martín, *The Euro-Mediterranean Partnership and Inward FDI in Maghreb Countries*, http://biblioteca.hegoa.ehu.es/system/ebooks/11189/original/Inversion_Extranjera_Directa_en_los_Paises_del_Maghreb__en_ingles_.pdf [2015-05-20], p. 4.

larly surprising considering the fact that opinions were voiced in the mid-1990s that the MENA region had failed to attract enough FDI.[29] In contrast, the ENP Strategy Paper formulates expectations concerning a positive impact of the ENP on FDI inflows due to a more favourable policy environment, falling trade and transaction costs, attractive relative labour costs and reduced risk. This article demonstrated that, over time, the volume of FDI inflow to MENA countries increased. It can be attributed to three groups of factors: general positive FDI trends in the world economy; actions undertaken by MENA countries in order to reform their economies and make the region more FDI-friendly; development of economic cooperation with the EU member states, as well as with other countries and/or regions.

In this view, the development of the EU-MENA cooperation, including the ENP framework, constitutes only one set of factors that influenced the volumes of FDI inflows to the MENA region over the period 2004-2013. Certainly, it is difficult to delineate the specific impact of the EU-MENA cooperation on the FDI inflow to the MENA region from other factors. However, the increase in FDI inflows to MENA countries following the launch of the ENP should be regarded as more related to the general upward global trend concerning the inflows of FDI to developing, developed and transition economies than to other factors. This so-called global investment boom started in 2004, i.e. exactly at the time when the EU decided to include the MENA region in the ENP. Of course, both the Barcelona Process and the ENP positively influenced the inflow of FDI to the MENA economies. Nevertheless, the impact of the EU-MENA cooperation on the inflow of FDI from the EU to the MENA region should not be overestimated. The EU is a very active global player, developing economic cooperation with many other regions and countries in the world, and directing there its FDI. Therefore, the MENA countries needed to compete for FDI inflows coming from the EU member states with other countries and regions cooperating with the EU. This paper demonstrates that the competitive battles for both EU's and global FDI were

29 For example, in 1995 the World Bank stated that MENA countries had not made much use of the globalization process (as an engine of growth) and these countries were said to have missed the inflow of investments to developing countries. Ibid.

very difficult for the MENA countries to win, and thus the inflow of FDI to the region was relatively low, comparing to other developing and transition economies.

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