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Determinants of foreign direct investments in Morocco

A regional prespective

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Abstract

This article affords a radical and comparative analysis of FDI, or foreign direct investments, which might be made via corporations that need to expand into international markets. Foreign Direct Investment is crucial to the development of both emerging and developed nations, as they hold the potential for mutual advantages, altering not just their economies but also exerting a considerable influence on social dynamics. The studies starts by analyzing fundamental FDI concepts, explaining what makes them important, and assessing the literature that has already been written about them. After that, an in depth analysis of Morocco is performed, exploring its specific capabilities, historical richness, political structure, and economics, all of which make contributions to the formation of its socioeconomic panorama. Finally, in the research phase of this study, the focus shifts to analyzing the factors that impact the allocation of foreign direct investment among the different states in North African countries, namely Algeria, Egypt, Libya, Morocco, and Tunisia. This study looks at those variables as a way to understand why foreign businesses choose certain areas for their direct investments. To achieve this goal, an extensive analysis of economic theories pertaining to foreign direct investment as well as empirical research on the variables influencing FDI placement decisions have been carried out. In order to assess how important local elements are in in enticing foreign capital, a discrete choice Conditional Logit model is applied to a dataset of greenfield investments in north African states from 2003 to 2019. Ultimately, conclusive insights will be drawn based on the findings yielded by the conducted study.

Keywords: Foreign Direct Investment, Morocco, North Africa, Conditional Logit Model

Table of Contents

List of Tables

List of Figures

Chapter 1

Foreign direct investement overview

As investments made by organizations from one nation into another, foreign direct investment is essential to the global economy. This section presents FDI and discusses its causes, and effects on the economy. Its objectives are to investigate the drivers of FDI and its effects on host and home nations.

1.1 Multinational Enterprise

Often referred to as multinational companies, multinational enterprises play a crucial role in the current global business landscape. These vast and diverse enterprises participate in cross-border operations, exerting a substantial impact on the global economy. In this introductory section, we will provide readers a brief introduction to the field of MNEs, outlining their structural characteristics, operational dynamics, and the forces that are propelling their international expansion.

MNEs are well-known for their ability to negotiate a range of intricate international marketplaces with success. To enable the transfer of resources, goods, and services across borders, they establish affiliates, branches, and subsidiary businesses. The global reach and extensive reach of multinational enterprises have a noteworthy impact on employment generation, economic expansion, and the transfer of crucial knowledge and technology.

According to Dunning & Lundan (2008), MNEs are businesses that actively participate in foreign direct investment and own or control value-added activities spread across several nations. The international character of MNEs is highlighted by this definition, since they participate in cross-border operations that add to their unique function and importance in the world economy.

In addition, there is a viewpoint supported by certain academics and business professionals that calls for difference among businesses engaged in foreign-owned production. Their international commitments and the extent to which they follow

a complete management and organizational plan that covers both their home and abroad activities are the main points of distinction. Business analysts frequently try to differentiate between MNEs that manage a collection of mostly independent multidomestic foreign subsidiaries, each focusing primarily on the local market, and those that see their affiliates as an essential part of a regionally or globally coordinated network, focused on creating and leveraging assets (Dunning & Lundan, 2008).

The literature has defined a number of standards for determining how much or how little a company engages in multinational or transnational activity. These standards include:

1. The quantity and magnitude of foreign affiliates or associated companies under its ownership or control.

2. The number of countries in which it possesses or manages value-added activities, such as mines, plantations, factories, sales outlets, banks, offices, and hotels.

3. The percentage of its global assets, revenue, income, or workforce contributed by its foreign affiliates.

4. The degree to which its management or ownership displays an international presence.

5. The extent to which higher-value activities, such as research and development, are internationalized, aiming to capture the quality and depth of foreign production and the role of foreign affiliates in accessing or directly generating new knowledge.

6. The scope and nature of systemic advantages resulting from its governance and influence over a network of economic activities distributed across different countries.

7. The extent to which foreign affiliates are entrusted with responsibility for creating and utilizing institutions and assets, as well as decision-making authority in financial and marketing matters.

According to Goldstein and Piscitello (2007), the presence and activities of MNEs have significant consequences on a variety of fronts, including the economic, social, political, cultural, and environmental ones. MNE proponents contend that their presence enables nations that could not otherwise have access to these opportunities or items to establish high-paying employment and technologically sophisticated products. In contrast, detractors claim that multinational enterprises cause employment losses in their own countries, abuse their political power over governments, and prey on developing nations. Furthermore, people who see

globalization negatively as the cause of a number of societal problems frequently point to multinational enterprises as the main participants in the globalization process and believe that they are the main winners from this development.

1.2 Foreign Direct Investments

We shall begin a thorough investigation of foreign direct investment as a crucial element of the global economic landscape in this chapter. Our trip will cover a number of topics, including an overview of the several categories of foreign direct investment, an examination of the factors that influence FDI, the complex ramifications it has for both host and home nations, and the fluidity of FDI movements in the modern, globalized world.

1.2.1 Multinational Enterprises and Foreign Direct Investments

A company's ability to operate as a transnational or multinational depends on its ability to actively participate in foreign direct investment as well as its ownership or control, in different forms, over value-added operations in several different nations. A global firm is characterized by this basic description as a starting point (Dunning & Lundan, 2008).

A company's degree of equity participation in a foreign corporation is one factor that is taken into consideration when interpreting its international character. It's important to remember, nevertheless, that various nations and business organizations may have quite varied exact definitional requirements. For example, the OECD Benchmark Definition of Foreign Direct Investment provides a rule of thumb that states that foreign investment is acknowledged if the foreign investor owns at least 10% of common stock. This benchmark denotes a consistent, long-term commitment to the investment in the host nation and a sizable level of strategic decision-making influence (OECD, 2008).

In the past, foreign direct investment has been the main technique used to expand a company's output outside of its own country. It's crucial to remember that FDI and foreign portfolio or indirect investment are very different, especially in two essential areas. First and foremost, foreign direct investment entails the cross-border transfer of an extensive array of assets and intermediate goods, including financial resources, organizational and managerial know-how, technology, entrepreneurial abilities, incentive programs, cultural norms, and market access. On the other hand, investing in a foreign portfolio just involves the transfer of money.

Second, the non-transfer of ownership is what distinguishes foreign direct investment. Stated differently, the investing entity retains complete control over decision-making about the use of the transferred resources. To put it another way, direct exchanges take place administratively inside the structures of the investing

firms, whereas indirect asset and intermediate product exchanges take place inside the boundaries of the market. The dynamics of global investment and business are significantly affected by this divide (Dunning & Lundan, 2008).

1.2.2 Foreign Direct Investment Classification: Understanding Investment Categories

We will take a close look at the complex world of foreign direct investment in this chapter. Our goal is to reveal FDI's complexity and divide it into several sorts so that we can distinguish its many aspects according to its direction, technique, structure, and motive.

Multinational corporations carefully consider a wide range of strategic options when making decisions at the heart of foreign direct investment. These decisions are motivated by a wide range of goals, each of which has an influence on the world economy that is both unique and extensive. By methodically categorizing these investments, we are afforded a distinctive perspective that allows us to understand the motivations behind global expansion, witness the complex structural changes occurring in the host nation's economy, investigate the various strategies that promote cross-border investments, and follow the complex routes that capital follows when it travels across borders.

Classification based on the direction

There are two primary approaches to foreign direct investment that we come across in the field: inward and outward. Understanding the distinctions between the two is essential to comprehending the workings of global economic shifts. Direct Investment Abroad, or Outward FDI, refers to investments made in foreign countries by businesses that are based in a particular nation. On the other hand, inward foreign direct investment refers to investments made by foreign corporations inside a specific country's borders. The study of FDI uses this categorization based on direction as a starting point. It may seem simple, but in order to separate Inward FDI from Outward FDI, it provides a vital foundation for quantitative and econometric research.

From the perspective of Morocco, the main subject of our investigation, inward FDI refers to investments made by foreign businesses within the country. On the other hand, investments made abroad that originate in Morocco are referred to as outward FDI. Notably, investments coming into Morocco from other nations and investments Morocco makes abroad fall under the headings of Inward and Outward FDI, respectively. This change in focus offers the cornerstone for comprehending the complex network of foreign investments, serving as a starting point for dissecting the goals, effects, and global economic ramifications of FDI.

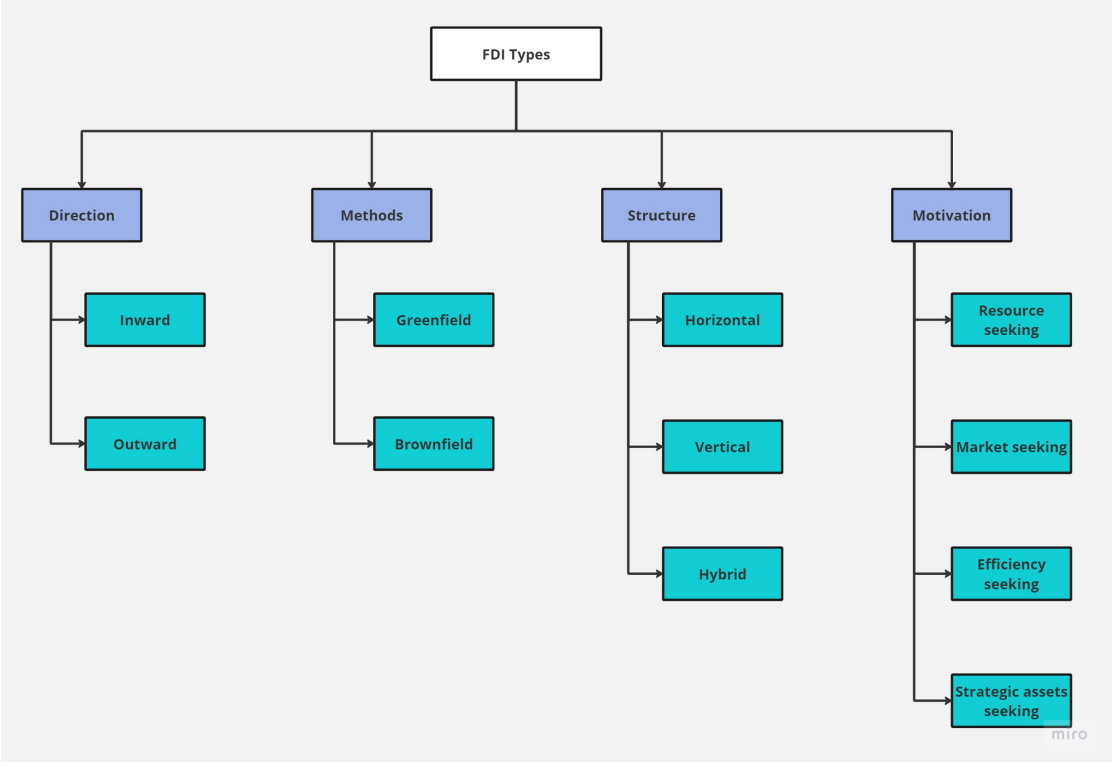


Figure 1.1: Different types of foreign direct investments

Classification based on the method

In the context of foreign direct investment, brownfield and greenfield investments are two different strategies, each with special traits and factors to take into account.

In a greenfield investment, a parent corporation creates a subsidiary in another nation to start a new business. Rather of purchasing an existing facility, this strategy entails building brand-new buildings that include offices, staff housing, distribution centers, and manufacturing units in addition to other amenities. The term "greenfield" refers to building on previously undeveloped ground, signifying fresh starts. When looking for architectural flexibility, operating efficiency, and the capacity to customize facilities to unique project requirements, multinational firms frequently choose greenfield investments. Additionally, new buildings usually have cheaper long-term maintenance expenses and provide for eye-catching venues for recruiting talent and advertising. However, this strategy could come with greater upfront costs and risks related to legal barriers, labor disputes in the area, and project viability evaluations.

In contrast, brownfield investments entail buying or renting pre-existing properties in the host nation in order to start new manufacturing or company operations.

Businesses choose this method because it may save a lot of time and money by avoiding the difficulties and costs involved in developing new structures. The word "brownfield" describes formerly cultivated area rather than necessarily implying environmental pollution. When facilities are suitable for the business models and manufacturing processes of the organization, and when local rules are already being followed, this strategy may prove beneficial.

Regarding the categorization of foreign direct investment according to its type, greenfield FDI comprises the founding of completely new businesses in the country of destination. Brownfield FDI, on the other hand, entails the purchase of already-existing businesses in the foreign nation, including M&As. It is noteworthy that brownfield foreign direct investment has a wider definition, which includes any acquisition that accounts for more than 10% of the target firm and is therefore considered a direct investment.

Classification based on the structure

It is clear from examining the structure of foreign direct investment that there are several types of FDI, each with its own set of objectives and tactics. These three types of foreign direct investment (horizontal, vertical, and hybrid) provide a thorough foundation for comprehending how businesses organize their global operations.

A scenario known as "horizontal FDI" occurs when a multinational enterprise creates a subsidiary abroad to carry out the same operations as its parent business back home (Makusen, 1984). Producing almost similar product lines for different target markets is a common practice of this technique. A U.S. based cellphone carrier constructing a chain of phone stores in Morocco is an example of horizontal FDI as it is essentially duplicating its home business model overseas.

Vertical FDI, in contrast, focuses on businesses making investments abroad that entail commercial activities distinct from those of their home country operations but are integrated into the parent company's supply chain (Helpman, 1984). This indicates that they frequently buy companies that provide the essential supplies, services, or components for their core manufacturing. A U.S. business may, for instance, invest in a Moroccan firm that provides the crucial raw materials required for its manufacturing operations.

Hybrid foreign direct investment adopts a unique strategy whereby corporations engage in commercial ventures unrelated to their primary operations within their home nation. These investments may take the form of joint ventures with local businesses in the host nation because they usually take place in areas where the investing corporation has no prior expertise.

Furthermore, how businesses organize their activities is greatly impacted by these variances. While vertical FDI aims to improve production processes and take

advantage of cost differences among nations by fragmenting production across sites, horizontal FDI concentrates on duplicating the same firm across several markets. Selecting one of these structural FDI types has its own benefits and drawbacks, including different market entry techniques, coordination difficulties, and cost reductions. Businesses must carefully match their tactics with their intended aims in various markets as they negotiate this complex terrain of FDI structures, taking into account elements like trade obstacles, economies of scale, and production costs, among others (Barba Navaretti, 2006). This complex interaction between market structures and FDI types adds to the complexity and depth of international business operations.

Classification based on the motivation

Multinational corporations invest overseas due to a variety of methods, as can be seen when looking at the reasons behind foreign direct investment. These motives may be divided into four categories, each with specific purposes and focuses. According to Dunning and Lundan (2008), these classifications provide a crucial foundation for comprehending the reasons behind businesses' decisions to participate in FDI projects.

- Resource-Seeking FDI: The main goal of resource-seeking investments for businesses is to obtain particular resources that may not be easily accessible or are offered at a much greater cost in their own nation. Natural resources, raw materials, and even inexpensive unskilled or semi-skilled labor might be considered among these resources. As part of their resource-seeking strategy, businesses may occasionally attempt to acquire managerial know-how, organizational skills, or technological capabilities. These kinds of investments are frequently made in order to obtain economic benefits, guarantee a dependable supply chain, or obtain access to priceless resources and expertise.
- Market-Seeking FDI: The desire to sell goods or services in local markets or nearby nations, as well as to reach overseas markets, are the driving forces behind market-seeking investments. Businesses may engage in market-seeking FDI for a number of reasons, including tracking down main suppliers or clients who have moved their operations overseas, customizing products to suit regional preferences, cutting production and shipping costs, and creating a physical presence in strategic markets to fend off prospective rivals. The development potential and prospects offered by overseas markets are what drive FDI seekers.
- Efficiency-Seeking FDI: Efficiency-seeking FDI, which emphasizes the advantages of effectively managing globally dispersed companies, is the rationalization of long-standing resource and market-seeking efforts. This strategy may be

especially pertinent for businesses that use internationally recognized methods to produce standardized goods. Exploiting conventional factor endowments in various places or taking advantage of economies of scale and scope in nations with comparable economic structures, income levels, consumer preferences, and supply capabilities are the two main ways efficiency-seeking FDI may be achieved.

- Strategic Asset-Seeking FDI: The primary goals of the strategic asset-seeking strategy are to maintain ownership-specific advantages, improve global competitiveness, and acquire assets from foreign firms through FDI. Businesses that pursue strategic asset-seeking FDI do so in order to preserve and enhance their competitive advantage by expanding their portfolio of international assets and human capital. This drive frequently entails financial investments in R&D that produce cutting-edge capabilities and skills that support a company's long-term success.

It is significant to note that corporations frequently pursue various goals in their investment operations, which leads to frequent overlap between these types of FDI incentives. Companies may develop a compelling case for making foreign direct investment and adapt to the competitive and fast-paced global business environment by carefully fusing these objectives.

1.2.3 Determinants of FDI

This chapter explores the complex network of variables that influence multinational firms' choices when making investments in international markets.

FDI, which is defined as an investment made by a business or other entity from one nation into another, frequently takes the shape of building new facilities, purchasing already-existing businesses, or taking part in international joint ventures. FDI has developed into a catalyst throughout time for the transfer of knowledge, the creation of jobs, and the enhancement of general economic conditions in both the source and the host nations. However, the particular reasons and conditions influencing FDI decisions might vary widely and depend on the environment.

In order to shed light on the multitude of factors that affect investors' decisions, this chapter will examine the complex terrain of FDI determinants. Understanding these factors is essential for governments hoping to draw foreign direct investment, companies looking to go global, and academics trying to untangle the complex web of international investment dynamics. These factors range from economic indicators to policy frameworks, cultural considerations to market conditions.

Market size, demographics and growth potential

A number of critical factors have been shown to have a major impact on investment patterns when it comes to foreign direct investment in developing nations. The size of the market in the host nation is one of these factors, FDI and market size are often positively associated. The attraction of greater potential demand and the cost benefits that result from economies of scale can be credited for this link. Interestingly, research on industrial FDI by Resmini in 2000 identified a clear pattern. It was shown that more populous Central and Eastern European nations tend to draw more FDI. Similar findings were also noted by Bevan and Estrin (2000), underscoring the fact that transition economies with bigger economies tend to be more alluring to foreign investors. The weight of all the data points to the fact that GDP per capita is not the only factor influencing foreign direct investment decisions in emerging nations, the size of the whole market also plays a significant role.

Additionally, attracting FDI depends greatly on the population's demographic makeup of the host nation. A significant young population and a longer life expectancy have been identified as characteristics that likely to attract FDI. It's interesting to note that while life expectancy does have some bearing on FDI trends, a population structure that is disproportionately young or old might discourage FDI. Generally speaking, a population with a reasonable age distribution attracts foreign investors better (International Symposium on Sustainable Development, 2009).

Furthermore, the growth of human capital in the host nation and its acquisition appear as important FDI drivers. It is significant to notice that there appears to be little correlation between manufacturing activity levels and FDI in emerging nations, indicating that FDI flows are not as focused in industrial sectors. Thus, in emerging nations, a wide range of factors are at play, including market size, demography, and the development of human capital, all of which have a distinct impact on the investment environment (Bevan and Estrin, 2000).

Openness

Resmini's 2000 study, which concentrated on manufacturing investments in Central and Eastern Europe, defies the expectation that higher prevalence of horizontal FDI—where investing firms seek to overcome trade barriers by establishing production facilities overseas would be linked to a decline in trade openness. Resmini discovered that in this situation, trade openness was beneficial to FDI flows that were primarily vertical, particularly in industries where international commerce in capital and intermediate products was significant. The 1995 research by Singh and Jun, which emphasized the critical role that export orientation plays in luring FDI and the increasing connection between trade and FDI flows, supported these

conclusions.

Exchange rate

It is possible to anticipate that a decline in the real exchange rate will encourage vertical foreign direct investment as businesses take advantage of the comparably lower costs in the host markets to purchase facilities or, if their production is re-exported, to increase profits in their home country when supplying goods to a third market. This association is supported by study conducted in 1991 by Froot and Stein. Within a flawed capital market model, they discovered that a weakening host country currency tends to increase inward FDI because the depreciation makes assets there more affordable than those in the home country. Blonigen's (1997) thesis, which centers on "firm-specific assets", lends credence to the idea that FDI inflows are often positively correlated with host country exchange rate depreciation.

Conversely, a higher real exchange rate may increase the motivation for foreign companies to participate in domestic production. In essence, the exchange rate acts as a barrier to entrance into the market, which can increase horizontal FDI. It is noteworthy, nevertheless, that there is not much actual evidence to support this notion.

Political stability

Investor surveys have constantly shown that the two main concerns of potential foreign investors are macroeconomic and political stability. Nonetheless, there is some variation in the actual results regarding this issue. For example, a 1992 research by Wheeler and Mody found that administrative effectiveness and political risk had no bearing on where American businesses choose to locate their manufacturing facilities. Conversely, Root and Ahmed's 1979 study, which examined total investment flows into developing nations during the late 1960s, and Schneider and Frey's 1985 study, which used a similar dataset but for a slightly later time period, found that political instability had a significant effect on inward foreign direct investment inflows.

Institutions

Particularly in less developed nations, institutional considerations are crucial in deciding foreign direct investment. The effectiveness of institutions includes a number of crucial ideas related to foreign investments. Institutional characteristics may be roughly divided into two categories: the technological environment, with an emphasis on intellectual property rights, and the social and political concerns, such as bureaucracy, corruption, and infrastructure (Franco, Rentocchini, Vittucci, 2008).

It is evident that institutional quality affects FDI, nevertheless, the lack of defined metrics for institutions makes it challenging to quantify this influence exactly. Daude and Stein (2007) use empirical research and a set of government indicators created by Kaufmann (1999) to show the beneficial impact of institutions on FDI. Voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption are the six pillars of governance that are covered by these indicators. The main finding of this research is that institutional factors are highly significant economically and statistically. For a number of reasons, institutional quality becomes a significant factor in FDI, especially in less developed nations. First of all, increasing FDI inflows are attracted to stronger economic growth, which is correlated with excellent governance. Second, corrupted weak institutions usually raise investment costs and reduce earnings. Thirdly, investors are extremely sensitive to uncertainty, especially political instability brought on by weak institutions, due to the significant sunk costs of FDI.

Unfortunately, evaluating institutional issues is difficult, and empirical results might be confusing. Research on regulatory frameworks, bureaucratic barriers, judicial openness, and the level of corruption in the host nation, for instance, has shown conflicting findings. These determinants were shown to be minor by Wheeler and Mody (1992) in their examination of firm-level U.S. data, whereas Wei (2000) demonstrated that corruption considerably increases business costs and prevents foreign direct investment inflows. These differences might be explained by the various institutional quality metrics used and the variety of data sources (FDI inflows as a whole versus investment firms).

1.2.4 Effects of FDI

There are several repercussions on the economy, society, politics, culture, and environment as a result of the existence and actions of multinational businesses. The purpose of this section is to provide a brief synopsis of the effects that foreign investment projects have on the economy. First, we will look at the impacts that come with having multinational companies in the host nation. Next, we will analyze the consequences that the particular multinational has on its home nation.

The effects on the host country

Foreign direct investment can have both positive and negative effects on the host country. Hill (2003) highlights that FDI may have a range of impacts on host nations, such as the transfer of resources, consequences for employment, changes in salaries, effects on competition, and improvements in production processes.

1. Resource-transfer effects:

The impacts of foreign direct investment on capital, technology, and managerial resources may be divided into three categories, all of which contribute to the economic growth of the receiving nation (Hill, 2003).

Capital-wise, global corporations support free capital flow by investing in long-term initiatives and frequently having access to financial resources that domestic companies do not (Kastrati, 2013).

Particularly in less developed nations, technology transfer through FDI may considerably support economic growth and modernization. In comparison to locally accessible solutions, this technology is frequently more advanced and ecologically benign (Hill, 2003; Kastrati, 2013).

FDI enables the transfer of information, skills, and managerial techniques. This benefits the receiving nation by expanding its pool of knowledge, strengthening its managerial capabilities, and encouraging the growth of domestic enterprises (Kastrati, 2013).

Additionally, foreign businesses provide workers excellent training that may be applied to the domestic labor market, raising overall skill levels and knowledge bases (Kastrati, 2013).

2. Employment effects:
   There are two main ways that foreign direct investment affects employment: directly and indirectly. FDI has significantly impacted countries with a lack of jobs by generating employment through direct employment or indirect means (Kastrati, 2013).

   Employing nationals of the host nation by multinational enterprises has a direct impact on employment. When FDI investment creates jobs inside local supplier firms or when MNE workers raise their local spending, these are examples of indirect benefits (Kastrati, 2013).

   By establishing commercial ties with these recent arrivals, the domestic private sector stands to gain from subcontracting the processing of foreign investors' goods (forward linkages) or providing inputs (backward linkages). This strategy boosts economic activity and results in the creation of more employment. Interestingly, FDI indirectly creates 1.6 more employment for every direct job it creates through production links with local industries (Kastrati, 2013).

3. Effects on competition:
   According to economic theory, producer competition is necessary for the efficient functioning of markets. The introduction of new participants to the market through greenfield FDI, which creates new firms, can eventually benefit consumers through more competition, cheaper prices, and higher economic well-being (Hill, 2007).

For instance, once FDI regulations were liberalized in 1996, South Korea saw improvements in the retail sector. Local merchants like E-Mart were given incentives by major Western discount retailers like Walmart, Costco, Carrefour, and Tesco to improve their operational efficiency. Increased competition as a result resulted in lower costs and benefits for consumers (Hill, 2007).

But there are worries about the economic influence of overseas subsidiaries of multinational corporations, especially in nations with a smaller number of indigenous businesses. They could participate in monopolistic activities, which would be detrimental to the economic health of the host country (Lipsey, 2002).

In conclusion, purchases can have a variety of effects. In order to keep foreign companies from controlling all of the markets in a host nation, effective competition authorities are essential (Hill, 2007).

By encouraging local competition, foreign businesses may make a substantial contribution to economic growth by raising productivity, lowering costs, and improving the allocation of resources.

4. Wage effects:
   The impact of multinational corporations on salaries in their home nations is a complex topic. One element that calls into doubt the real compensation levels these enterprises provide is if they pay greater wages than local ones. Greater salaries paid by overseas companies do not always translate into greater wages overall. It's important to ascertain if these higher pay trickle down to local companies. The higher wages might be the consequence of things like choosing highly trained labor or prime locations. The main question for policymakers is whether the actions of foreign companies enhance wages generally in the host nation. This might be the consequence of pay spillovers, higher salaries within foreign-owned facilities, or a competitive labor market driving up wages across the board for all companies. However, there are difficulties in determining pay levels, such as data gaps in hours worked and worker characteristics.

The effects on the home country

A firm's foreign direct investment from Country A into Country B increases the physical capital of that country and adds to its production capacity as the investing company transfers a portion of its capital from A to B. This can show up in two different ways. In the first, the investment company's home nation may see a decrease in production. This is known as "investment with capital divestment" and may involve the closing down or selling of domestic facilities while opening up new ones overseas to service the same domestic market. The second option is

for the business to invest directly in Country B while keeping its physical capital stock and output levels in its home nation.

This distinction, which is impacted by the FDI finance methods, may have differing outcomes for the multinational company's home countries. Negative outcomes are more common in "investment with capital divestment" scenarios. On the other hand, the second kind of investment mostly benefits the nation of origin (Hill, 2007).

The consequences on the industry, rivals, suppliers, employment, and balance of payments are all included in the effects on the home country's economy. The initial outflow of money necessary to fund foreign direct investments may have a negative effect on the balance of payments. Long-term, nevertheless, this effect is typically countered by revenues from abroad businesses. Although there may be worries if FDI replaces local manufacturing, employment in the home nation benefits when the overseas subsidiary generates demand for exports (Lipsey, 2002).

The replacement of activities between a multinational enterprise's local and overseas operations affects the relationship between the industry and rivals. If the goal of these investments is to cut manufacturing costs, the multinational corporation may be able to provide its products at a cheaper cost and so strengthen its position in the market. In circumstances of capital divestiture, rivals can have the chance to temporarily expand their market share. Although this is frequently disregarded, more research should be done on it (Lipsey, 2002). Finally, the impact on suppliers might differ according on whether capital divestiture or home country operations maintenance is involved.

Additionally, multinational businesses gain from exposure to and presence in other markets when they learn and develop important capabilities. The transfer of resources back to the nation of origin may result from this learning effect, fostering economic and technical development (Hill, 2007).

Chapter 2

FDI Trends

This chapter explores the patterns in foreign direct investment (FDI) worldwide. It provides a thorough examination of the dynamic global environment around foreign direct investment. The objective is to offer an understanding of the global FDI dynamics and underlying trends. This chapter also examines the subregional distribution of foreign direct investment investments across several nations, providing insight into the regional variations in inflows of foreign capital.

2.1 FDIs before the 2007 crisis

In terms of growth as a proportion of GDP, foreign direct investment stocks did not increase throughout the Second World War and the Cold War. This was mostly ascribed to the complex political conflicts that were in place as well as an unstable and unequal economic environment. During this time, distrust was the general attitude regarding FDI. Many believed that foreign direct investments were ineffective for the nations they were intended for, particularly when cutting-edge technology were thrust into unprepared contexts. (Te Velde and UNCTAD, 2006). During this time, there was a shift in how FDI was seen, as political unrest and global dynamics hindered its expansion and made people more wary of investing abroad.

The amount of foreign direct investment has increased dramatically globally since the mid-1980s, exhibiting an exponential development pattern. In the 1990s and 2000s, foreign direct investment volumes increased by 600%, from around $200 billion to a peak of approximately $1,400 billion. Notably, this spike in FDI inflows mostly benefited emerging nations (Asia, Africa, Latin America, and the Caribbean). Interestingly, these regions showed resistance against the disruptive impacts of the 'Dot-com bubble' crisis that hit the developed world from March 2001 to October 2002, in contrast to developed nations.

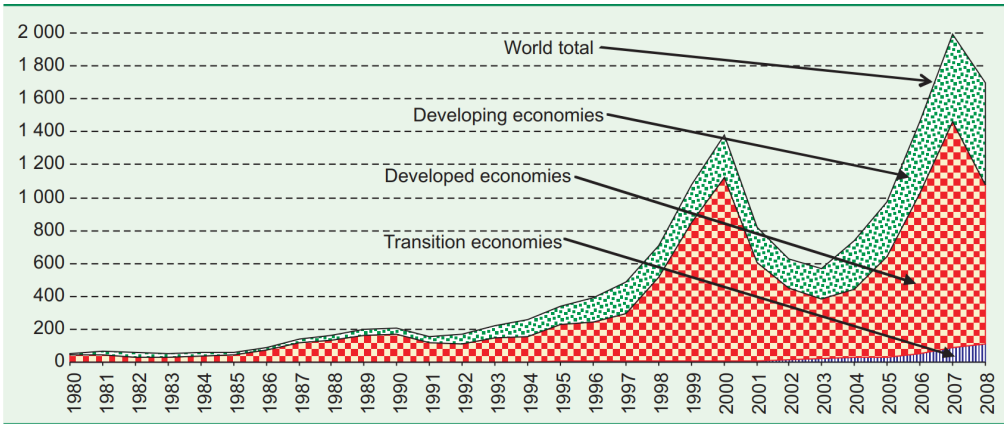


Figure 2.1: FDI inflows (billions), global and by groups of economies, 1980–2008 (UNCTAD FDI)

The world of foreign direct investment underwent a dramatic change in 2001. FDI inflows and outflows were approximately $735 billion and $621 billion, respectively. Interestingly, this signified a significant decrease of 51% in inflows and 55% in outflows. Notably, this was the first fall in inflows since 1991 and the first dip in outflows since 1992, resulting in the largest reduction in both indicators during the previous thirty years (UNCTAD FDI).

FDI inflows to developed nations, in particular, declined sharply, falling from around $1 trillion in 2000 to approximately $503 billion in 2001. Conversely, the amount of money coming into developing nations fell by a relatively smaller margin of 14%, from $238 billion to $205 billion.

This pattern was reflected in the patterns seen in FDI outflows, as inflows from industrialized nations fell from over $1.4 trillion in 2000 to approximately $0.6 trillion (UNCTAD FDI). Comparably, foreign investment from emerging nations saw a downturn, but one that was somewhat milder.

A major turning point in the history of foreign direct investment occurred in 2007. Global FDI surged to a record high, indicating increase for the fourth year in a row. The incredible inflow of $1,833 billion not only shattered the previous record set in 2000, but it also surpassed it by a significant amount, more than $400 billion.

This increase in FDI reverberated throughout the range of economies rather than just one. FDI inflows increased steadily in developed nations, developing nations, and the transition economies of South-East Europe (SEE) and the Commonwealth of Independent States (CIS) (WIR 2009).

Because of the dollar's considerable devaluation versus other major currencies, the World Investment Report's portrayal of foreign direct investment flows for the year 2007 in US dollars may include some inflation. When FDI flows are expressed

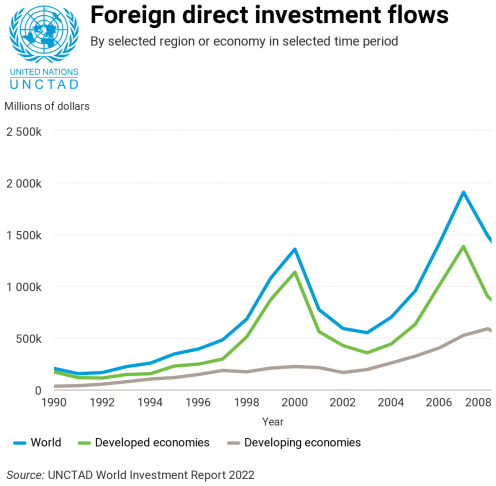


Figure 2.2: FDI Inflows 1990-2008

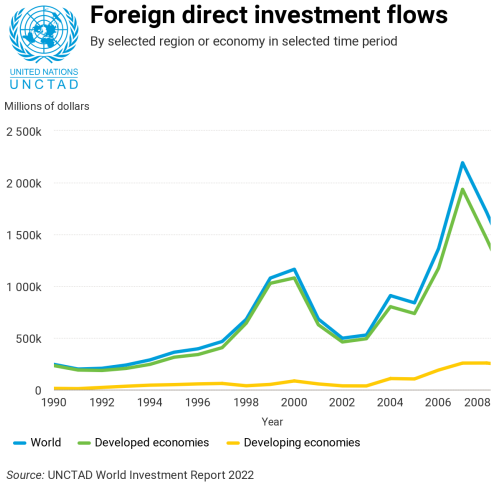


Figure 2.3: FDI Ouflows 1990-2008

in US dollars, the depreciation of the currency has an impact on the growth rates of those flows.

The image is different when considering growth rates of global foreign direct investment flows in local currencies as opposed to using the U.S. dollar as the baseline. According to a different viewpoint in which FDI flows are expressed in the national currencies of the participating countries, the average annual growth rate of global FDI flows over the 2006–2007 period was 23%. This statistic is significantly 7% less than the increase rate shown in statistic 2.4 for flows denominated in US dollars. It is noteworthy that FDI inflows underwent less increase in local currency terms relative to dollar terms in all regions and subregions except Central America.

Host economy	Growth rate of FDI flows denominated in dollars		Growth rate of FDI flows denominated in local currencies [a]	
	2006	2007	2006	2007
World	47.2	29.9	45.5	23.1
Developed economies	53.9	32.6	52.3	24.7
Europe	18.6	41.6	17.3	30.6
EU	12.8	43.0	11.5	31.6
Other developed Europe	421.5	19.9	430.1	14.4
North America	127.3	14.0	124.3	12.1
Developing economies	30.5	21.0	28.9	17.0
Africa	55.3	15.8	53.4	14.1
North Africa	89.2	-3.2	85.9	-5.7
Other Africa	31.2	35.3	30.4	34.4
Latin America	21.6	36.0	18.5	30.6
South America	-3.0	66.9	-7.8	54.9
Central America	1.8	26.6	0.0	27.2
Asia	29.9	17.0	28.9	13.1
West Asia	50.1	11.7	53.4	8.6
South, East and South-East Asia	24.8	18.6	22.6	14.5
East Asia	13.5	18.8	11.8	16.2
South Asia	112.4	18.8	117.5	11.1
South-East Asia	31.1	18.1	25.3	11.8
South-East Europe and CIS	84.6	50.3	78.9	42.2

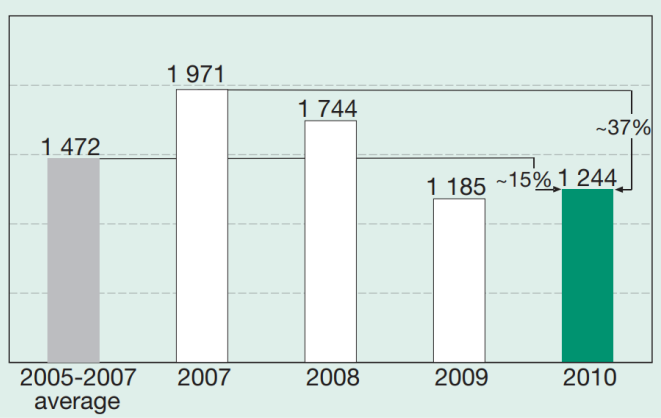
Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and own estimates.

Figure 2.4: Growth rates of FDI flows denominated in (United States) dollars and in local currencies, 2006–2007 (Per cent)

2.2 FDIs from 2009 to present

Throughout 2007, inflows of foreign direct investment increased steadily on a worldwide scale. At $1,833 billion, these inflows hit a record high, exceeding the last peak noted in 2000 (UNCTAD 2008). Even though the financial and credit crisis started to affect many economies at the end of 2007, it had little effect on the amount of FDI inflows that year. But it also brought new risks and uncertainties to the world economy.

The crisis of 2007 came after a long and complex period of recovery, especially for developed countries. Global FDI inflows decreases in 2008 and 2009, there was a little uptick in 2010. In 2010, these inflows totaled $1.24 trillion, an increase of 5% from the year before (see Figure 2.5). The main cause of this measured expansion was the increase of foreign direct investment into emerging nations. Notably, emerging nations and transition economies as a whole absorbed over half of all FDI flows for the first time. Even if global commerce and industrial output had returned to pre-crisis levels, foreign direct investment flows in 2010 were still around 15% below pre-crisis average and 37% below the peak recorded in 2007 (WIR 2011).



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

Figure 2.5: Global FDI inflows, average 2005–2007 and 2007 to 2010 (Billions of dollars)

Global flows of foreign direct investment saw a noteworthy 38 percent growth in 2015, totaling $1.76 trillion. This was the highest since the 2008–2009 global financial and economic crisis. It is noteworthy, therefore, that foreign direct investment flows in 2015 remained around 10% below the 2007 high. A major increase in cross-border mergers and acquisitions (M&As)—which increased from

$432 billion in 2014 to $721 billion—was the main cause of this worldwide recovery (UNCTAD 2016).

In 2018, flows of foreign direct investment into developed economies fell sharply, by 27 percent, to the lowest level since 2004 (see Figure 2.6). North America showed greater resiliency with a 4 percent fall to $291 billion, while FDI flows to Europe more than halved to $172 billion. Even though the value of cross-border M&A activity increased by 21%, it was insufficient to counteract the negative outflow of foreign direct investment from the United States due to tax reforms (UNCTAD 2019).

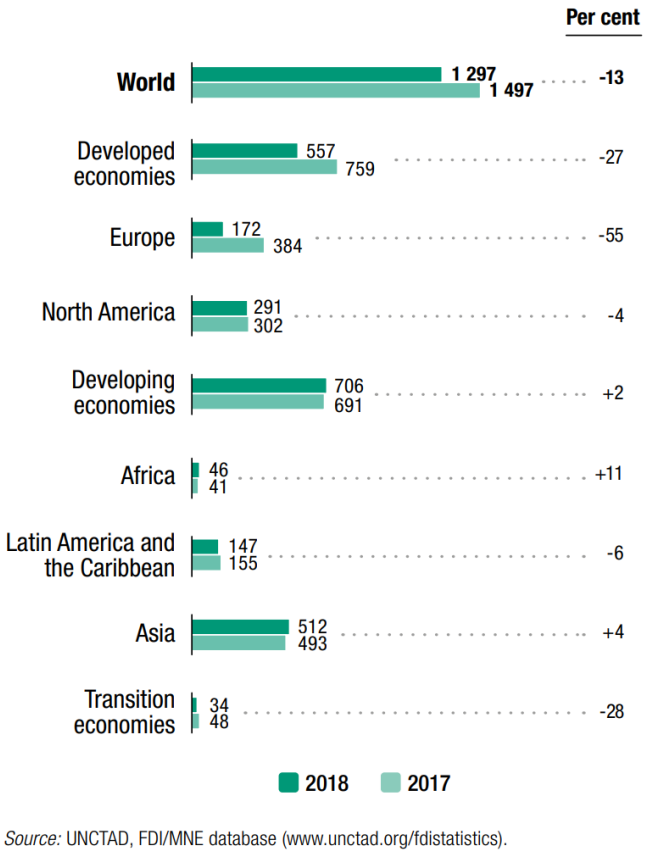
Particular host nations in Europe, Ireland and Switzerland, had negative inflows of -$66 billion and -$87 billion, respectively. Additionally, FDI flows into the UK fell by 36% to $64 billion, mostly as a result of a fall in new equity investments. However, the conclusion of a number of noteworthy agreements resulted in higher inflows into the Netherlands (up 20% to over $70 billion) and Spain (where inflows quadrupled, totaling approximately $44 billion) (UNCTAD 2019).

Nine percent less foreign direct investment was received in the US in 2016, amounting to $252 billion. This fall was mostly caused by a third less in cross-border M&A deals. Conversely, Australia saw record FDI inflows of over $60 billion as overseas affiliates spent an unprecedented $25 billion of their earnings domestically (UNCTAD 2019).

Global flows of foreign direct investment fell by 12% in 2022, totaling $1.3 trillion (see Figure 2.7). This came after a precipitous decline in 2020 and a subsequent increase in 2021. There were many crises and difficulties facing the world at the time, such as the conflict in Ukraine, rising food and energy costs, the possibility of a recession, and pressure from national debt. All these elements together had a detrimental effect on foreign direct investment. Notably, tightening financing conditions, rising interest rates, and increased market uncertainty had a specific impact on international project finance values and cross-border mergers and acquisitions. International project financing agreements had a significant 25% reduction in value in 2022, while cross-border M&A sales decreased by 4%.

The worldwide landscape for cross-border investment and international business is still difficult as 2023 approaches. Even if some of the economic headwinds that affected investment trends in 2022 have lessened, they are still there to some degree. Even if the dramatic increase in commodity prices that coincided with the start of the crisis in Ukraine has subsided, geopolitical tensions are still quite high. Investor unease is exacerbated by recent unrest in the financial sectors of certain wealthy nations. The persistent problem of high debt levels limits budgetary allocation in emerging nations. UNCTAD predicts that the global FDI trend will continue to decline in 2023.

The uncertainty that pervaded the financial markets and the slowing down of stimulus packages contributed to the decline in foreign direct investment in



Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).

Figure 2.6: FDI inflows, by region, 2017–2018 (Billions of dollars and per cent)

developed economies in 2022. Overall values were also impacted by the erratic character of FDI flows in developed economies. The overall FDI in Europe was influenced by changes in the main conduit economies as well as a substantial capital outflow from a multinational telecom company based in Luxembourg. The drop in cross-border M&A values was a major factor in the 26% decline in inflows to the United States (UNCTAD FDI).

Conversely, foreign direct investment flows to emerging economies saw a rise overall. The amount of money coming into developing Asia was almost $662 billion, as seen in Figure 2.7. A significant 51% increase was observed in Latin America and the Caribbean, where the amount reached a record high of $208 billion. On the other hand, after a peculiar surge in 2021 brought on by a significant business reorganization in South Africa, inflows into Africa fell by 44%.

More than two thirds of foreign direct investment went to developing nations, a significant rise from the 60% share in 2021. The multifaceted issues disproportionately affected investment flows to the poorest nations, especially those pertaining

to food, energy, and financial and debt distress. Under these circumstances, flows to the LDCs decreased by 16%, keeping their share at only 2% of global FDI.

Multinational enterprises from developed economies reduced their international investments by 17% in 2022, totaling $1 trillion. The percentage of developed economies in the global outward foreign direct investment panorama was steady at two thirds. In particular, the total amount of foreign investment made by European MNEs fell precipitously, falling by 61% to $224 billion. This is a significant decrease from the $573 billion reported in the year prior, 2021.

Region	FDI inflows			FDI outflows		
	2020	2021	2022	2020	2021	2022
World	**962**	**1 478**	**1 295**	**732**	**1 729**	**1 490**
Developed economies	315	597	378	350	1 244	1 031
Europe	133	51	-107	-38	573	224
European Union	116	152	-125	64	477	96
Other Europe	17	-102	18	-102	97	128
North America	123	453	338	247	447	452
Other developed countries	60	93	147	141	224	354
Developing economies	647	881	916	382	485	459
Africa	39	80	45	1	3	6
Asia	516	662	662	383	445	396
Central Asia	7	7	10	-2	1	-2
East Asia	285	334	324	267	290	269
South Asia	71	53	57	11	18	16
South-East Asia	119	213	223	69	81	86
West Asia	35	56	48	38	55	27
Latin America and the Caribbean	90	138	208	-1.0	38	59
Oceania	1.0	1.3	1.2	-0.9	-1.6	-2.1
Structurally weak, vulnerable and small economies[a]	**38**	**43**	**41**	**0.2**	**2.2**	**1.0**
LDCs	23	26	22	1.4	-0.6	1.4
LLDCs	15	19	20	-1.4	1.6	-2.2
SIDS	6	6	8	1.0	0.8	1.6
Memorandum: percentage share in world FDI flows						
Developed economies	32.8	40.4	29.2	47.8	72.0	69.2
Europe	13.8	3.4	-8.2	-5.3	33.2	15.1
European Union	12.0	10.3	-9.7	8.7	27.6	6.5
Other Europe	1.8	-6.9	1.4	-13.9	5.6	8.6
North America	12.8	30.7	26.1	33.7	25.8	30.4
Other developed countries	6.3	6.3	11.4	19.3	13.0	23.8
Developing economies	67.2	59.6	70.8	52.2	28.0	30.8
Africa	4.1	5.4	3.5	0.2	0.2	0.4
Asia	53.7	44.8	51.1	52.3	25.8	26.6
Central Asia	0.7	0.5	0.8	-0.3	0.1	-0.2
East Asia	29.6	22.6	25.0	36.5	16.8	18.1
South Asia	7.4	3.6	4.4	1.5	1.0	1.1
South-East Asia	12.3	14.4	17.2	9.4	4.7	5.8
West Asia	3.7	3.8	3.7	5.2	3.2	1.8
Latin America and the Caribbean	9.3	9.3	16.1	-0.1	2.2	4.0
Oceania	0.1	0.1	0.1	-0.1	-0.1	-0.1
Structurally weak, vulnerable and small economies[a]	4.0	2.9	3.2	0.03	0.1	0.1
LDCs	2.4	1.8	1.7	0.2	-0.03	0.09
LLDCs	1.6	1.3	1.5	-0.2	0.1	-0.15
SIDS	0.6	0.4	0.6	0.13	0.05	0.1

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
[a] Without double counting countries that are part of multiple groups.

Figure 2.7: FDI flows, by region, 2020–2022 (Billions of dollars and per cent)

Chapter 3

Morocco: an overview

This section gives a thorough introduction to Morocco, highlighting both its basic characteristics and exploring the complex web of its economic systems.

3.1 A concise portrayal of Morocco

Morocco, known as "Maghreb" in Arabic, means "West". Morocco's capital, Rabat, is located in the north of the country. The Strait of Gibraltar, which divides it from Europe, defines the northern boundary. Algeria is to the east, while Mauritania shares the southern border. Morocco has two different coastlines: one in the Atlantic and the other in the Mediterranean. Geographically speaking, Morocco has the largest plains and the highest mountains in all of North Africa. The Rif, Middle Atlas, High Atlas, and Anti Atlas are the four main peaks that define the country's terrain.

Moroccan population growth has decreased (from 2.04% in 1982 to 1.02%) in 2022, despite the country's total size being 446,550 square kilometers (The World Bank, 2022). Over 12 million children under the age of 18 are housed in the nation, which has a population of over 37 million (UNICEF, 2022). Berbers are about 40% of Morocco's population, with 'Berberophones' making up 80% to 100% of the local population in some rural regions. The majority of the remaining population are arabs. Islam is the recognized religion of the nation; Sunni Muslims make up 98.7% of the population, followed by Christians (1.1%) and Jews (0.2%).

3.1.1 Historic Overview

The historical origins of Morocco span the Berber, Carthaginian, and Roman empires, dating back to 110 BC. The Arab invasion brought Islam and the Arabic language to Morocco in the seventh century AD. The Alaouite Dynasty's rise to

power in 1666 cemented its hegemony, which is still in place today.

With its advantageous location as a gateway to Africa and its close proximity to both the Mediterranean and the Atlantic, Morocco emerged as a major hub for international interests, particularly those originating in Europe. After a string of military and economic interventions starting in 1902, the nation was placed under French and Spanish protectorates from 1912 to 1956. After gaining independence in 1956, King Mohammed V held the throne until 1961, when his son, Hassan II, took over. In the 1970s, Morocco annexed the Western Sahara when Spain demanded its reintegration after independence.

Mohammed VI has been leading the country since 1999 and supervising a number of reform programs, especially in the areas of human rights and development.

3.1.2 National Political System

According to a Constitution enacted on October 9, 1972, Morocco is a "constitutional, democratic, and social monarchy". Articles 19 to 35 of the Constitution grant the King ultimate sovereignty, but they also demand the separation of powers between the legislative, executive, and judicial branches. Three amendments to the Constitution were made throughout time, bringing in a bicameral Parliament in May 1980, September 1992, and November 1996.

The House of Representatives, whose members are chosen directly by universal suffrage to serve five-year terms, and the House of Councillors, whose members are chosen indirectly to serve nine-year terms, make up the Parliament. There have been modifications to the electoral system recently. International observers mostly considered the most recent parliamentary elections, which took place in 2007, to be free and fair. Openness While acknowledging several shortcomings, Maroc's assessment on the June 2009 municipal elections rated the legal administration and conduct of the elections as "overall adequate". The study also emphasized procedures that support increased female representation in local councils and enhancements to voter registration.

The King of Morocco holds executive authority and selects the Prime Minister and the government. Important agencies including the Interior, Foreign Affairs, Defense, and Religious Affairs are under the King's supervision. The King may also take action in other areas by royal proclamation or "dahir". Law enforcement and the administrative process are under the purview of the government, which is led by the prime minister. Presenting policies and plans to the Parliament, the prime minister oversees the coordination of government operations.

3.1.3 Morocco: 20 years of reforms

Morocco had notable improvements as the new millennium got underway in a number of socioeconomic categories. Both life expectancy and the infant mortality rate significantly decreased, approaching values similar to those of industrialized nations. Significant progress was made in terms of raising income levels, reducing poverty, and improving access to education. Large-scale public sector investments made it easier to build high-quality infrastructure, which is a necessary precondition for the growth of the private sector. Morocco was strategically opened to international commerce by a series of reforms that attracted foreign investors into important global value chains. Along with boosting public finances, these changes helped modernize the framework for monetary policy and enhanced governance in a number of Moroccan economic sectors.

Morocco's standard of life has improved significantly over the previous few decades, as Figure 3. 1 illustrates. Since 1960, life expectancy has increased by over 30 years, outpacing the norm for the Middle East, North Africa, Afghanistan, and Pakistan (MENAP). Along with a dramatic reduction in maternal death rates, which are presently below the average for MENAP nations, has come the infant mortality rate. Notably, these achievements were made possible by health spending that is much below average compared to most MENAP nations, which has led to a somewhat constrained supply of healthcare services (as shown by hospital beds, doctors, and nurses) and high out-of-pocket expenses.

It is predicted that ongoing measures, such as the pursuit of universal health care insurance and the thorough reform of the governance of the healthcare system, would improve the quality and accessibility of healthcare services.

Figure 3. 2 illustrates the significant improvements in living conditions that Morocco has achieved. Since the late 1990s, Morocco's real gross domestic product per capita has almost doubled, allowing it to overtake lower-middle-income MENAP nations. 2014 saw a fourfold decline in poverty rates, much surpassing the rest of the area. Compared to the MENAP country average of 1% of GDP, Morocco devotes a comparatively larger amount of its GDP (2.5 percent in 2020) to social assistance; yet, this spending is dispersed among several programs with unclear goals.

In response, the government has unveiled plans to overhaul the social safety system. These plans aim on combining current initiatives into a significant expansion of the conditional cash transfer program, known as allocation familiales, with a focus on low-income families with children. Furthermore, the Unified Social Registry, which is scheduled to launch in 2023, aims to improve aid targeting by concentrating on the most vulnerable.

As seen in Figure 3.2, panel 3, adult literacy rates have skyrocketed over the past 40 years, despite the fact that they still lag behind the average for MENAP

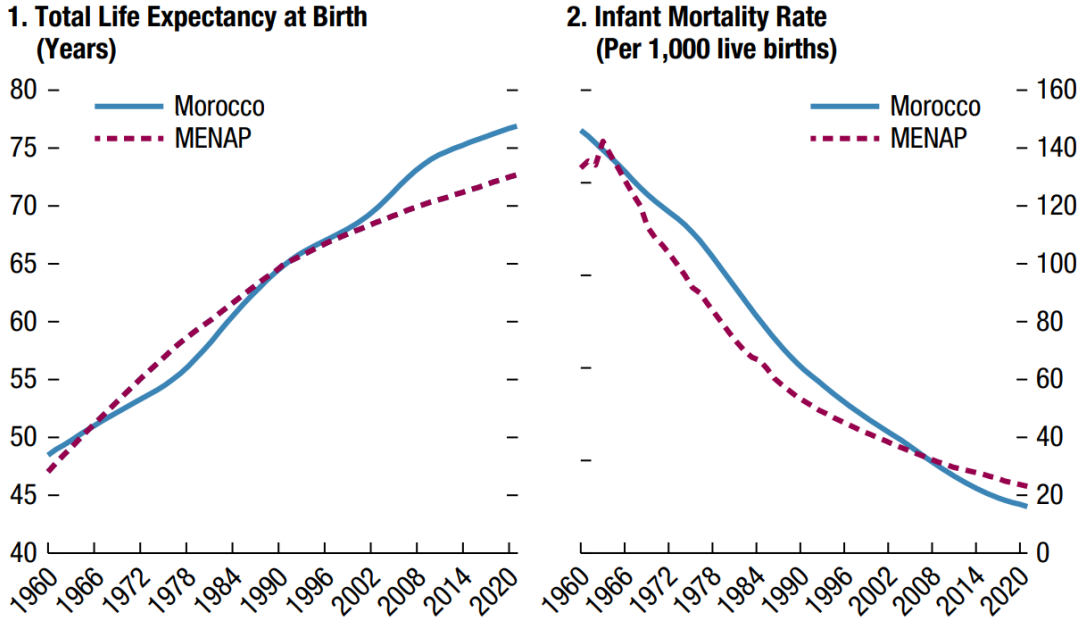


Figure 3.1: Living condition

nations in 2018. This indicates a tremendous growth in educational possibilities.

A number of ambitious projects were started to improve Morocco's economic climate. The creation of a competition council in 2014, which was fully functioning by 2019, was key in putting a stop to monopolies and anti-competitive practices. Morocco implemented new bankruptcy laws and digitalized business registration and property transfer procedures in 2018. Measures were implemented to enhance the credit availability for small and medium-sized businesses (SMEs). Beginning in 2013, the Central Bank offered advances and refinancing to banks that provided investment loans to SMEs. Over the past ten years, there has been a rise in new entrants in industries including retail, construction, real estate, and services as a result of these changes' cumulative promotion of a more business-friendly environment (World Bank 2019).

Morocco also achieved great progress in improving accountability, transparency, and governance in the public sector. This includes the establishment of a new National Agency for the prevention of and fight against corruption, as well as the approval of the National Strategy Against Corruption in 2015. A new information access legislation that went into effect in 2019 gave people the ability to seek access to public documents and required public institutions to provide more information. Through the digitization of public administration, the National Plan for the Reform of Public Administration (2018–21) aims to streamline administrative processes and

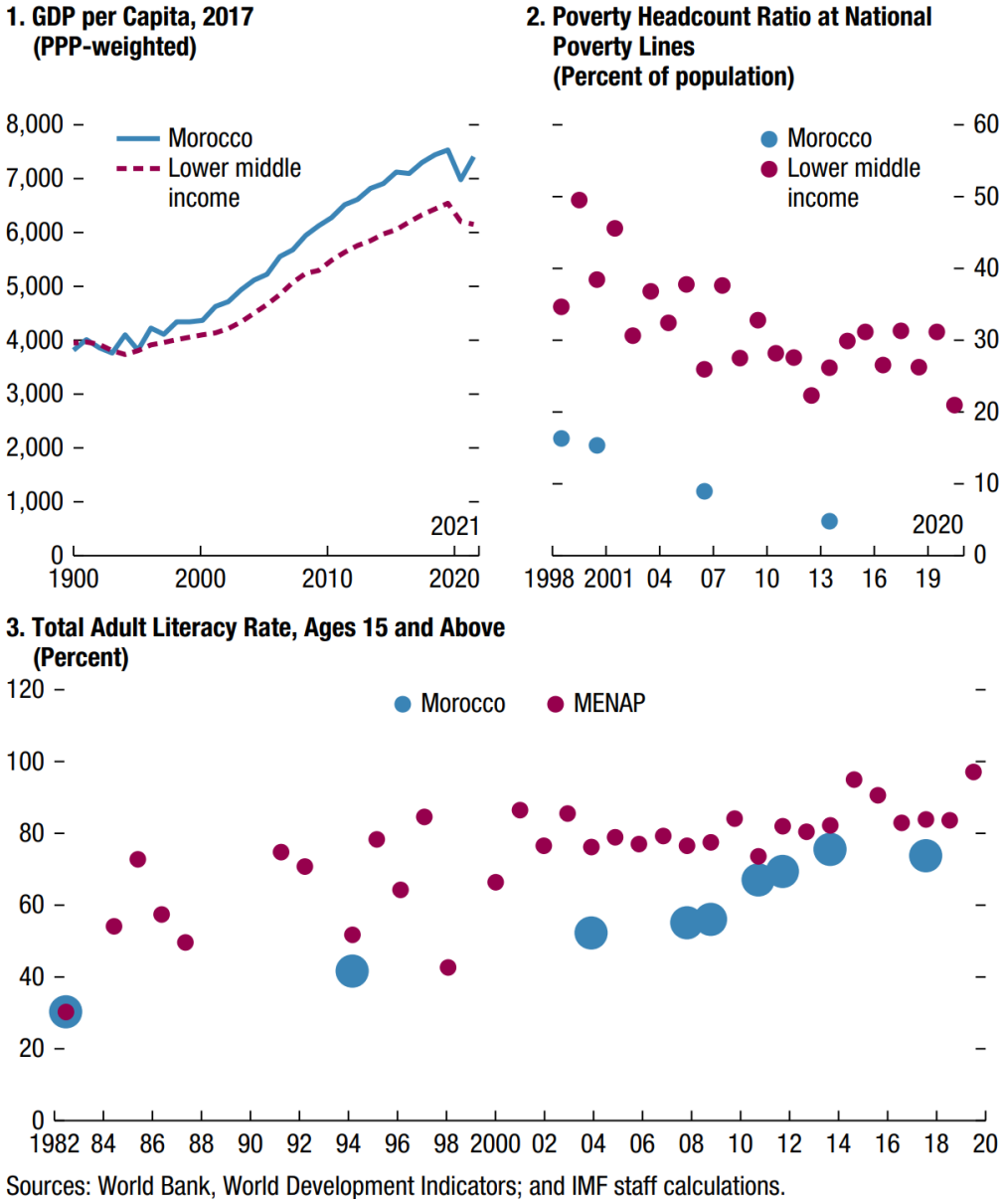


Figure 3.2: Social outcomes

enhance budgetary and human resource management. For Moroccan individuals, this included the creation of a single online site as well as the consolidation of information from many registries, including those pertaining to property, justice, population, and land. The implementation of the Organic Budget Law in 2015 included measures to strengthen the oversight role of parliament and the Court of Accounts ("Cour des Comptes"), thereby reinforcing public accountability.

3.1.4 Economy

Morocco's economy, which is the fifth-largest in Africa according to Trading Economics (2022), is dominated by the agricultural sector, which employs around 45% of the labor force and generates 15% of the country's GDP. The health of this industry is essential to development and economic activity.

The industrial sector is important, accounting for 23% of the GDP. Important industry subsectors include mining, construction, and manufacturing. More than two thirds of the world's phosphate deposits, which are essential for the creation of fertilizer, are found in Morocco. Phosphate and its byproducts used to be the main exports. Apart from phosphates, Morocco has very little mineral resources. The bulk, or 54% of the GDP, is commanded by the services sector, which includes transportation, public administration, and tourism.

Among the most developed in the wider area, Morocco's banking industry is the most developed in North Africa. The Moroccan economy is based mostly on tourism.

The automobile, electronics, chemical, and aerospace sectors have helped to diversify the economy and lessen reliance on the agriculture sector. Morocco's economic vulnerability, however, is its extreme reliance on imports due to the lack of energy supplies. The government is leading the transition to renewable energies and reducing reliance on imports of energy from outside the country in an effort to lessen this dependency. It is primarily investing in wind and solar power.

Agriculture

The foundation of Morocco's economy is the agricultural sector, which includes raising cattle, growing crops, forestry, and fishing. Approximately 4 million rural residents, or 45% of the labor force, are employed in this sector, which generates about 15% of Morocco's GDP. In the agricultural sector, traditional production methods are widely used, with minimal usage of pesticides, fertilizers, and machinery.

The private, irrigated, modern farms in the regions that specialize in exporting fruits and vegetables stand in stark contrast to the smaller, rain-dependent farms that grow cereals and olives. Despite making up only 16% of all cultivated area, irrigated land accounts for half of all agricultural GDP and produces 75% of agricultural exports. The majority of farms are small-scale, with around 70% cultivating fewer than five hectares, occupying a quarter of the total cultivated land, primarily producing food for local markets or personal consumption.

75% of arable land is used for cereal crops, which include corn, wheat, barley, rice, and sorghum for animal feed. Pulses such as lentils, chickpeas, peas, and soybeans occupy a portion of the land. Because cereal crops rely on rainfall, agricultural productivity is prone to variations. The greatest drought in thirty years struck

in 2015 and 2016, resulting in a sharp decline in cereal output from 11.5 million tons the year before to 3.35 million tons in 2016, which had an adverse effect on economic growth.

Livestock, especially red meat and dairy products, is vital to the economy and food security since they provide income for more than 80% of rural residents and provide as a buffer against drought's impacts. In Morocco, home production accounts for about 90% of fresh milk and dairy products and 98% of red meat consumption. The nation is the world's top exporter of capers, white beans, and argan oil. It comes in third for canned olives, fourth for tomatoes, and fifth for clementines.

Derived from the fruit of the argan tree, argan oil has been used historically in Moroccan cooking and is associated with several health advantages. It is used in many cosmetic products and is rich in vitamin E, antioxidants, and anti-inflammatory components.

Fisheries

Morocco's Atlantic coastline makes it one of the world's most productive fishing destinations. With more than 400 fish processing facilities and more than 300 fishing vessels, the fishing sector adds 2.3% to the GDP. Morocco was the largest seafood exporter in Africa and the thirteenth largest in the world in 2018. Interestingly, Morocco and China are the two countries that export the most octopuses worldwide. Although aquaculture makes up a very minor portion of Morocco's fish output, in 2016 King Mohammed VI opened the country's first commercial shellfish hatchery and farm.

Making up 58% of agri-food exports and 7% of all exports, the fish processing industry is a significant participant and is mostly concentrated on frozen fisheries.

With more than 50 years of experience in the extraction of agar from algae, Morocco is currently the second-largest agar exporter in the world.

Industry and Manufacturing

The manufacturing sector employs around 20% of the labor force and generates 29.5% of the GDP, making it a major employer in the economy. The automobile business has grown significantly in the last several years, overtaking the phosphate industry to become the leading export commodity from Morocco. The main industries in Morocco at the moment are the automotive sector (which accounts for 24% of total exports), the agricultural and food processing sector (which accounts for 21% of exports), phosphate and its derivatives, which includes fertilizers (18% of total exports), textile and leather products (15%), aerospace products (5% of total exports), and electronic goods (4% of total exports). Although Moroccan businesses mostly serve their own markets in the cement and pharmaceutical

industries, they have expanded by setting up manufacturing facilities across West Africa. Pharmaceuticals contribute approximately 1.5% to the GDP and represent 5.2% of the industrial production.

Automotive

Morocco has made a name for itself on the continent of Africa's car industry. With a history in auto component production stretching back to the 1960s, the industry saw a significant boost in 2012 with the arrival of the French manufacturer Renault. Renault runs two strategically placed car assembly facilities in Tangier and Casablanca. In 2017, the firm stated with pride that it had produced one million automobiles in Morocco, marking a historic milestone. at the meanwhile, the famous French carmaker PSA Peugeot Citroën runs its facility at Kenitra, which is north of Rabat along the Mediterranean. Beyond the influence of Europe, the Italian company Sogefi specializes in producing engine filtration systems from its Tangier production facility, while the Canadian producer Linamar concentrates on creating auto engine parts. Notably, the Chinese company BYD is actively engaged in constructing an electric vehicle factory within the Mohammed VI Tangiers Tech City.

Mining

Morocco's mining industry, which accounts for 10% of GDP, is one of the most desirable in the Middle East and North Africa, second only to Saudi Arabia. Its attraction is mainly due to the existence of profitable subsectors including copper, gold, and phosphate. Maya Gold & Silver, a Canadian international mining exploration business, is one of the collaborative exploration partnerships made possible by the mining industry's recent privatization and the updated mining legislation.

Morocco is the second-largest worldwide exporter of phosphates after China, and it possesses the largest phosphate deposits in the world, with an amazing 77% share. In consequence, almost 90% of the nation's entire mineral production is made up of phosphates. In 2018, the state-owned OCP, a major fertilizer exporting company with its headquarters in Casablanca, made a calculated decision to establish a major cooperation with Ethiopia. The goal of this partnership is to build the biggest fertilizer factory on the continent, including a significant USD 3.6 billion investment.

Energy

Morocco is unique among the MENA countries in that it still depends entirely on imports to meet its 90% energy needs. The energy mix of the country is varied;

coal (31%), fuel oil (25%), hydroelectricity (22%), natural gas (10%), wind (10%), and solar (2%) are the sources of power generation. The major oil and gas fields are found in the Gharb Basin in the north and the Essaouira Basin along the coast.

An important feature of Morocco's energy environment is the yearly natural gas supply from the Europe-Maghreb Pipeline. This pipeline makes it easier to move natural gas from Algeria via Morocco and into Spain.

Morocco has run two oil refineries in the past before important things happened. The Sidi Kacem refinery closed in 2009, and unresolved tax concerns forced the closure of the second refinery at Mohammedia, which was close to Casablanca, in 2015. A major turning point was the closing of the Mohammedia refinery, which left Morocco dependent on imported refined goods to supply domestic demand.

Trade

In 2018, Morocco's trade deficit widened, a development that was ascribed to the significant influence of imports of gas and oil on the trade balance, offsetting the favorable increase in exports, mainly of cars and phosphates.

Morocco's main commercial partner is the European Union, whose imports from Morocco are mostly made up of textiles, apparel, agricultural products, and industrial and transport equipment. In contrast, energy, metals and minerals, apparel and textiles, machinery and transport equipment, and agricultural products are among the goods that the EU sends to Morocco. An Association Agreement formalizes Morocco's cooperation with the EU, and talks are underway to finalize a Deep and Comprehensive Free Trade Agreement. With the EU, Morocco has a special partnership under the framework of the Euro-Mediterranean Partnership.

With a deliberate approach, Morocco has established free trade agreements with a number of nations and areas, such as the US, the EU, Turkey, and the United Arab Emirates. In addition, Morocco is a part of the Arab free trade area known as the Agadir group, which also consists of Tunisia, Egypt, and Jordan. Despite Morocco's 2017 application to join the Economic Community of West African States (ECOWAS), discussions have been hindered by the need to remove travel restrictions for ECOWAS nationals who pass via Morocco to reach Europe.

Morocco's main export markets are France, Spain, Germany, Italy, and the United States; on the other hand, its main import sources are China, Spain, France, Germany, and Italy. vehicles, chemical fertilizers, insulated wire, women's clothes, and phosphoric acid are among Morocco's top exports. Its top imports include refined petroleum (worth USD 3.13 billion), vehicles, petroleum gas, vehicle components, and wheat.

Tourism

Morocco has one of the most developed tourist industries in Africa, and it works hand in hand with other important economic sectors including phosphates, agriculture, and the automobile industry. Morocco's close proximity to Europe, year-round pleasant weather along the coast, rich historical and cultural traditions, and relatively stable political climate are what make the country an appealing travel destination for both domestic and foreign travelers. All of these elements work together to establish Morocco as an alluring and popular tourism destination. Morocco welcomed almost eleven million tourists in 2022. With around 550,000 direct jobs, the tourist industry contributes significantly to the country's labor force—roughly 15% of all working people.

Chapter 4

FDI in Morocco

This chapter's main goal is to look into the main factors that influence foreign direct investments in Morocco and how such investments affect the local economy. This section offers a summary of academic research on the factors that influence foreign direct investment in Morocco. It also includes a descriptive analysis of registered projects and their effects on Morocco's several regions.

Investments are essential for promoting economic development and making jobs possible. Especially in the contemporary environment of dispersed international production networks, a country's capacity to draw in foreign direct investment can enhance its export commerce through active engagement in the global value chain. It is interesting that the phenomenon of knowledge spillover tends to reduce productivity dispersion in sectors with a significant presence of foreign enterprises (Mona, 1993). Additionally, local industry growth is promoted by FDI's positive externalities through inter-firm links (Barrios, Görg, and Strobl, 2005). It should come as no surprise that many nations have implemented measures in an attempt to draw in foreign direct investment.

4.1 Attracting FDI: Examining Morocco's Context

Morocco has consistently demonstrated since gaining independence in 1956 that it is dedicated to attracting money and investment from overseas through a range of investment policies. A climate that is conducive to investment is created by the country's wealth of natural resources, as well as a number of comparative advantages such its close proximity to Europe, well-developed infrastructure, skilled labor force, French-speaking populace, and tax benefits. Morocco's economy was largely protected prior to the 1990s, primarily depending on industrialization through import substitution and agricultural self-sufficiency (Currie & Harrison, 1997). In an effort to modernize Morocco's economy, the government launched a revolutionary

wave of economic reforms in the 1990s. Interestingly, one particular reform was to improve the Moroccan investment code in order to draw in international capital (World Bank, 1993).

To attract foreign investment, the government implemented a broad privatization of state-owned businesses in conjunction with the modification of the investment charter. An example of this may be found in 2001 when the government sold to Vivendi, a French business, 35% of its ownership in Maroc Telecom. Strategic Free commerce Agreements with important trading partners to support both commerce and investment were another crucial step in luring foreign investment. Among the important accords are the free trade deal with the United States, the Association deal with the European Union, and the Agadir Declaration signed by Morocco, Egypt, Tunisia, and Jordan. These policy agreements significantly influenced the nature of later foreign investment in Morocco.

In the late 1990s, the Moroccan tax structure was significantly simplified at the same time. With the establishment of the General Tax law, the Moroccan government simplified the nation's tax law in recognition of the possible link between reduced profit taxes and increasing inbound foreign direct investment. In particular, new investors were granted a five-year exemption from Value-Added Tax at the approval of the "investment charter" in 1995.

4.2 The Evolution of FDI in Morocco

Morocco has been one of the most sought-after locations for foreign direct investment in the Middle East and North Africa throughout the last 20 years. There was an upward trend in the percentage of FDI to GDP, with average increases of 0.34% in the 1960s, 0.61% in the 1970s, and 0.7% in the 1980s. The tendency kept accelerating, peaking at 2.17% in the 1990s and rising to 6.44% in 2000.

Strong growth can be seen when examining the trends in the percentage of foreign direct investment in gross fixed capital formation, which were 9.81% in the 1960s, 14.92% in the 1970s, 26.12% in the 1980s, and a significant increase to 25.78% in the 1990s. The percentage of GFCF to GDP increased to 26.23% in 2020 and to 28.33% in 2010.

Foreign Direct Investment inflows significantly increased after the Association Agreement with the EU was approved in 1996. Still, efforts to privatize were stepped up in the second part of the 1990s. After a part of Maroc Télécom was sold to Vivendi Universal in 2001, the amount of foreign direct investment increased to 33.3 billion dirhams (Dh). But by 2002, this amount had dropped to just Dhs 6.8 billion. The manufacturing sector attracted 27% of FDI between 1983 and 1996, placing it at the top of the list until 1996, according to an analysis of the sectoral breakdown of FDI. During the same period, the construction industry came in

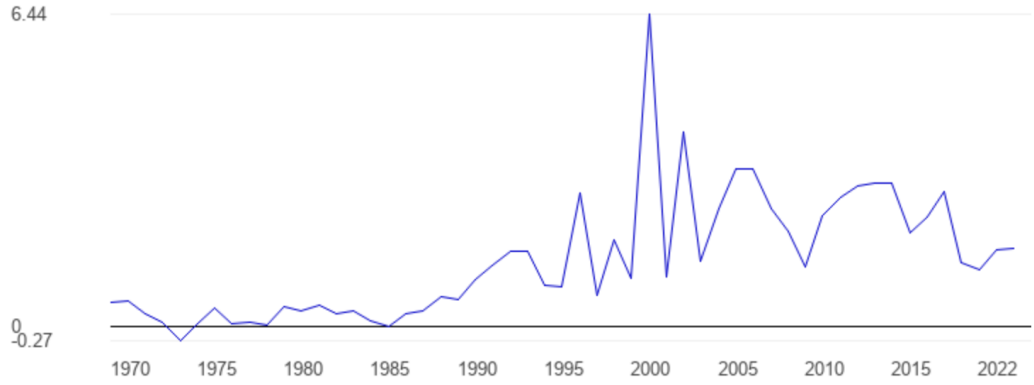


Figure 4.1: Foreign Direct Investment, percent of GDP, 1970–2022 (World Bank)

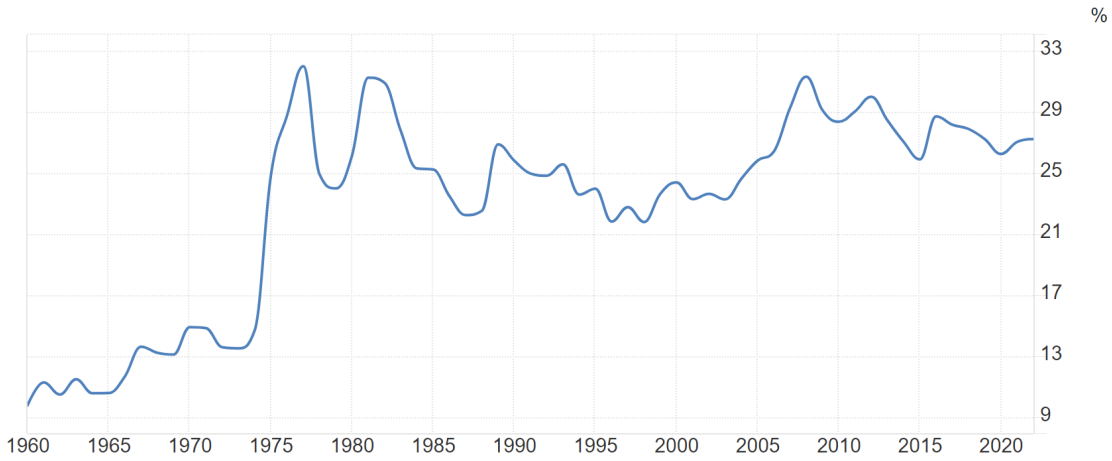


Figure 4.2: Gross Fixed Capital Formation, percent of GDP, 1960–2022 (World Bank)

second place with 20%, followed by the financial sector with 12%, and the tourist sector in fourth place with 7%. The banking sector recovered well between 1996 and 1998, but industry remained the priority. The privatization of this industry resulted in a telecommunications "boom" in the years 1999, 2000, and 2001.

The notable increase in foreign direct investment in the 1990s may be ascribed to the positive consequences of the structural adjustment program (SAP), which was put into effect in 1983 with the assistance of the World Bank and the IMF. The implementation of new trade and foreign investment regulations has also been a major factor in this expansion. Morocco's strategy for attracting foreign investment

consists of a number of initiatives (Bouoiyour and Toufik, 2007).

As is clear, unprecedented privatization initiatives are the main cause of the current spike in the rate of inflows of foreign direct investment. The question now being asked is whether this momentum will continue when the major national firms have been privatized. However, the success of these projects indicates the level of trust that international investors have in Morocco's economic environment, which might signal the beginning of a new entrepreneurial dynamic.

It is important to quickly review the development of the Moroccan institutional framework, which is intended to attract foreign direct investment, prior to diving into an analysis of the effects of openness on Moroccan growth.

4.2.1 Morocco's reforms to attract FDI

Morocco, which is known as a significant source of project finance and the construction of production capacity for developing nations generally, has made structural, institutional, and regulatory reforms to increase its attractiveness to international investors. The aim of these changes is to create a climate that is conducive to business, on par with other affluent nations that draw substantial international investment. The Moroccan government has completed a number of business and industrial projects since achieving independence. The focus of economic liberalization at the moment is on giving the private sector greater room in order to promote global openness and the growth of its stock market for foreign direct investment.

Assets that support the nation's economic and social development include the transfer of technology and know-how, encouragement of domestic investment, trade promotion, consumer market development, and progress of the labor market in terms of employment and human capital qualification. Morocco is integrating into the global economy by luring in more Foreign Direct Investment. Important turning points include the 1993 adoption of the banking legislation, which gave the central bank the authority to control and monitor the operations of credit institutions, as well as the modifications made to the currency and foreign exchange markets. The country's dedication to creating a favorable business environment is further demonstrated by the fiscal policies put in place to support both domestic and foreign investors setting up shop in the free trade zone that Morocco established and by the numerous free trade agreements that Morocco has signed with other nations.

We will outline the main changes Morocco made to its policy in order to draw in foreign direct investment and improve the business climate in general in this part. We classify these reforms into three groups: the first group deals with institutional and legislative changes, the second group concentrates on steps made to liberalize the Moroccan financial system, and the third group deals with the liberalization of financial and commercial operations.

Legislative and institutional reforms

The framework law No. 18-95 was adopted in 1995 with the intention of promoting both international and local investment and improving the working environment generally. It formed an investment charter in compliance with the requirements of the constitution. The state's investment and development policies must be reformed in order to comply with the demands of the new development model and the significant institutional, economic, social, environmental, and technological changes that have occurred more than 26 years after Law No. 18-95 was passed. During the first session of the first legislative year of the eleventh legislature, King Mohammed VI made a speech to the Parliament urging the immediate creation of a "new competitive investment charter."

Improving the Kingdom's appeal and positioning it as a hub for foreign direct investment on a continental and global scale are two of the main goals of the new charter. This involves making it easier to invest and enhancing the business climate. The law emphasizes that each region must establish regional investment centers in order to encourage foreign direct investment. Alongside the charter, an investment promotion fund was established.

A number of tax incentives have been implemented, including measures to enhance the business climate and encourage investment, lower the tax burden associated with purchasing land and equipment needed for investment, and provide complete exemption from business and urban taxes for five years following the commencement of business operations.

However, as other developed nations already provide similar technique, fiscal incentives by themselves are insufficient to draw in additional FDI. As a result, raising the Doing Business ranking and improving the business climate must happen at the same time. Morocco has been implementing legal business framework reforms since the early 1990s. These reforms include the enactment of new legislation pertaining to joint-stock corporations, labor code reforms, and commercial code reforms. As a result, Morocco has created distinct jurisdictions and implemented particular policies to solve problems pertaining to the legal business environment.

Morocco's reforms have centered around:

- Commercial Code: the enacted measures are intended to bring national and international company security into compliance with international standards.

- Company Law: highlighting joint stock companies and other existing structures to ensure regular access to information, facilitate foreign capital access, hold leaders criminally accountable, and monitor company activities by delegating control functions to a supervisory board and management functions to a board of directors.

- Commercial Courts: establishment of specialized jurisdictions to settle disputes quickly and effectively, preventing delays that might negatively impact business operations. There are three commercial appellate courts and eight commercial courts in the business legal system.
- Economic Interest Group (EIG): 1999 saw the introduction of a new legal form intended to encourage cooperation amongst legal entities, so promoting the growth of their operations and, as a result, financial outcomes.
- Industrial and Commercial Property: adoption of a legislation to safeguard commercial and industrial assets (trademarks, industrial designs, invention patents, and service marks) in the latter part of 2014. In order to protect their technical edge and know-how, foreign businesses steer clear of unfair competition and counterfeiting.

In an effort to improve the investment climate and streamline implementation procedures, a number of organizations have been established. The Regional Investment Center is a key participant in this environment. The RIC takes on a variety of roles:

In order to streamline the complex processes and shorten the time it takes for businesses to launch, it takes a decentralized approach to administrative duties in order to facilitate the development of enterprises.

In addition, the RIC has accountability for optimizing administrative procedures. Support is provided to both local and foreign investors, with an emphasis on helping small and medium-sized businesses get the required permits and streamline the compilation of crucial documentation.

The RIC is essential for encouraging regional investment in addition to helping individuals make investments. This entails researching certain sectors and producing reports that are directly related to the economic activities that are unique to different regions. By doing thus, the RIC plays a key role in the nation's investment environment and enhances the general economic development and allure of areas.

Liberalisation and modernisation of the financial sector

To face the challenge of attracting Foreign Direct Investment, the banking sector must, in turn, undergo a comprehensive overhaul. By drawing in foreign money, the goal is to alleviate financial restrictions and promote economic growth. The modernization and universalization of the banking industry, as well as the financial transaction liberalization, are the main topics of this section. In 1983, Morocco launched a Structural Adjustment Plan to modernize and liberalize its banking industry.

- Liberalization of the Banking Sector

The Moroccan banking sector has been reforming constantly to meet the requirements of a universal bank. The notion of the credit institution—which includes both banks and financing companies—was first established by the updated legislative framework. The monetary authorities, sometimes referred to as supervisory authorities (Governor of BAM; Ministry of Economy, Finance, and Administrative Reform), were endowed with stronger regulatory and penal powers by the banking legislation of 1993. The establishment of advisory entities, such as the Committee of Credit Institutions, the Professional Association of Financing Companies, the National Council for Money and Savings, and the Discipline Commission of Credit Institutions, was made possible by the same statute.

Thus, to manage the risks associated with the global economic environment, the 1993 law introduced prudential procedures. In this regard, Morocco started putting the Basel II Committee's initial pillars into practice in 2007. Moroccan credit institutions switched to implementing the second pillar by 2009. But they faced difficulties evaluating the danger of bank loans, especially since there were no credit ratings from professional organizations.

Instead of implementing a credit control policy, which mandates that each credit institution only provide credit up to a certain amount permitted by the monetary authorities, Morocco chose to modernize its monetary policy through interest rate manipulation.

- Reform of the Stock Market

  By removing obstacles to entrance, progressively implementing a fully convertible framework, offering a wide array of financial products, and giving advantageous tax arrangements, the stock market reforms of 1993 and 1996 sought to encourage financial investments by international investors. A dramatic shift in the financial system in 1993 resulted in a number of institutional and regulatory changes. The following were the main goals of improving the secondary market in order to make it more attractive to foreign direct investment:

  First, a crucial phase in the secondary sector's modernization process was the privatization of state-owned businesses. Foreign investors were drawn in by this calculated approach, which forced the financial industry to adapt to meet their demands.

  Concurrently, the Ethics Council for Securities was formed with the intention of restoring saver trust and modernizing the laws governing initial public offerings. This organization changed into the Moroccan Capital Market Authority (MCMA), extending its jurisdiction and reaffirming its independence. The MCMA's sanctions board, which consists of the board of administrations

and the sanctions board, evaluates instances that might result in criminal or administrative fines for personnel like auditors. The main goal is to increase the MCMA's openness and credibility, particularly in relation to its domestic financial activities, in order to create an environment of trust that will draw in international investors and encourage their financial contributions.

The Casablanca Stock Exchange Company was a trailblazer in the beginning of stock exchange administration and eventually became the Casablanca Stock Exchange.

Finally, financial organizations entrusted with collecting investor money were involved in the development of Collective Investment Schemes in Transferable Securities. Their responsibility is to guarantee that securities investments made in a lucrative portfolio are overseen by experts in the industry.

Liberalization of commercial transactions and financial flows with foreign entities

In order to attract international investment, the national exchange system must be restructured, with a particular emphasis on the rules and currency's convertibility policy. In this sense, Morocco has opened up the exchange regime to allow foreign investors to carry out financial transactions, simplifying the process and, most significantly, doing away with the requirement for exchange office permission in 1992. Before, in order to complete their transactions, investors had to supply a lot of information.

Investment activities include all forms of company formation or involvement, including the opening of a branch by a foreign company, capital increases, purchasing Moroccan securities, funding associates' current accounts, foreign currency loans subject to exchange controls, in-kind contributions, and other activities pertaining to real estate development and acquisition. Foreign investors are now unrestricted in their ability to select investments across all economic activity.

Thus, the option of private sector borrowing from foreign institutions has been created by the exchange system's deregulation.

4.2.2 Attractiveness factors and investment opportunities in Morocco

The core economic features of the host nations usually attract foreign direct investment. According to Karray and Toumi (2007), these attributes include things like the market's size and presence, political and economic stability, trade policy liberalization, the status of the economy, infrastructure, and institutional circumstances. In the case in which these vital components are missing, the increased risk of project failure may deter international corporations from making investments.

But it is important to emphasize that Morocco presents attractive investment prospects to foreigners. With its strategic economic and political stability that support the growth of its investment potential, Morocco successfully meets the requirements of FDI that investors look for. This is especially noticeable in foreign investment focused on exports. Morocco also boasts important natural resources including phosphates, underutilized mineral resources, and a sizable market with an estimated 35 million customers. The nation also has a wealth of human resources, which enable it to produce a workforce that is both affordable and competent and can adjust to changing market conditions. Additionally, Morocco gains from comparatively advanced infrastructures and enhanced security.

Since 1998, a key component of Morocco's institutional framework for economic policy has been the pursuit of macroeconomic stability (Yamani, 2012). The Moroccan economy has, indeed, achieved stable and robust macroeconomic indicators, facilitating a gradual return to economic growth.

Political stability

Morocco gains from a politically stable atmosphere. In 2013, terrorist actions raised worries in the region, but the nation was able to stabilize its security situation. In order to combat the threat of terrorism, Morocco has strengthened its security services in terms of manpower and logistical capabilities and has fortified its borders (Office des changes, royaume du Maroc, 2005). In addition, Morocco became a member of several international organizations, such as the UN Human Rights Council, the UN Committee against Torture, the Council of the International Maritime Organization (IMO), and the Executive Board of UNESCO, after serving as a non-permanent member of the Security Council for a year. Morocco won the right to hold the second World Forum on Human Rights in 2014. It is noteworthy that the country's political stability has positively influenced its country risk rating, contributing to the overall attractiveness of the nation (Bakhti Jamal, 2009).

Geographical proximity of potential markets

Like other Mediterranean countries, Morocco has a favorable geographic position that supports the growth of its investment potential. The Kingdom of Morocco is located near the northwest point of Africa due to its closeness to Europe, Africa, and the Arab world. Morocco is bounded to the north by the Mediterranean and to the west by the Atlantic Ocean. It is located less than 15 kilometers from Europe across the Strait of Gibraltar. With a vast size of 710,850 square kilometers, it is bordered to the east by Algeria and to the south by Mauritania. With 3,500 km of coastline running along the Atlantic (2,934 km from Cap Spartel to Lagouira) and 512 km in the Mediterranean (from Cap Spartel to Saïdia), this remarkable geographical

position holds the potential to stimulate export-oriented foreign investment and attract foreign capital effectively.

Availability of natural resources

One major advantage of Morocco's national economy is the abundance of natural resources. Morocco is endowed, contrary to popular assumption, with a variety of natural treasures, some of which are currently being used and others of which are either underutilized or undiscovered (Labry and Andre, 2001). Among these resources, noteworthy are:

- Phosphates: the manufacturing of fertilizer from phosphate rock extraction already brings in about $7 billion annually. The Ministry of Energy, Mines, Water, and the Environment is now investing $14 billion in massive projects to raise the capacity of phosphate production from 30 million to 50 million tons. This represents a rise of over 65% and extra yearly income reaching $4 billion.

- Solar Energy: Morocco has one of the greatest solar indices in the world, which makes it easier to produce power on an industrial scale. The solar plan calls for an electricity production capacity of 2000 MW. (Lancé, 2009). Through solar-powered water pumps, solar energy may also be used for agriculture, which might lower energy costs for Moroccan homes that have solar panels installed.

- Oil Shale: Morocco ranks sixth in the world in terms of reserves, with an estimated 50 billion barrels of oil shale deposits.

- Geostrategic Maritime Position: according to experts, the Strait of Gibraltar facilitates €375 billion in international trade, accounting for 25% of all marine traffic worldwide. Not to mention, every day over 300 ships pass Tangier. Tanger Med's development is anticipated to capitalize on Morocco's strategic location and make it a major international port.

- Fisheries Resources: Morocco has abundant fishing resources thanks to the Atlantic and Mediterranean. An estimated $600 million is made annually from fishing.

Morocco has been implementing large-scale, strategic programs to bring itself into compliance with international norms for more than 10 years. The realization that a country must have a sufficient and high-quality infrastructure in order to develop and flourish sustainably is what motivates these efforts. Experts in economic development contend that foreign investors focus especially on the infrastructure

of nations in which they are considering making investments. Recognizing this, Morocco is investing heavily in growing its infrastructural offerings in an effort to draw in more Foreign Direct Investment.

As examples, notable projects are found in a variety of fields, including as telecommunications, road and rail networks, airports, ports, and economic activity zones (free zones, Technopark, etc.). 90% of passenger travel and 75% of freight transit in Morocco still take place on roads (phosphate is delivered by rail). Roads continue to be the most popular means of transportation.

The Moroccan road network, which is overseen by the Ministry of Equipment, Transport, and Logistics, is divided into four categories by Decree No. 2-83-620, which was issued on February 1, 1990. These categories include highways, national roads, regional roads, and provincial roads. 41,102 km of the 42,613 km total length are made up of national, regional, and provincial roadways (71.6%).

The breakdown of the paved network is as follows (Ministry of Equipment, Transport and Logistics):

- Highways (in operation): 1,511 km
- National roads: 9,813 km
- Regional roads: 9,221 km
- Provincial roads: 22,068 km

The network of paved roads has grown greatly in the last several years, compared to its 10,348 km length in the aftermath of independence.

Airport infrastructure

There have been notable advancements in the aviation industry since King Mohammed VI came to power. The 2006 adoption of the Open Sky agreement is a notable illustration of this advancement. This historic action signaled the liberalization of air travel with the European Union, improving the Kingdom's aviation connections and causing a significant increase in foreign travel. The National Airports Office has initiated significant initiatives for the expansion and enhancement of key airport infrastructure in order to facilitate this development.

The improvement and extension of infrastructure at important airports including Casablanca, Marrakech, Tangiers, Oujda, Al-Hoceima, Essaouira, and Dakhla are noteworthy initiatives. Furthermore, the airport at Rabat-Salé has redeveloped and extended Terminal 1. In addition, additional projects have been started, such as the renovation of Casablanca airport's Terminal 1, the building of Marrakech airport's Terminal 3, and the enlargement of Fez airport's facilities. The accomplishment of these projects successfully highlights the stringent observance of delivery schedules and the devoted dedication of all industry participants.

Rail infrastructure

Since the king's coronation, there has been a noticeable increase in the state of the train infrastructure. The State and the "Office national des chemins de fer" have signed the first program contract for the years 2005–2009 as a result of this progress. As part of this initiative, Morocco has witnessed the completion of the doubling of the Meknès-Fès track, the modernization of the Tangier-Rabat line, the building of almost forty stations, and the opening of the Taourirt-Nador and Tanger Ville-Port Tanger Med lines. This triumph served as the catalyst for additional program contracts to be signed in February 2010 and the opening of Morocco's first TGV line.

Telecommunications infrastructure

Morocco has made the decision to modernize its telecommunications network in accordance with international norms. With three all-inclusive providers offering internet, data, mobile, and fixed services, Morocco's telecommunications industry has seen steady, yearly growth. The country has a 7,500-kilometer fiber-optic network that is well-suited to accommodate leased lines and offers secure bandwidth with assured quality and connection.

Availability and qualifications of human resources

Morocco has a large pool of human resources, and the nation launched an extensive training program in response to the changing nature of the economic, social, and environmental concerns. The aim is to provide businesses with the fundamental competencies needed for expansion. This method is greatly advanced by the Ministry of Employment and Vocational Training, which has created an extensive range of initial, pre-recruitment, and continual training programs. The creation of specialized training facilities is aimed at producing a new generation of laborers.

It's important to remember that human resources are a crucial resource in Morocco, supporting both added value creation and competitive investment. Along with competitive labor prices, important factors include a high level of training, cultural flexibility, linguistic and technological competency, a dedication to an entrepreneurial spirit, and the capacity to react to changes in the business environment.

Chapter 5

Determinants of foreign direct investments in Morocco: an empirical study

International trade and finance flows have accelerated in the framework of greater global economic integration. The global economy is now significantly integrated as a result of this phenomena.

Globalization has accelerated since the early 1980s and this has been matched by a significant increase in foreign direct investment. Foreign Direct Investment has become a significant factor in the global industrial landscape and is an essential component of international transactions.

It is noteworthy that there has been a top notch shift inside the distribution of foreign direct funding at some point of the previous decades, with a terrific emphasis on Developing Countries. DCs represented underneath one-fifth of all FDI in 1990. Nonetheless, emerging countries and economies that have just undergone economic transformation have drawn more than half of all FDI inflows international, according to UNCTAD (2018). According to UNCTAD (2020), the glide of foreign direct investment reached $1,500 billion in 2016 and $1,000 billion in 2019.

Like many developing countries, Morocco sees foreign direct investment as a motive force of monetary enlargement, technology switch, human capital development, modernization, and industrial fabric fortification, all of which bring about the creation of jobs and different beneficial outcomes. To improve its normal funding climate, the country has dedicated itself to a proactive FDI recruitment coverage in line with this perspective. This involves providing the conditions and incentives required to draw an increasing number of worldwide agencies to its borders.

Morocco has put into impact a wide variety of regulations and modifications

concerning many factors of the economic system, budget, exchange, and establishments. The purpose is to decorate its geographic offer, use its ability and comparative advantages, and get rid of limitations and barriers preventing overseas direct funding from entering its region.

The elements that decide wherein FDI is located are hotly contested theoretically. The literature presents a type of theoretical and empirical explanations highlighting several aspects impacting MNEs' decisions. All things taken into consideration, the position of foreign direct investment is determined by way of the corporation's strategic alternatives in addition to the particular features of the receiving nation.

5.1 Theoretical Framework

From a theoretical standpoint, our analysis of the factors affecting wherein FDI is positioned is steady with the eclectic technique—also known as the OLI paradigm—that was placed out with the aid of J. Dunning in 1981.

A complete framework for comprehending foreign direct investment and the variables affecting its placement is said to exist in the eclectic principle. The ownership, location, and internalization hypothesis, or OLI, framework outlines the elements that designate a organisation's strategic choices at the association of its worldwide operations, which include foreign direct funding, exporting, and licensing. Three distinctive types of benefits—specified as O, L, and I—shape the basis of this paradigm.

Consequently, the eclectic paradigm states that a corporation's potential to interact in price-delivered operations overseas is depending on the fulfillment of 4 requirements:

- The extent to which a company holds a sustainable competitive advantage in ownership-specific (O) advantages, compared to firms of other nationalities, in meeting the demands of foreign markets;

- Upon the fulfillment of the initial condition, attention can then be directed towards evaluating the extent to which the firm deems it more advantageous to augment its ownership-specific advantages instead of selling them or licensing their use. When such an advantage exists, it is termed as market internalization (I) advantages.

- When both preceding conditions are fulfilled, the evaluation can proceed to assess the degree to which the firm advances its global objectives through overseas operations, leveraging its ownership-specific advantages. The location-specific advantages refer to aspects within the host country that render it an appealing destination for establishing production facilities.

- Considering the Ownership, Location, and Internalization advantages pertinent to a firm, the final crucial factor in determining the extent of value-added activities undertaken abroad is the company's confidence in the alignment of its strategy and stakeholder objectives with foreign production (Dunning & Lundan, 2008).

Dunning (1981) asserts that a company's preference for foreign direct investment over exporting or licensing is dependent on the possession of all three concurrent advantages (O, L, and I). It is preferable for exports to serve the host market when the company only has "O" and "I" advantages. In contrast, licensing to a local firm is the option if the company just has the "O" advantage.

The "L" element of the OLI paradigm deals with the issue of location, highlighting the fact that the host nation's natural advantages are what ultimately determine FDI location determinants. Dunning (1981) posits that a corporation chooses a host nation based on the existence of "own advantages," which enable the firm to maximize its "specific advantages". Therefore, deciding on a area necessitates balancing the relative blessings that rival host nations provide in luring foreign direct funding. As a result, the placement of FDI is closely related to the organization's strategic alternatives in addition to the one-of-a-kind traits of the host kingdom.

Building on this perspective, Dunning (1988) presents the Environment, Systems, Policies (ESP) paradigm as a way to categorise additives for comparative evaluation among nations. The "Environment" factor consists of elements like distribution networks, transportation prices, market size, telecommunications infrastructure, and the wide variety and satisfactory of producing inputs. Political, social, and cultural traits are related to the "Systems" aspect, while the government rules of the host nations are associated with the "Policies" element. The interplay between these three categories of elements helps elucidate the inflow of FDI into the host country.

Other hypotheses also try to give an explanation for the elements that determine where FDI is placed. The "new geographical economy" proposed by means of Krugman (1991) emphasizes the spatial distribution of economic activity and the conflict among "centripetal forces" that support the polarization of manufacturing sports and "centrifugal forces" that reason organisations to disperse. According to this idea, MNEs take part in horizontal foreign direct funding while the advantages of being near clients surpass the benefits of focusing their operations.

5.2 A literature review of empirical studies

Kotey (2019) asserts, based on various data sources from previous analyses, that Foreign Direct Investment has emerged as a significant source of capital infusion

for Africa as a whole, with a particular emphasis on Sub-Saharan African countries. Historically, foreign loans served as the primary financial resource for these nations.

In comparison to official loans received by Sub-Saharan Africa, Foreign Direct Investment inflows have witnessed a substantial increase over the years, often surpassing the former when partially substituted for. As indicated by Asiedu (2002), between 1990 and 1999, net official loans declined by approximately 24%, while FDI inflows surged by around 180% within the same period, indicating a substantial shift towards this form of capital injection by SSA nations. This trend underscores Africa's preference for FDI over foreign loans, which are burdened with complex regulations and requirements.

However, it is noteworthy that Africa has received a disproportionately lower percentage of global FDI inflows. FDI inflows into SSA rank among the lowest among all developing regions. While FDI inflows into developing countries increased by over 1600% within a decade (1990-1999), Africa experienced only about a 490% increase. This translates to roughly 37% of the FDI received by other developing regions.

Foreign Direct Investment flows to African countries experienced significant growth compared to the 1990s. However, this growth trajectory is not commensurate with the substantial increases witnessed in other developing regions. Disparities persisted over subsequent years, with African countries receiving comparatively lower FDI inflows. For instance, according to the Africa Investment Report (2014), the total FDI inflows into Sub-Saharan Africa amounted to $87 billion, whereas regions like Asia & Oceania and Latin America attracted much larger sums, totaling $470 billion and $170 billion, respectively, during the same year.

The graph in the figure 7.1 visually illustrates the disparity in FDI inflow growth among different regions.

The average Foreign Direct Investment inflows to Africa have shown a notable increase over the decades. In the 1970s, the average FDI stood at approximately US$ 1.124 billion, constituting roughly 20% of the total FDI received by developing economies. This figure doubled to about US$ 2.201 billion in the 1980s. However, the average FDI quadrupled to approximately US$ 9.883 billion from the 1990s to 2004. Conversely, the average FDI received by developing economies in the 1980s amounted to about US$ 20.5 billion, marking a fourfold increase from the 1970s. Despite this surge, Africa's share of FDI dropped from 20% in the 1970s to around 11% in the 1980s.

In the subsequent period from the 1990s to 2004, the average FDI in developing countries surged to about US$ 148.193 billion. Africa, however, received only about 7% of this amount, with the majority flowing into Asia (over 60%). From 2005 to 2015, FDI to developing countries increased nearly fourfold to approximately US$ 580 billion. Nevertheless, the average FDI received by Africa remained at around 8%, totaling only US$ 49 billion. This disparity underscores Africa's marginalization

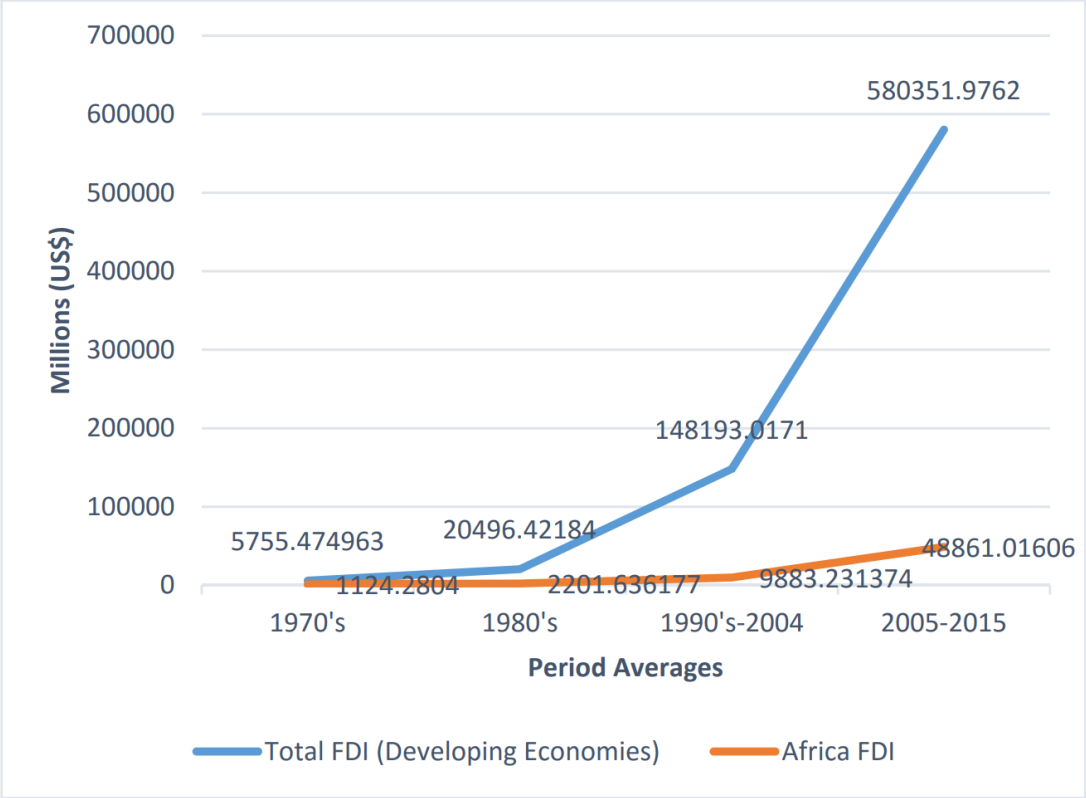


Figure 5.1: FDI Inflows: Africa and the world. Source: Kotey, 2019

in the global economic landscape, despite ongoing efforts to promote international trade and development.

Africa's share of global FDI, as a percentage, has exhibited a declining trend over the years. It declined from approximately 4% in the 1970s to about 1% in the 1990s, before marginally increasing to about 3% in the 2000s. This trend reflects the challenges faced by African economies in attracting and retaining foreign investment amidst global economic dynamics.

As demonstrated, Foreign Direct Investment inflows to the African continent have remained relatively minimal over the years. For instance, from 2005 to 2010, while the average FDI inflow into developing economies accounted for 35.72% of the total global FDI, only 3.30% of this amount was directed towards Africa. This figure decreases further to 2.97% when excluding North Africa.

The graph below provides a visual representation of FDI inflows over an 11-year period from 2005 to 2015. FDI inflows into developing economies decreased from 35% in 2005 to 28% in 2008, then surged to 55% in 2014, surpassing FDI inflows into developed economies. However, in 2015, FDI plummeted to 43%. Throughout

this period, FDI inflows into Sub-Saharan African countries remained between 1.5% to 3.5% of the total global FDI inflows. In essence, while FDI into developing economies experienced a steady increase, SSA's share of this growth has been relatively modest.

From 2013 to 2014, when FDI inflows into developing economies exceeded those into developed economies, it experienced a percentage change (increment) of approximately 14.75%, depicted as a spike in the graph. In contrast, FDI to Asia and Oceania increased by 20.9%, and Latin America saw an 8.11% change. SSA's increase was only 29.2%, representing a marginal increment of 0.84% in the amount of FDI directed towards the region (rising from 2.88% to 3.72%). SSA received an increase in FDI of about US$ 6.417 billion, while Asia's FDI increased by US$ 35.660 billion. This highlights the unfavorable marginal increase in FDI to SSA countries compared to other developing economies.

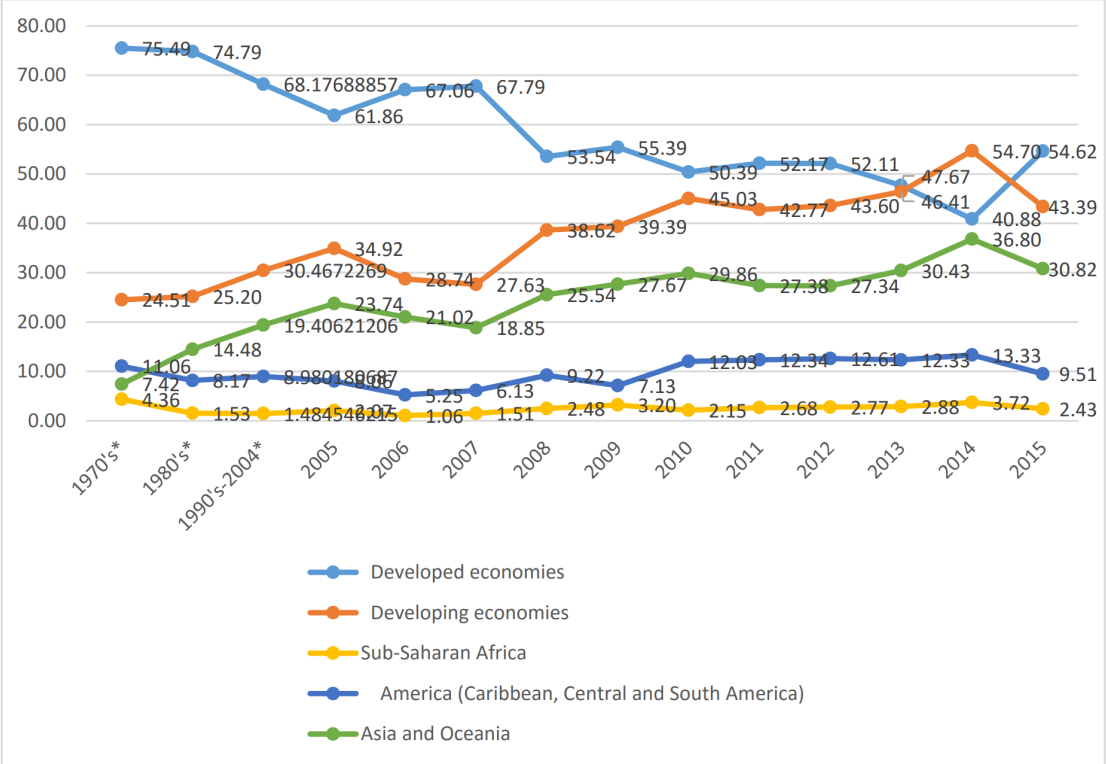


Figure 5.2: FDI Inflows (%) from 1970-2015. Source: Kotey, 2019

There is a large corpus of literature on empirical studies of the variables affecting FDI placement. Numerous drivers are provided in those research; often emphasized elements include market length, trade openness , skilled body of workers availability, infrastructure quality, labor cost, political stability, and other pertinent factors.

5.2.1 Market size

Since market size is regularly an excellent degree of an economic development, numerous writers have used it as a variable to explain FDI patterns. Economically advanced markets are hypothesized to attract more foreign direct investment due to growing disposable profits and rising intake. The market size offers records on the host economy's demand for services and products as nicely, with larger economies regularly attracting extra overseas direct funding. However, vertical FDI can show a loss of challenge for this issue (Lim, 2001).

Research studies by Asiedu (2006), Cleeve (2008), and Ezeoha & Cattaneo (2012) about sub-Saharan Africa (SSA) countries, Liargovas & Skandalis (2012) about 36 developing countries (DCs), Vijayakumar et al. (2010) and Jadhav (2012) about BRICS countries, and others highlight the importance of market size as a critical factor in luring FDI. In a similar vein, research conducted on Morocco by Bouoiyour (2007) and Tirhboula et al. (2017) produces reliable results. Nonetheless, Azeroual & Cherkaoui's (2015) analysis indicates that in some situations, market size could not have a major impact.

5.2.2 Infrastructure

A host country's ability to supply the primary facilities required for foreign agencies to set up themselves and coordinate their effective and industrial operations both locally and globally is reflected inside the concept of infrastructure development. As a end result, FDI is drawn to areas with strong infrastructure. According to Dunning and Lundan's (2008) Eclectic Paradigm, infrastructure performs a important position inside the "Location" degree of analysis. Furthermore, poor infrastructure discourages funding since it raises manufacturing and distribution prices in a given area (Bortoluzzo et al., 2013).

Research by Quazi (2014), Vijayakumar et al. (2010), Demirhan & Masca (2008), and Srinivasan (2011) has shown that established infrastructure is a major factor in FDI attraction. Morisset (2000) and Asiedu (2006) observed similar results for nations in sub-Saharan Africa (SSA). However, in the MENA area, this component showed a non-significant influence in both Mohamed & Sidiropoulos' (2010) research and Onyeiwu & Shrestha's (2004) study on SSA.

While Lam'hammdi & Makhtari (2018) showed no discernible influence, Azeroual & Cherkaoui's (2015) and Moujahid et al. (2021) studies in the instance of Morocco indicated infrastructure as a critical component in FDI attractiveness.

5.2.3 Human capital

Multinational Enterprises attach exceptional importance to the concept of human capital development inside the host state, specifically the ones involved in era-in

depth operations. One of the key factors that increases the splendor of international companies is the existence of a qualified, tech-savvy, and creative personnel. An essential factor in luring foreign direct funding is a society's stage of schooling, which acts as a stand-in for team of workers satisfactory. If the accompanying costs are stored inside reasonable bounds, foreign buyers are much more likely to discover their companies in countries with better instructional attainment. Furthermore, the education can imply a nation's degree of openness to outsiders, with higher degrees of schooling leading to a shift from ethnocentric to geocentric orientations (Trevino et al., 2008).

Empirical studies, such that completed by using Cleeve (2008), has shown that FDI is influenced by human capital. In particular, Cleeve discovered a non-considerable association between person illiteracy rate and FDI in sub-Saharan African nations, however a nice and great courting between FDI and human capital, as assessed by secondary college enrollment charges. In a similar way, Srinivasan (2011) discovered that his research on the South Asian Association for Regional Cooperation revealed no meaningful impact.

Studies done in Morocco by way of Moujahid et al. (2021) and Bouoiyour (2007) have again shown that human capital has a favorable and huge affect on foreign direct investment.

5.2.4 Labour cost

Labor expenses are a first-rate determinant of where Foreign Direct Investment is placed. This is due to the fact organizations want to reduce their production prices, specially when FDI is vertical. The availability of cheap exertions increases a bunch nation's appeal to overseas direct funding. But the relationship among labor charges and foreign direct funding is complicated and relies upon on the salary-productiveness ratio, that's correlated with employee ability levels.

Research by Campos & Kinoshita (2003) and Vijayakumar et al. (2010) has demonstrated that low labor costs serve to encourage FDI inflows. Conversely, studies by Shamsuddin (1994) and Cheng & Kwan (2000) suggest that high labor costs discourage FDI inflows. However, Biswas (2002) did not identify labor costs as a determinant of FDI. Similarly, Demirhan & Masca (2008) found no significant correlation between labor costs and FDI in the manufacturing sector across 38 developing countries.

In the context of Morocco, studies by Bouoiyour (2007) and Moujahid & Khariss (2021) have shown that low labor costs contribute to fostering FDI.

5.2.5 Political stability

Foreign investors consider political stability to be a major factor driving a nation's overall financial climate. Foreign agencies are reluctant to risk their resources and assume the responsibilities linked to any political turmoil within the host country in the modern era.

Political balance encourages FDI inflows, as studies via Gani (2007), Busse & Hefeker (2007), and Quazi (2014) has proven. FDI in Africa is adversely affected by political instability, according to Naudé & Krugell's (2007) research. On the opposite hand, researchers Asiedu (2002), Mhlanga et al. (2010), and Kandiero & Chitiga (2006) revealed contradictory consequences, concluding that political stability in Africa has little effect on overseas direct investment.

Morocco's political stability is favorable for foreign direct investment, as observed by way of Mohamed & Sidiropoulos (2010) and Moujahid & Khariss (2021).

Chapter 6

Econometric literature review

The objective of this chapter is to outline a methodology and theoretical framework for constructing the econometric model and analyzing the results along with the underlying premises. To accomplish this goal, the chapter is structured as follows. Firstly, a general methodology for developing a multivariate model is presented, drawing from a phased approach described by Hair et al. (2009). Subsequently, the discussion shifts to defining logistic regression and elucidating its distinctions and similarities in comparison to linear regression. This is followed by an examination of conditional logistic regression, which is the chosen method for the model in this study.

6.1 Methodology for the multivariate model

To formulate a multivariate model, Hair et al. (2009) put forward a methodical procedure comprising six distinct stages. They argue that the effectiveness of a model depends not only on the selection of an appropriate methodology but also on the careful interpretation and validation of each step in its construction. It is important to note that their proposed framework is not intended to be prescriptive but rather provides a comprehensive foundation for model development (Hair et al., 2009). Thus, this approach unfolds across the following stages:

- Stage 1 entails defining the research problem, objectives, and selecting the regression technique to be employed. This phase primarily involves conceptually defining the problem and delineating the relationship that the researcher seeks to elucidate.
- In Stage 2, the focus shifts to developing the analysis plan. Once the conceptual model and technique have been selected, the modeler examines implementation issues and the characteristics of the data to be analyzed.

- Stage 3 involves evaluating the main assumptions of the chosen technique. Both statistical and conceptual assumptions of the model must be satisfied for it to function properly and provide insightful information.
- In Stage 4, the focus lies on estimating the multivariate technique and assessing the model's fit. During this phase, the researcher estimates the model using the chosen technique. Subsequently, the overall model fit is evaluated to determine if it meets the statistically required levels of significance, can identify relationships, and holds practical significance. Additionally, the researcher should examine the effects of data variation on the model and identify any outliers that could distort its integrity.
- In Stage 5, the focus shifts to interpreting the variables. Once an acceptable model is established, interpreting the estimated coefficients unveils the nature of the multivariate relationships among the model variables. This interpretation process may prompt further refinements of the variables and the model itself. The overarching objective is to identify empirical evidence of relationships.
- Stage 6 involves validating the multivariate model. While this step may not significantly enhance the interpretation of the results, it adds robustness and confidence to the findings. Validation typically entails conducting diagnostic analyses to assess the degree of generalizability of the obtained results.

6.2 Logistic regression

The statistical model referred to as logistic regression, also known as a logit model, finds frequent application in classification and predictive analytics tasks. It aims to estimate the probability of a specific event occurring by leveraging a dataset of independent variables. Notably, because the outcome is a probability, the dependent variable is constrained within the range of 0 and 1. Logistic regression is frequently chosen as the model of analysis when the response variable exhibits discrete behavior with two or more possible values (Hosmer et al., 2013).

Linear regression models are used to investigate the relationship between a continuous dependent variable and one or more independent variables. When there is only one independent variable and one dependent variable, it is called simple linear regression. If there are multiple independent variables, it is referred to as multiple linear regression. In both cases, the objective is to establish a line of best fit through the data, typically computed using the least squares method.

Similarly, logistic regression is employed to estimate the relationship between a dependent variable and one or more independent variables. However, unlike linear regression, logistic regression predicts a categorical variable rather than a continuous one. This categorical variable can take binary values such as true or

false, yes or no, 1 or 0, etc. Additionally, the output of logistic regression is a probability, and the logit function transforms the S-shaped curve into a straight line.

Hosmer et al. (2013) delineate the disparities between the models. The primary difference stems from the nature of the relationship between the independent and dependent variables. This relationship is represented by the conditional mean, which denotes the value of the outcome given the values of the independent variables. Typically denoted as E(Y|x), it is interpreted as "the expected value of Y, given the value of x". In the linear regression model, the conditional mean is expressed as shown in equation (6.1), where the expected value can take any value, and the betas signify the coefficients.

$$E(Y|x) = \beta_0 + \beta_1 x \tag{6.1}$$

In the scenario involving a dichotomous variable, where the conditional mean ranges from 0 to 1 ($0 \leq$ E(Y|x) ≤ 1), the change in the conditional mean per unit variation in the independent variable (x) diminishes progressively as the value of E(Y|x) approaches zero or one. Consequently, the curve delineating this relationship assumes an S-shaped form (Hosmer et al., 2013). When the response variable is dichotomous, the conditional mean is modeled through cumulative distributions. Hosmer et al. employ a specific form for logistic regression, wherein the conditional mean is expressed as follows:

$$\pi(x) = \frac{e^{\beta_0+\beta_1 x}}{1 + e^{\beta_0+\beta_1 x}} \tag{6.2}$$

The second significant distinction between these models lies in the distribution of errors derived from the values obtained from the conditional mean. In linear regression, the errors follow a normal distribution, while in logistic regression, they adhere to a binomial distribution (Hosmer et al., 2013). Furthermore, another disparity exists in the method employed to fit the model: linear models frequently utilize the least-squares method, whereas logistic models employ maximum likelihood estimation.

6.3 Conditional Logistic Regression

Logistic regression analysis explores the relationship between a binary dependent variable and a set of independent (explanatory) variables through a logit model (refer to Logistic Regression). Conditional logistic regression is a specialized variant of logistic regression typically utilized when case subjects exhibiting a specific condition or attribute are individually matched with n control subjects lacking the said condition.

A crucial focus in economics is comprehending choice behavior. Therefore, conditional logistic regression aims to scrutinize the choice behavior within a population, taking into account the influence of choice characteristics on choice probability determinants (Maddala, 1983). The model formulated by McFadden (1973) is a particular variant of the random utility model, wherein the objective is to estimate the likelihood of selecting an alternative from those available based on individual utility.

The McFadden's model posits that an individual is presented with M alternatives, each associated with a level of indirect utility denoted by U_i, where i = 1, 2, 3,..., M. The individual then selects the alternative that offers the highest level of utility, expressed as max[U_1,U_2, ...,U_i].

The utility model assumed in the model takes the form: $U_i = V_i(X_i) + \epsilon_i$, where X_i is the vector of attributes for the ith choice option, and ϵ_i represents the residual value, or the estimation error (Maddala, 1983). Therefore, the choice probabilities of the alternatives:

$$P\{Y_i = 1\} = P\{U_i = max[U_1, U_2, ..., U_i]\} \tag{6.3}$$

The model posits that the residuals (ϵ_i) follow an identically and independently distributed type I extreme value distribution. Consequently, each ϵ_i possesses a cumulative distribution function given by: $F(\epsilon_i < \epsilon) = exp(-e^{-\epsilon})$. Additionally, the probability density function for ϵ_i is expressed as: $f(\epsilon_i) = exp(-\epsilon_i - e^{-\epsilon_i})$. Based on these assumptions, the model derives that the conditional logit choice probability:

$$P(Y_i = 1|X) = \frac{exp(V_i)}{\sum_{j=1}^{M} exp(V_j)} \tag{6.4}$$

Assuming further that $V_i(X_i)$ is a linear function of the observed variables, it can be expressed as: $V_i = X_i\beta = x_1\beta_1 + x_2\beta_2 + ... + x_M\beta_M$. With these assumptions in place, we obtain:

$$P(Y_i = 1|X) = \frac{exp(X_i\beta)}{\sum_{k=1}^{M} exp(X_k\beta)} \tag{6.5}$$

Therefore, the goal of the model is to estimate the β coefficient associated with each independent variable to ascertain its impact on the utility of a particular alternative.

Chapter 7

Model and analysis

Within the scope of this thesis, an examination of the economic theories concerning Foreign Direct Investment, along with an analysis of empirical research on the factors influencing FDI, has been conducted. This chapter delineates a model designed to discern the determinants governing the distribution of FDI among the north African countries (Algeria, Egypt, Libya, Morocco, Tunisia), with a subsequent focus on the unique dynamics affecting companies operating within specific industry sectors of significance.

The introductory segment of this chapter provides an overview of the database utilized in constructing the model. It delineates the dependent variable and detailing the filters applied to the database. Additionally, it introduces the independent variables selected for the model. Following the data collection process, the acquired data was used together with information regarding foreign direct investment in the five north African countries. This comparative analysis aimed to discern the determinants guiding firms' decisions to invest abroad and locate their investments outside the borders of the country.

The subsequent portion of the chapter delves into a detailed examination of the database variables, offering insights into the distinct characteristics of each region. Additionally, it provides a comprehensive analysis of the dependent variable of interest, along with an exploration of the relationships among the independent variables.

In the concluding segment of the chapter, the findings from the model are carefully scrutinized. Initially, an overview of the results spanning the entire analysis period and across various sectors is presented. Subsequently, a more nuanced examination of the determinants influencing FDI within specific industry sectors, chosen based on their FDI count, is undertaken.

Throughout this study, it is assumed that profit maximization is the fundamental objective of all companies. Thus, the selection of a particular location is contingent upon the expectation of achieving greater profitability compared to other available

options.

7.1 Description of the Foreign Direct Investments dataset

The initial phase in developing the econometric model entails data collection and preprocessing. This process ensures that the data inputted into the model is error-free, thereby facilitating the generation of reliable and consistent results. This section provides a comprehensive description of each variable to be incorporated into the model. Initially, the dependent variable, which pertains to foreign investments undertaken across each one of the five North African states, will be elucidated. Subsequently, the independent variables and their respective data will be delineated. The selection of each independent variable for inclusion in the model is predicated on determinants reported in the literature, ensuring that the model encompasses all pertinent factors influencing FDI inflows.

7.1.1 Dependent variable

The dependent variable for the model is the choice of the foreign investments made across the north African states. The data used for this purpose is characterized by the selection of foreign investments across the various states of Africa. To analyze this, data sourced from the fDi Markets database, compiled by the Financial Times, is utilized. This database encompasses firm-level information regarding greenfield fDi projects announced from 2003 onwards. For the purposes of this study, data spanning the years 2003 to 2019 has been extracted. Each investment entry within the database includes details such as the date, the investing and parent company, the location of the investor (country, state, and city), the destination location (country, state, and city), industry classification (by activity, sector, and sub-sector), capital investment (whether estimated or not), the estimated number of jobs created, and the project type (new, expansion, or co-location). In the current study, several adjustments and filters were implemented in the database. Initially, entries with "Not Specified" listed as the state information were removed as they lacked the necessary details for the model's analysis. Furthermore, only investments categorized as "NEW" in the "Project Type" column were considered, excluding expansion projects for established Multinational Enterprises in the African countries and co-location projects. This focus on new investments ensures that the dataset accurately represents entries from MNEs, allowing the model to effectively analyze the determinants influencing this decision without plagiarizing existing work.

7.1.2 Independent variables

After identifying the dependent variable, attention turns to the regressors. Regressors should be chosen in a consistent way with both the literature and the available data. The first kind of regressors is exogenous and includes the Market-specific factors include market size and attractiveness. The independent variables are sourced from World Bank Data's WDI (World Development Indicators), which give global, regional, and country development estimates. The second kind of regressors are endogenous and country-specific, including indices of political stability and institutional quality sourced from World Bank Data's WGI (World Governance indices). Finally, others indicators such as contiguity, colonial tie and more sourced from CEPII have been utilized in this model.

- "pop_urb2": Population in urban agglomerations of more than one million is the country's population living in metropolitan areas that in 2018 had a population of more than one million people. Urban population refers to people living in urban areas as defined by national statistical offices. The indicator is calculated using World Bank population estimates and urban ratios from the United Nations World Urbanization Prospects.

- "gdp_pc_growth": Annual percentage growth rate of GDP per capita based on constant local currency. GDP per capita is gross domestic product divided by midyear population.

- "colonial_tie": The variable "colonial_tie" is a binary indicator where its value is 1 if "dest_country" has been a colony of "SourceCountry", and 0 otherwise. This variable serves as a proxy for historical colonial relationships between nations. When "colonial_tie" equals 1, it signifies a historical tie or influence stemming from colonialism, suggesting potential socio-economic, political, and cultural implications between the two countries.

- "contig": The variable "contig" serves as a binary indicator, with a value of 1 denoting that"dest_country" and the source country "SourceCountry" are contiguous, meaning they share a border. This adjacency often implies geographical proximity and can suggest cultural similarities and historical ties between the two nations. Consequently, when "contig" equals 1, it implies a potential cultural affinity and shared market characteristics between the two countries.

- "comlang_ethno": The variable "comlang_ethno" serves as a binary indicator, where a value of 1 indicates that "dest_country" and "SourceCountry" share a common language.

- "dist": The variable "dist" represents the distance in kilometers between "dest_country" and "SourceCountry". This numerical value serves as a metric for measuring the geographical separation between the two nations. The distance between countries plays a crucial role in shaping various aspects of international relations, trade, and economic interactions.
- "nat_res_rents" (% of GDP): Total natural resources rents are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents.
- "enrol_ter": Gross enrollment ratio is the ratio of total enrollment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. Tertiary education, whether or not to an advanced research qualification, normally requires, as a minimum condition of admission, the successful completion of education at the secondary level.
- "fuel_exports": The variable "Fuel exports (% of merchandise exports)" represents the percentage of merchandise exports that consist of fuels. Fuels encompass commodities classified within the SITC, which includes mineral fuels, lubricants, and related materials. This metric provides insight into the relative importance of fuel exports within a country's overall export portfolio.
- "trade_sh", as percentage of GDP, is the sum of exports and imports of goods and services measured as a share of gross domestic product.

7.1.3 Dataset Structure

Two tables make up the final dataset, one of which shows investments made in relation to the dependent variable and its attributes. The states and years of the data, as well as information on the independent variables, are included in the second table. The table containing the information on the investments is composed of the ID of the investment, the destination and the source country, the year of the investment, and the industry activity of the company.

A unique value linked to every entry in the investment database is called the investment ID. The model that will be used to reference each investor's decision needs this variable. The investments table and the independent variables table will be joined using the destination state as a key. We also need to add a row for each state and indicate if it is a choice since the model needs information on the decisions that were not made. The year provides chronological context for the analysis by indicating the period of time during which the investment happened. The "SourceCountry" variable provides information about the investors' geographic origins by identifying the state from where the investment occurred. "IndustryActivity" gives particular details on the relevant industrial activity. After

sorting for code and year, it was possible to set the variable "choice". The transaction permitted keeping the id code and creating a dataset with all potential options (with the variable choice set to 0) and selecting the country chosen (with the variable choise set to 1).

The table with the information on the independent variables has columns containing the following information: year, source country (SourceCountry), destination country (dest_country), urban population (pop_urb2), GDP per capita growth (gdp_pc_growth), colonial tie (colonial_tie), contiguous territory (contig), common language (comlang_ethno), distance (dist), natural resources rents (nat_res_rents), tertiary enrollment ratio(enrol_ter), fuel exports (fuel_exports) and trade share (trade_sh) Finally, when both tables are treated, they are joined in a single table to be used in the model.

The next chapter will give extensive findings from this study, which will help to guide future strategies and economic policies. The research is designed to give a thorough picture of the geographical distribution of investments, highlighting places that are particularly appealing to international investors.

7.1.4 Descriptive analysis

This paragraph will employ a descriptive method to outline several insights derived from existing literature. It is important to note that the dataset, which includes 3,189 investment choices, that organizations from distinct industries may assign significance to different factors. Therefore, understanding how investments are dispersed among industries is important. This high number of investments is critical for determining the model's applicability and producing statistically significant results.

Figure 7.1 summarizes graphically data accounts for the number of FDI projects undertaken in Algeria, Egypt, Libya, Morocco, and Tunisia from 2003 to 2019. According to the table, Egypt attracted the highest number of FDI projects, with 1,195 projects recorded, representing approximately 34.61% of the total FDI projects in the region. Morocco followed closely behind, with 1,155 projects, constituting about 33.45% of the total. Algeria, Libya, and Tunisia attracted 461, 164, and 478 projects, respectively. These figures depict the distribution of FDI projects among the North African countries, showcasing variations in investment attractiveness and opportunities across the region over the specified period.

Figure 7.2 summarizes data that has been extracted from a table and has been utilized to generate a pie charts for visual representation. The table details the Foreign Direct Investments made by various countries in Algeria, Egypt, Libya, Morocco, and Tunisia, showcasing both the number of FDI projects and their respective percentages relative to the total FDI projects in each destination country.

- Algeria: France stands out as the leading investor in Algeria, with 94 projects,

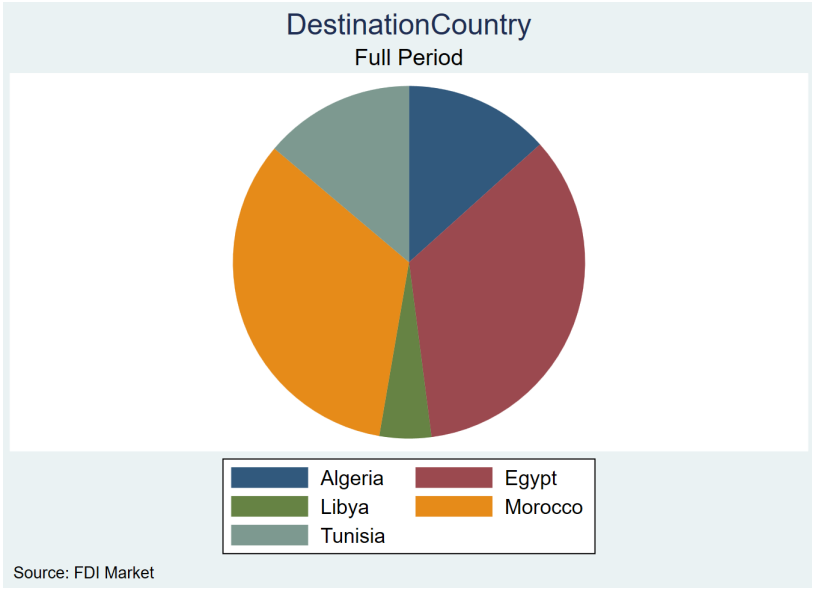


Figure 7.1: FDI per destination country

constituting approximately 14.22% of all FDI projects in the country. The United States follows with 37 projects, representing around 10.16% of Algeria's total FDI.

- Egypt: The United Arab Emirates emerges as the top investor in Egypt, with 170 projects, making up about 55.74% of Egypt's total FDI projects. The United States also plays a significant role, contributing to 141 projects, which accounts for approximately 38.74% of Egypt's FDI.

- Libya: France and the United Kingdom both have notable investments in Libya, with 10 projects each, representing 7.69% and 9.04% of Libya's total FDI, respectively. The United States follows with 12 projects, contributing approximately 3.30%.

- Morocco: France leads the FDI landscape in Morocco with a substantial 322 projects, making up about 48.71% of all FDI projects in the country. The United States also plays a significant role, contributing to 136 projects, representing approximately 37.36% of Morocco's total FDI.

- Tunisia: France and Germany are prominent investors in Tunisia, with 143 and 44 projects, respectively, accounting for around 21.63% and 26.04% of Tunisia's total FDI. The United States also participates actively, contributing to 38 projects, representing approximately 10.44% of Tunisia's FDI activities.

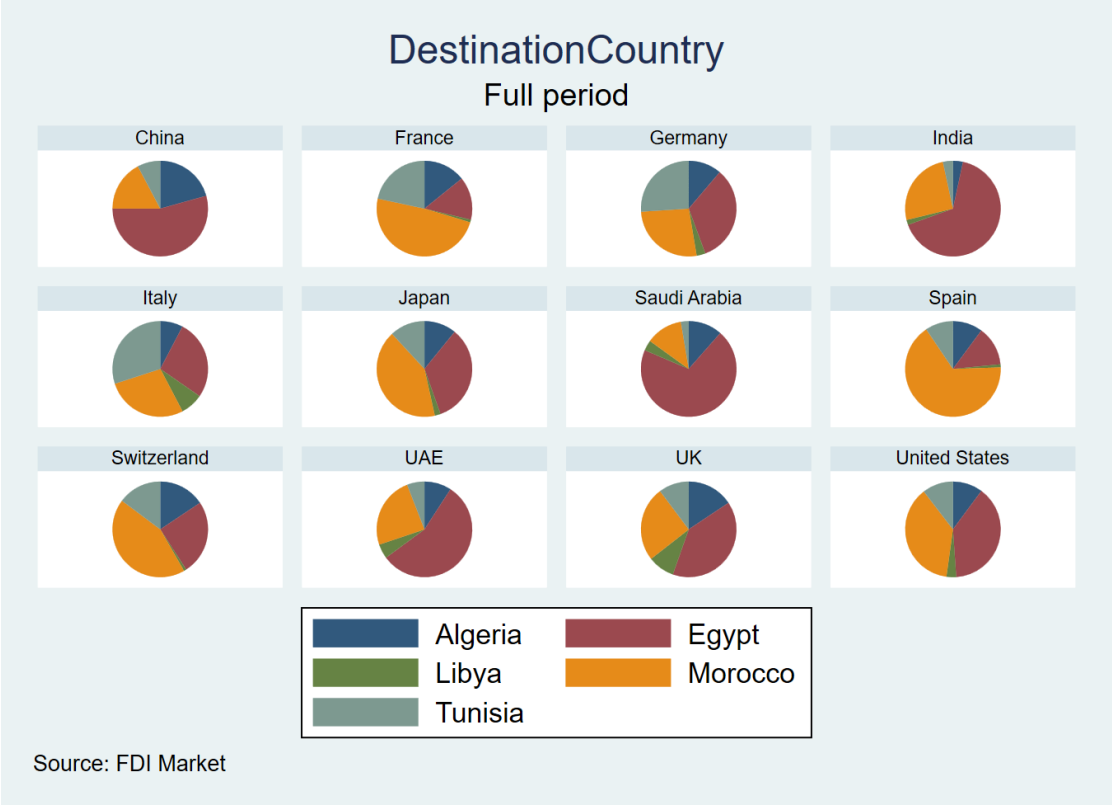


Figure 7.2: FDI per destination country

A Chi-Square Test has been done. The Chi-Square Test of Independence is a derivable (also known as inferential) statistical test which examines whether the two sets of variables are likely to be related with each other or not, in our study the link between SourceCountry and DestinationCountry has been tested. This test is used when we have counts of values for two nominal or categorical variables and is considered as non-parametric test. A relatively large sample size and independence of obseravations are the required criteria for conducting this test.

- H0: There is no link between SourceCountry and DestinationCountry
- H1: There is a link between SourceCountry and DestinationCountry

Figure 7.3 shows the result of the Chi-Square Test.

This means we have sufficient evidence to reject the H0 and to say that there is an association between SourceCountry and DestinationCountry.

As noted earlier, Foreign Direct Investment flows into Africa have experienced significant growth in recent decades, spanning across various sectors, as discussed in the paragraph concerning recent African country trends. However, despite this

SourceCountry 2	Destination Country Algeria	Egypt	Libya	Morocco	Tunisia	Total
China	24	59	0	17	9	109
France	92	91	6	281	128	598
Germany	19	50	5	40	35	149
India	2	35	1	15	2	55
Italy	10	32	10	36	37	125
Japan	11	24	1	40	11	87
Saudi Arabia	13	75	4	13	3	108
Spain	27	37	3	177	27	271
Switzerland	18	27	1	46	12	104
UAE	27	162	13	72	17	291
UK	25	60	15	41	16	157
United States	36	120	12	120	36	324
Total	304	772	71	898	333	2,378

Pearson chi2(44) = 519.2227 Pr = 0.000

Figure 7.3: Chi-Square Test

broad distribution, a considerable portion of foreign investments is concentrated in a few key industrial activities, as evidenced by the following table 7.1 illustrating the share of fDi inflows into Africa by industrial activity. Manufacturing, extraction, and construction industries collectively account for approximately 38% of total fDi inflows into Africa. The majority of fDi inflows into Africa are concentrated in the primary sector. Business services and sales, marketing, and support constitute 18.68% and 17.32%, respectively.

As previously mentioned, fDi can be categorized into three main types based on the purpose of the investment: market-seeking fDi, natural resource-seeking fDi, and efficiency-seeking fDi. The latter two categories, also referred to as non-market-seeking fDi, do not primarily serve the local market's demand and thus do not necessarily target factors such as high demand, high-income levels, or large market size within the host country. This analysis aligns with the observation that African countries, often characterized as small and developing economies, attract fDi primarily linked to extractive and manufacturing activities to serve external markets.

However, it's essential to underscore the significance of the raw material industry in attracting fDi inflows, as it continues to represent a vital source of capital injections for these developing economies.

The data presented in the figure 7.3 encompass all fDi projects undertaken in Algeria, Egypt, Libya, Morocco, and Tunisia. It reveals the distribution of fDi across various industrial activities in the region. Among these activities, manufacturing

Table 7.1: FDI flows to north Africa countries (Algeria, Egypt, Libya, Morocco, Tunisia) by industry activity in the timeframe 2003-2019 (Source: own elaboration from fDi market)

FDI Inflows by Activity	US $ (millions)	Share (%)
Manufacturing	125795.1	26.24
Business Services	7893.2	18.68
Sales, Marketing & Support	7219.2	17.32
Retail	14567.1	8.51
Construction	170253.5	7.94
Logistics, Distribution & Transportation	17187.4	4.14
Extraction	51485.9	3.74
Electricity	55830	2.66
Design, Development & Testing	3319.7	2.17
Customer Contact Centre	567.7	2.00
Education & Training	709.2	1.59
Headquarters	1147.3	1.39
Recycling	3981.2	0.78
ICT & Internet Infrastructure	5830	0.75
Maintenance & Servicing	205.2	0.67
Research & Development	440.5	0.64
Technical Support Centre	225.4	0.49
Shared Services Centre	193.9	0.29

emerges as the most prominent, accounting for 26.24% of the total fDi frequency. Business services and sales, marketing & support activities follow closely behind, constituting 18.68% and 17.32% of the total frequency, respectively. Sectors such as retail, construction, and logistics also attract notable fDi frequencies. This data provides insights into the industrial sectors that have garnered significant investment interest in these North African countries.

In order to streamline the analysis and better understand the dynamics within the industrial activities.

- R&D: Research & Development; Design, Development & Testing; Technical Support Centre
- Market: Sales, Marketing & Support; Retail; Customer Contact Centre; Maintenance & Servicing; Business Services; Logistic, Distribution & Transportation
- Resources: Extraction; Construction; Electricity

Industry Activity	Freq.	Percent
Manufacturing	757	23.74
Business Services	629	19.72
Sales, Marketing & Support	583	18.28
Retail	293	9.19
Construction	273	8.56
Logistics, Distribution & Transportat..	128	4.01
Extraction	106	3.32
Electricity	85	2.67
Design, Development & Testing	64	2.01
Customer Contact Centre	62	1.94
Education & Training	53	1.66
Headquarters	40	1.25
Recycling	26	0.82
Maintenance & Servicing	22	0.69
Research & Development	22	0.69
ICT & Internet Infrastructure	20	0.63
Technical Support Centre	16	0.50
Shared Services Centre	10	0.31
Total	3,189	100.00

Figure 7.4: Number of fDi projects per industry sector in Algeria, Egypt, Libya, Morocco, and Tunisia

- Manuf: Manufacturing; Recycling
- Other

Figure 7.5 depicts all FDI projects conducted in North African nations based on updated and categorized Industry Activities. "Market" dominates, accounting for 53.84% of total FDI frequency. "Manuf" and "Resources" follow closely after, accounting for 24.55% and 14.55% of the overall frequency, respectively. "R&D" contributes for 3.2 percent.

The provided data in Figure 7.6 accounts for the number of fDi projects undertaken in Algeria, Egypt, Libya, Morocco, and Tunisia on a yearly basis from 2003 to 2019. The table reveals fluctuations in fDi project frequencies over the years within this timeframe. For instance, fDi project frequencies ranged from 121 in 2003 to 270 in 2019. The frequency of fDi projects in Algeria, Egypt, Libya, Morocco, and

IndustryActivity2	Freq.	Percent
Market	1,717	53.84
Manuf	783	24.55
Resurces	464	14.55
Other	123	3.86
R&D	102	3.20
Total	3,189	100.00

Figure 7.5: Number of FDI projects per grouped industry sector

Tunisia varied significantly over the years. The highest number of projects was recorded in 2008, totaling 334, indicating a potential surge in investment activities during that period. Conversely, the year with the lowest frequency of fDi projects was 2004, with only 103 projects reported. This fluctuation suggests shifts in investment trends or economic conditions influencing fDi inflows into the region. On average, approximately 192 fDi projects were undertaken each year during this period, culminating in a total of 3189 projects. These insights highlight the dynamic nature of fDi activities and their impact on the economies of these North African countries over the specified timeframe.

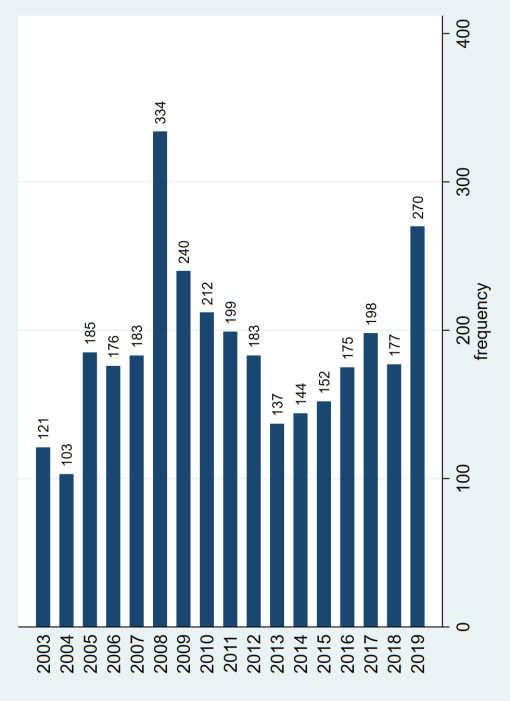


Figure 7.6: Number of FDI projects in Algeria, Egypt, Libya, Morocco, and Tunisia

7.1.5 Result on all the dataset

```
                                                Number of obs     =     11,470
                                                LR chi2(10)       =     942.78
                                                Prob > chi2       =     0.0000
Log likelihood =  -3529.604                     Pseudo R2         =     0.1178
```

choice	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
pop_urb2	.0558841	.0072082	7.75	0.000	.0417563	.0700118
gdp_pc_growth	.037626	.0147565	2.55	0.011	.0087038	.0665483
colonial_tie	.3980523	.1138247	3.50	0.000	.1749599	.6211446
contig	2.153856	.3338383	6.45	0.000	1.499545	2.808167
comlang_ethno	.4867172	.0735915	6.61	0.000	.3424806	.6309538
dist	-.0002688	.0000186	-14.46	0.000	-.0003052	-.0002324
nat_res_rents	.0585493	.00976	6.00	0.000	.03942	.0776786
enrol_ter	-.0172536	.0051978	-3.32	0.001	-.0274412	-.007066
fuel_exports	-.0242767	.0026444	-9.18	0.000	-.0294596	-.0190937
trade_sh	.0147857	.004599	3.21	0.001	.0057719	.0237995

Figure 7.7: Output of the conditional logit model on all the dataset

Clogit is the Stata command used to assess the influence of independent factors on investment decisions. The number of observations used to build the model and make investment decisions is 11,470. This output includes all coefficients, standard errors, 95% confidence intervals, and p-values.

- LR chi2(10) = 942.78, p-value = 0.000. The LR Chi2 test indicates that the model is statistically significant at a level of 0.05. At least one independent variable significantly influences the choice of the investment region.
- Urban population (pop_urb2): The positive and statistically significant coefficient indicates that population size may have a substantial role in choosing an area.
- GDP per capita growth (gdp_pc_growth): The coefficient is positive and statistically significant. A higher GDP per capita growth may help attract investment.
- colonial tie (colonial_tie): The positive coefficient with a p-value of 0.00 suggests that colonial tie between countries is associated with a higher probability of choosing a specific region for investment.
- contiguous (contig) and common language (comlang_ethno): These factors have positive coefficients with strong statistical significance, showing a considerable positive influence on the selection of the location.
- distance (dist): The negative coefficient for distance implies that, leaving other factors constant, increasing the distance between the source and destination countries is connected with a drop in the chance of selecting the location, which may not be appealing to investors.
- natural resources rents (nat_res_rents) and fuel exports (fuel_exports): The coefficient for "fuel_exports" is -0.0243 with a p-value of 0.000, indicating a statistically significant negative relationship between fuel exports and the outcome. This suggests that as fuel exports increase, the probability of the observed choice decreases. Conversely, the coefficient for "nat_res_rents" is 0.0585 with a p-value of 0.000, showing a statistically significant positive association between natural resource rents and the outcome.
- tertiary enrollment (enrol_ter): The negative coefficient indicates that more university enrollment is related with a lower likelihood of selecting a given nation for investment. This finding is statistically significant (p = 0.00)
- trade share (trade_sh): The positive and highly significant coefficient suggests a substantial positive impact on the choice of the region.

The analysis reveals several key drivers of investment location choice when analysing all the dataset. Population size, GDP per capita growth, colonial ties, contiguity, and common language all positively influence location selection. However, increased distance between countries and fuel exports deters investment, while higher tertiary enrollment correlates with lower investment likelihood. Additionally, trade share significantly impacts location choice. These findings offer valuable insights for policymakers and investors navigating investment decisions.

7.1.6 Manufacturing industry

```
                                                Number of obs     =      2,897
                                                LR chi2(10)       =     169.78
                                                Prob > chi2       =     0.0000
Log likelihood = -923.54887                     Pseudo R2         =     0.0842
```

choice	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
pop_urb2	.0241917	.0144328	1.68	0.094	-.0040961	.0524794
gdp_pc_growth	.0353938	.0289761	1.22	0.222	-.0213983	.092186
colonial_tie	.7519196	.2450211	3.07	0.002	.2716871	1.232152
contig	1.194421	.6692106	1.78	0.074	-.1172077	2.50605
comlang_ethno	.2175244	.1409905	1.54	0.123	-.0588119	.4938607
dist	-.0003171	.0000406	-7.80	0.000	-.0003967	-.0002374
nat_res_rents	.0409207	.0178583	2.29	0.022	.0059191	.0759222
enrol_ter	.0003957	.0099462	0.04	0.968	-.0190985	.01989
fuel_exports	-.0177556	.004619	-3.84	0.000	-.0268087	-.0087024
trade_sh	-.0003391	.009246	-0.04	0.971	-.0184608	.0177827

Figure 7.8: Output of the conditional logit model applied to the manufacturing industry

Figure 7.8 depicts the results of the conditional logit model applied to the industrial activities of manufacturing in North African nations. The manufacturing industry is distinguished by its trained labor and competitive operating expenses. The number of observation is 2,897.

- LR chi2(10) = 169.78, p-value = 0.000. The LR Chi2 test indicates that the model is statistically significant at a level of 0.05. At least one independent variable significantly influences the choice of the investment region.
- Urban population (pop_urb2): The effect is positive but not statistically significant (p-value = 0.094), suggesting that urban population may not have a substantial impact on manufacturing investment decisions. Although urban

population has a positive link with investment probability, the absence of statistical significance implies that this relationship should be interpreted with care.

- GDP per capita growth (gdp_pc_growth): The relationship is positive, but not statistically significant (p-value = 0.222), suggesting that GDP per capita growth does not significantly impact manufacturing investment decisions. This might suggest that variables other than a region's economic strength are more important in determining building investment.

- colonial tie (colonial_tie): The positive coefficient with a p-value of 0.00 suggests that colonial tie between countries is associated with a higher probability of choosing a specific region for investment.

- contiguous (contig) and common language (comlang_ethno): Both variables exhibit positive coefficients, demonstrating a favorable relationship with the macroregion selected for construction. Both are not statistically significant, with p-values of 0.044 and 0.123, respectively. This is an interesting discovery, and it may suggest a trend in which contiguous and common language are not crucial components in the manufacturing decision making process.

- distance (dist): The negative coefficient for distance implies that, leaving other factors constant, increasing the distance between the source and destination countries is connected with a drop in the chance of selecting the location, which may not be appealing to investors.

- natural resources rents (nat_res_rents) and fuel exports (fuel_exports): The coefficient for "fuel_exports" is -0.0177 with a p-value of 0.000, indicating a statistically significant negative relationship between fuel exports and the outcome. This suggests that as fuel exports increase, the probability of the observed choice decreases. Conversely, the coefficient for "nat_res_rents" is 0.0409 with a p-value of 0.022, showing a statistically significant positive association between natural resource rents and the outcome.

- tertiary enrollment (enrol_ter): The effect is positive but not statistically significant (p-value = 0.968), suggesting that tertiary enrollment may not significantly impact investment decisions in the manufacturing sector.

- trade share (trade_sh): A negative coefficient indicates that a larger trade share is related with a lower chance of investment choice. However, the p-value of 0.971 suggests that this variable is not statistically significant. This could be attributed to potential substitution between trade and fDi. In contexts where trade barriers are high or the costs of establishing fDi are prohibitive, investors may prioritize trade over direct investment. Conversely, in environments where

fDi is incentivized or where trade barriers are low, investors may opt for fDi to access local markets more effectively. Other factors, in addition to trade share, may affect manufacturing investors.

The analysis of factors influencing manufacturing investment decisions reveals several insights. While urban population (pop_urb2) and GDP per capita growth (gdp_pc_growth) show positive relationships with investment probability, they are not statistically significant. Colonial ties (colonial_tie) are positively associated with investment likelihood, while variables such as contiguity and common language demonstrate favorable but non-significant relationships with the chosen macro region. Increased distance between source and destination countries negatively impacts investment choice, reflecting investor preferences. Furthermore, fuel exports exhibit a significant negative relationship with the outcome, while natural resource rents have a positive and significant association. Tertiary enrollment and trade share show positive but non-significant effects on investment decisions.

7.1.7 Market industry

```
                                                Number of obs     =      6,116
                                                LR chi2(10)       =     576.23
                                                Prob > chi2       =     0.0000
Log likelihood = -1846.6064                     Pseudo R2         =     0.1350
```

choice	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
pop_urb2	.0645279	.0101526	6.36	0.000	.0446291	.0844266
gdp_pc_growth	.0614766	.0205177	3.00	0.003	.0212627	.1016904
colonial_tie	.0877465	.1524014	0.58	0.565	-.2109547	.3864478
contig	2.301471	.4028457	5.71	0.000	1.511908	3.091035
comlang_ethno	.6326333	.1044044	6.06	0.000	.4280044	.8372622
dist	-.0002811	.0000258	-10.91	0.000	-.0003316	-.0002306
nat_res_rents	.0893073	.0140048	6.38	0.000	.0618585	.1167562
enrol_ter	-.0216474	.0072986	-2.97	0.003	-.0359524	-.0073424
fuel_exports	-.0311674	.003859	-8.08	0.000	-.0387309	-.023604
trade_sh	.0196944	.0064252	3.07	0.002	.0071012	.0322876

Figure 7.9: Output of the conditional logit model applied to the market industry

Figure 7.9 depicts the results of the conditional logit model applied to the activities of the market industry. The number of observation is 6,116. The market industry encompasses a diverse range of sectors including Sales, Marketing & Support; Retail; Customer Contact Centre; Maintenance & Servicing; Business Services; and Logistic, Distribution & Transportation. Each sector plays a vital

role in the economy, contributing to the efficient functioning of businesses and meeting consumer needs. Sales, Marketing & Support facilitate product promotion and customer engagement, while Retail sector caters to direct consumer sales. Customer Contact Centre ensures effective communication and support services, while Maintenance & Servicing sector ensures the upkeep and longevity of products and infrastructure. Business Services encompass a wide range of professional services crucial for business operations, while Logistic, Distribution & Transportation sector ensures the seamless movement of goods and services across regions. Together, these industries form the backbone of the market economy.

- LR chi2(10) = 576.23, p-value = 0.000. The LR Chi2 test indicates that the model is statistically significant at a level of 0.05. At least one independent variable significantly influences the choice of the investment region.
- Urban population (pop_urb2): The positive and statistically significant coefficient indicates that population size may have a substantial role in choosing an area.
- GDP per capita growth (gdp_pc_growth): The coefficient is positive and statistically significant. A higher GDP per capita growth may help attract investment in the market industry.
- colonial tie (colonial_tie): The relationship is positive but not statistically significant (p-value = 0.565), suggesting that colonial ties do not significantly impact the choice of macroregion for market industries. This might suggest that variables other than two areas' colonial ties have a greater influence on market industry investment decisions.
- contiguous (contig) and common language (comlang_ethno): Both variables exhibit positive coefficients, demonstrating a favorable relationship with the macroregion selected for the market industry. Both are statistically significant, both with p-values of 0.000. This might be ascribed to investors in the market business seeking parallels to their own local market while looking for chances in other nations. Investors frequently select locations with comparable market dynamics, customer attitudes, and corporate environments in order to reduce risks and employ familiar operating practices.
- distance (dist): The negative coefficient for distance implies that, leaving other factors constant, increasing the distance between the source and destination countries is connected with a drop in the chance of selecting the location, which may not be appealing to investors.
- natural resources rents (nat_res_rents) and fuel exports (fuel_exports): The coefficient for "fuel_exports" is -0.0312 with a p-value of 0.000, indicating

a statistically significant negative relationship between fuel exports and the outcome. This suggests that as fuel exports increase, the probability of the observed choice decreases. Conversely, the coefficient for "nat_res_rents" is 0.0893 with a p-value of 0.000, showing a statistically significant positive association between natural resource rents and the outcome.

- tertiary enrollment (enrol_ter): The negative coefficient indicates that more university enrollment is related with a lower likelihood of selecting a given nation for investment. This finding is statistically significant (p = 0.003) in the market industry.
- trade share (trade_sh): A positive coefficient indicates that a larger trade share is associated with a higher likelihood of investment choice. Moreover, the statistically significant p-value of 0.002 suggests that this relationship is robust. In this scenario, there might not be substitution between trade and foreign direct investment; instead, there could be complementarity. This implies that investors are likely to support markets where they already have a significant export presence. In such cases, the synergy between trade and FDI encourages investors to expand their operations into markets where they are already successful exporters, leveraging their existing market knowledge and networks.

The analysis highlights several key factors influencing investment decisions in the market industry. Firstly, both urban population (pop_urb2) and GDP per capita growth (gdp_pc_growth) exhibit positive and statistically significant coefficients, indicating their substantial roles in area selection for market industries. However, colonial ties (colonial_tie) do not significantly impact these decisions, suggesting that other variables hold greater influence. Factors such as contiguity and common language (comlang_ethno) demonstrate significant positive relationships with macro region selection, likely due to investors seeking similarities to their own local markets when exploring opportunities abroad. Conversely, increased distance between source and destination countries negatively affects location choice, potentially deterring investors. Additionally, while fuel exports negatively influence the outcome, natural resource rents positively associate with investment probability. Furthermore, higher tertiary enrollment correlates with a lower likelihood of investment selection, while a larger trade share enhances the chance of investment choice. T

7.1.8 Resources industry

The database for this category contains firms involved in the resource industry. Which includes the extraction, construction, and electricity industrial operations. The number of observation is 1,615.

		Number of obs	= 1,615
		LR chi2(10)	= 174.95
		Prob > chi2	= 0.0000
Log likelihood = -476.30377		Pseudo R2	= 0.1552

choice	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
pop_urb2	.0807188	.0189043	4.27	0.000	.0436669	.1177706
gdp_pc_growth	-.0537757	.040241	-1.34	0.181	-.1326467	.0250953
colonial_tie	.8257759	.3481334	2.37	0.018	.143447	1.508105
contig	12.21252	658.6787	0.02	0.985	-1278.774	1303.199
comlang_ethno	.2278556	.2089541	1.09	0.276	-.181687	.6373981
dist	-.0002265	.0000437	-5.19	0.000	-.0003121	-.000141
nat_res_rents	.0383333	.0276881	1.38	0.166	-.0159344	.0926009
enrol_ter	-.0435623	.0147158	-2.96	0.003	-.0724048	-.0147198
fuel_exports	-.0225728	.007899	-2.86	0.004	-.0380546	-.007091
trade_sh	.0233119	.0122268	1.91	0.057	-.0006523	.047276

Figure 7.10: Output of the conditional logit model applied to the resources industry

- LR chi2(10) = 174.95, p-value = 0.000. The LR Chi2 test indicates that the model is statistically significant at a level of 0.05. At least one independent variable significantly influences the choice of the investment region.
- Urban population (pop_urb2): The positive and statistically significant coefficient indicates that population size may have a substantial role in choosing an area.
- GDP per capita growth (gdp_pc_growth): GDP per capita growth has a positive correlation but is not statistically significant (p = 0.181). This suggests that GDP per capita growth may not be the most important criteria in deciding where to invest in the resources business.
- colonial tie (colonial_tie): The relationship is positive and statistically significant (p-value = 0.018), suggesting that colonial ties do significantly impact the choice of macroregion for resources industries. This might suggest that variables other than two areas' colonial ties have a greater influence on market industry investment decisions. This could be attributed to the ongoing ties between countries with colonial history, which may still exert influence in investment decisions.
- contiguous (contig) and common language (comlang_ethno): Both variables have positive coefficients, indicating a good fit with the macroregion chosen for

construction. However, both are not statistically significant (p-values of 0.995 and 0.276, respectively). This is an intriguing result, and it may indicate a trend in which contiguous and common language are not critical components in the resource business decision-making process.

- distance (dist): The negative coefficient for distance suggests that, holding all other variables equal, increasing the distance between the source and destination nations is associated with a decrease in the probability of picking the location, which may not be desirable to investors.

- natural resources rents (nat_res_rents) and fuel exports (fuel_exports): The coefficient for "fuel_exports" is -0.0226 with a p-value of 0.004, indicating a statistically significant negative relationship between fuel exports and the outcome. This suggests that as fuel exports increase, the probability of the observed choice decreases. Conversely, the coefficient for "nat_res_rents" is 0.0383 with a p-value of 0.166, showing a statistically not significant positive association between natural resource rents and the outcome.

- tertiary enrollment (enrol_ter): The negative coefficient indicates that more university enrollment is related with a lower likelihood of selecting a given nation for investment. This finding is statistically significant (p = 0.003) in the resources industry.

- trade share (trade_sh): A positive coefficient indicates that a larger trade share is related with a higher chance of investment choice. However, the p-value of 0.057 suggests that this variable is not statistically significant. Other factors, in addition to trade share, may affect manufacturing investors.

Several major conclusions emerge from an investigation of the factors influencing investment decisions in the resource business. First, urban population (pop_urb2) appears as a key driver, with a positive and statistically significant coefficient, implying that it plays an important influence in region selection. However, GDP per capita growth (gdp_pc_growth) is statistically insignificant (p = 0.181), implying that it may not be a deciding factor in resource industry investments. Colonial ties (colonial_tie) exhibit a positive and statistically significant link (p-value = 0.018), demonstrating that they influence macro region selection for resource industries. This indicates that historical ties between countries continue to impact investment decisions. Variables such as contiguity and common language (comlang_ethno) exhibit positive coefficients but lack statistical significance (p-values of 0.995 and 0.276, respectively), suggesting that they may not be important factors in resource industry decision-making. Distance (dist) has a negative coefficient, suggesting that increasing the distance between source and destination nations reduces the likelihood of choosing a site, thus discouraging investment. Furthermore, fuel exports have

a negative impact on the result, but natural resource rents do not demonstrate statistical significance. Furthermore, higher tertiary enrollment (enrol_ter) is associated with a decreased chance of investment selection, implying a preference for places with lower education levels. In contrast, a bigger trade share (trade_sh) increases the likelihood of making an investment decision, however this effect is not statistically significant (p = 0.057).

7.1.9 Results comparing UE investors to non-UE parent investors

When assessing investments in the north African countries, a substantial distinction arises between European Union (EU) member nations and those outside the EU. This divergence, formed by historical and economic factors, has a significant impact on investment patterns. The economic relationships, trade policies, and investment plans differ greatly across the two groupings of nations, creating a complicated framework that affects the region's economic development. Figures 7.11 and 7.12 show the Stata outputs for the conditional logit models for EU countries and non-EU countries.

```
                                                Number of obs     =      5,575
                                                LR chi2(9)        =     459.19
                                                Prob > chi2       =     0.0000
Log likelihood = -1715.5655                     Pseudo R2         =     0.1180
```

choice	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
pop_urb2	.0987199	.0127419	7.75	0.000	.0737462	.1236937
gdp_pc_growth	.0524071	.0211014	2.48	0.013	.0110492	.0937651
colonial_tie	.4178798	.1402713	2.98	0.003	.1429532	.6928064
contig	0	(omitted)				
comlang_ethno	.3859855	.1194719	3.23	0.001	.1518249	.6201462
dist	-.0009231	.000081	-11.40	0.000	-.0010818	-.0007644
nat_res_rents	.051145	.0137526	3.72	0.000	.0241903	.0780997
enrol_ter	.0019663	.0076204	0.26	0.796	-.0129693	.016902
fuel_exports	-.032802	.0038156	-8.60	0.000	-.0402803	-.0253236
trade_sh	.019635	.0070386	2.79	0.005	.0058396	.0334304

Figure 7.11: Output of the conditional logit model applied to the Countries of the European Union

The comparison of investors from EU and non-EU countries sheds light on the nuances that influence their investment decisions in the resources business.

For EU investors, conditional logit analysis provides vital insights into the factors that influence their investment decisions. Urban population size has a substantial

		Number of obs	= 5,895
		LR chi2(9)	= 640.75
		Prob > chi2	= 0.0000
Log likelihood = -1735.4536		Pseudo R2	= 0.1558

choice	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
pop_urb2	.0778724	.0103539	7.52	0.000	.0575791	.0981657
gdp_pc_growth	-.0068179	.0212047	-0.32	0.748	-.0483783	.0347425
colonial_tie	0	(omitted)				
contig	1.983404	.3404546	5.83	0.000	1.316125	2.650683
comlang_ethno	.4260443	.1001457	4.25	0.000	.2297624	.6223262
dist	-.0001728	.0000234	-7.39	0.000	-.0002187	-.000127
nat_res_rents	.0654014	.0138501	4.72	0.000	.0382558	.092547
enrol_ter	-.0308962	.0080112	-3.86	0.000	-.0465978	-.0151946
fuel_exports	-.0214317	.0037162	-5.77	0.000	-.0287153	-.014148
trade_sh	.023536	.0064936	3.62	0.000	.0108088	.0362633

Figure 7.12: Output of the conditional logit model applied to the Countries that are not part of the European Union

positive coefficient, indicating that greater urban populations in destination locations are more enticing to investors. This shows that EU investors prioritize access to larger consumer markets and labor pools when making investment decisions.

Furthermore, GDP per capita growth is identified as a significant predictor, with a positive coefficient indicating that locations with better economic growth attract more investment from EU investors. This is consistent with the idea that improved economic performance signals a better business climate and expansion potential. Moreover, colonial links between source and destination nations have been shown to have a considerable favorable influence on EU investment decisions. This suggests that historical linkages and cultural connections impact their investment preferences, with investments most likely directed toward regions with common colonial histories.

In addition, characteristic such as sharing a same language has positive coefficient, indicating that linguistic familiarity plays an important role in EU investors' decision-making processes.

In contrast, higher distances between source and destination nations have a negative influence on investment decisions, most likely due to increasing logistical obstacles and costs involved with long-distance projects.

On top of that, higher natural resource rents positively affect investment decisions, showing EU investors' interest in places with plentiful resources and the potential for economic returns. Interestingly, tertiary enrollment rates do not

appear to have a substantial impact on investment decisions for EU investors, as indicated by the non-significant coefficient and high p-value. This implies that variables other than educational achievement may take precedence in their investing decisions.

The conditional logit model for non-EU investors identifies numerous critical elements that influence their investing decisions. For starters, there is a considerable positive association between urban population size and investment decisions, implying that places with greater urban populations are more appealing to investors. This indicates that investors prefer access to broader consumer markets and labor pools. Interestingly, GDP per capita growth does not appear to be a significant determinant, showing that economic growth may not be the key focus for non-EU investors when evaluating investment prospects. On the other hand, characteristics such as proximity to the source nation and same language have a substantial positive correlation with investment decisions. This implies that proximity and language familiarity lower perceived risks and simplify corporate processes, making such areas more enticing for investment. Furthermore, increasing distance between source and destination nations reduces investment opportunities, most likely owing to increased logistical problems and expenses. Higher natural resource rents, on the other hand, have a favorable impact on investment decisions, showing that places with rich resources are attractive to non EU investors.Higher tertiary enrollment rates have a detrimental influence on investment decisions, emphasizing the unnecessary of a competent workforce and educational opportunities. Furthermore, bigger trade shares in the destination country have positive influences on investment decisions, indicating market opportunities.

In conclusion, when analyzing investment prospects, EU investors emphasize criteria such as urban population size, GDP per capita growth, colonial links, linguistic similarities, and geographical closeness, while also taking into account natural resource availability and trade dynamics. While, non-EU investors emphasize characteristics such as urban population size, proximity, language familiarity, resource availability, and access to trained labor.

The discovery of different coefficients for EU investors and non-EU investors initially raised suspicions of a potential difference in selecting investments. To investigate this possibility, comparative tables were constructed. These tables revealed that, particularly when excluding resources as industrial activity, the discrepancies between the coefficients were not as pronounced as initially assumed.

The chi-square test and Cramér's V coefficient offer useful insights into the link between EU membership and industrial activities:

- All industry activities (Figure 7.13): The chi-square test and Cramér's V coefficient offer useful insights into the link between EU membership and industrial activities: Chi-Square Test: With a chi-square value of 19.8354 and

eu	IndustryActivity2 Manuf	Market	Other	R&D	Resurces	Total
0	2,005 24.07	4,460 53.54	330 3.96	240 2.88	1,295 15.55	8,330 100.00
1	1,910 25.08	4,125 54.17	285 3.74	270 3.55	1,025 13.46	7,615 100.00
Total	3,915 24.55	8,585 53.84	615 3.86	510 3.20	2,320 14.55	15,945 100.00

Pearson chi2(4) = 19.8354 Pr = 0.001
Cramér's V = 0.0353

Figure 7.13: Double entry table: eu and IndustryActivity

eu	IndustryActivity2 Manuf	Market	Other	R&D	Total
0	2,005 28.50	4,460 63.40	330 4.69	240 3.41	7,035 100.00
1	1,910 28.98	4,125 62.59	285 4.32	270 4.10	6,590 100.00
Total	3,915 28.73	8,585 63.01	615 4.51	510 3.74	13,625 100.00

Pearson chi2(3) = 5.9072 Pr = 0.116
Cramér's V = 0.0208

Figure 7.14: Double entry table: eu and IndustryActivity (without Resources)

a p-value of 0.001, the test finds a significant link between EU membership and industrial activity. The low p-value indicates that the observed frequency differences are not random, but rather represent a meaningful relationship between EU membership and industrial activity. Cramér's V Coefficient: The coefficient of Cramér's V, which was estimated to be 0.0353, represents the strength of the relationship between two variables. While the coefficient suggests a modest correlation, it is nonetheless statistically significant given the sample size. In conclusion, the data reveal a considerable relationship between EU membership and economic activities, however a relatively weak

one.

- Without "Resources" activity (Figure 7.14): Chi-Square Test: The chi-square value is 5.9072 and the p-value is 0.116. At the standard significance threshold of 0.05, this indicates that there is no meaningful relationship between EU membership and industrial activity. The comparatively high p-value suggests that the observed disparities in industrial activity between EU and non-EU investors may be attributable to chance rather than a systematic relationship. The Cramér's V coefficient is 0.0208, demonstrating a relatively weak relationship between EU membership and industrial activity. While the correlation is statistically significant given the sample size, the low value of Cramér's V indicates that the association is weak. In conclusion, the findings indicate that there is no significant relationship between EU membership and industrial activity among investors.

When "Resources" industry activity is omitted from the study, the observed disparities in the link between EU membership and industrial activities may be explained by a number of fundamental elements. To begin, industry composition is important, with certain sectors being more directly impacted by EU policies and regulations than others. Manufacturing and market-based businesses are more closely tied to EU membership due to factors such as trade agreements and shared standards. On the other hand, EU dynamics may have less of an impact on resource extraction operations. Furthermore, economic growth phases in the EU contribute to these disparities. More developed economies, which are frequently connected with industrial and market-based activities, tend to be closely aligned with EU policy, whereas countries with resource extraction activities may have distinct economic characteristics. As a result, by focusing primarily on sectors other than "Resources," the research gives a more detailed picture of the individual industrial activities impacted by EU membership.

Chapter 8

Conclusions

This study uses firm-level data to examine the factors that influence fDi placement across north African countries. This investigation brought to light the discrepancies in those factors for businesses operating in various economic sectors.

The thesis included a thorough analysis of foreign direct investment, beginning with a look at multinational corporations and the definition of fDi. It looked at how fDi is classified as well as its causes and impacts. After that, fDi trends from both before and after the 2007 financial crisis were examined. After then, the emphasis turned to Morocco, providing details about its political structure, history, recent economic changes, and present state of affairs. The chapter on foreign direct investment in Morocco looked at initiatives to draw fDi and tracked its development inside the nation, including changes meant to make it more appealing to investors. A theoretical framework was established and the empirical literature on factors influencing fDi was reviewed as part of an empirical investigation on the determinants of fDi in Morocco. The methods for multivariate models, logistic regression, and conditional logistic regression were described in the econometric literature review. The fDi dataset, comprising dependent and independent variables, dataset structure, and descriptive analyses, were covered in the model and analysis chapter that followed. The full dataset's results as well as those for particular businesses like manufacturing, markets, and resources were displayed, along with a comparison of investors from the EU and outside the EU. The key objective of the study was to identify trends in regional investment preferences through the application of a Conditional Logit Model, a valid statistical method designed for the analysis of discrete options. The model incorporated some independent variables: urban population, GDP per capita growth, colonial tie, contiguous territory, common language, distance, natural resources rents, tertiary enrollment ratio, fuel exports and trade share.

Important positions in the investment domain arise within particular industries, such manufacturing, market industry, and resources. These industries have unique

potential and problems, highlighting the need for specific strategies and targeted policy changes to successfully entice these kinds of investments. The study's conclusions have significant ramifications for stakeholders and legislators who shape the investment climate in North African nations. It is crucial to understand that in order to fully understand the impacts of variables, diversity by industry activity and the home nation of the investment business is necessary, as seen by the varying findings given by the various regression sets. The relevance of some decision drivers may be overestimated or underestimated as a result of an overall assessment.

Our research has shown that geographic proximity and linguistic similarity emerge as key factors influencing patterns of foreign direct investment, especially within the Market Industry. This phenomena can be explained by the benefits that come with being close by and speaking the same language. Geographic proximity makes it easier to manage logistics and lowers transportation costs, which increases the viability for investors to start and run businesses in nearby nations. Furthermore, language similarity promotes more efficient communication channels, reducing entrance barriers and strengthening corporate links. Investors may thus give priority to areas where these characteristics are common in an effort to take advantage of the synergies provided by close proximity and same language. Our results have also revealed different investment preferences according to the level of development in the nations that are investing and receiving the funds. In particular, countries that are members of the European Union have a tendency to invest in more developed countries, whereas developing nations have a tendency to spend in areas where labor forces are not as strong. Different tactics and approaches to allocating resources might be attributed for this problem. With their highly trained labor forces and cutting-edge technology at their disposal, EU nations may look for chances in developed markets to capitalize on their advantages and secure profitable markets. In contrast, developing economies may choose to invest in areas with less developed labor forces where operating costs are lower and growth potential is thought to be higher in order to take advantage of cost savings and broaden their market reach. As a result, strategic alignment with the economic traits and growth trajectories of both the investing and recipient nations influences investment decisions.

This study has limitations even if it improves our understanding of the variables influencing foreign direct investments. Because historical data has a time restriction, investment patterns must be continuously monitored and reevaluated. More dynamic modeling approaches, including time-series data and predictive analytics to forecast changes in investment patterns, might be used in future research projects. Furthermore, adding qualitative components like stakeholder interviews may provide more in-depth understanding of the complex issues impacting investment decisions than may be possible with just quantitative models. It's important to remember that the results may not be as generalizable as they may be because they are

based on a small sample of data. Changes in investment conditions and regional differences may also have an impact on how applicable the findings are in other situations.

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