

## THE POLICY OF ATTRACTIVENESS TOWARDS FOREIGN DIRECT INVESTMENTS: CASE OF TUNISIA

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### ABSTRACT

The Foreign Direct Investment is regarded as an important engine of the economic growth for the countries in the process of development. Indeed, the internationalization of the production makes it possible to better exploit the advantages of the companies, the areas and the countries. Consequently, it is largely recognized that the action of the public authorities should aim at eliminating the obstacles with the direct foreign investment insofar as that does not oppose other legitimate objectives. This article explores several important aspects of the policy in favour of the attraction of the Foreign Direct Investment in Tunisia. One also aims at interpreting the results of this policy.

**KEYWORDS:** FDI, factors of attractivity, legal framework, stability.

### 1. INTRODUCTION

The objective of this work is to evaluate the attractiveness policy towards FDI in Tunisia. The FDI is defined by OECD as ‘an activity by which an investor residing in a country obtains a durable interest and a significant influence in the management of an entity residing in another country.

#### 1.1 The foreign direct investment

This operation can consist to create an entirely new company (investment of creation) or, more generally, to amend of property of the existing companies (by the means of fusions and acquisitions). They are also defined like direct foreign investments of other types of financial affairs between connected companies in particular the reinvestment of the benefit of the company having obtained the direct foreign investments, or other transfers in capital. Information on flows of the direct foreign investments is collected via national surveys on the nature of the investment, the form of the partnership, the technology transfer and the effective creation of job. The range of the countries, the branches of activity and the periods covered by these data is still limited for the case of the countries in the process of development. The political stability and the transparency of its economic system and financier form two main components of the country risk and reflect to some extent the confidence which the foreign investors in a country or an area carry. Flows of direct foreign investments between European Union, The United States and Japan (flow North-North) are most important (60%), even if their shares in the world total is rather in fall. Thus, one observes these last years a strong increase in flows towards Southeast Asia and particularly bound for China (World Investment report 2006). In a general manner, the African continent attracts a little of the direct foreign investments even if some countries like South Africa, Algeria, Morocco, Tunisia or Egypt constitute exceptions. For the other African countries, the direct foreign investments are primarily concentrated in mining. The direct foreign investments, take the form of acquisition or companies or acquisition of a holding in the capital of a company.

#### 1.2 The policy in favour of the FDI in Tunisia

Tunisia preaching a policy of voluntarist since its independence attached a major importance to direct foreign investments like instrument of job creation and economic development. The attraction was thus for a long time in the point of test card of the national economic strategies. The Tunisian State promulgated, during the twenty last years a battery of regulatory tax measures and economic policies which aim at increasing the attractivity of the Tunisia destination for the foreign investors. The support with economic development as well as the correction of the gaps and insufficiencies which it comprises constituted the objects of the policies in favour of the attraction of the direct foreign investments in Tunisia and which one will try to briefly present: - The first decade of development (the Sixties) has very on board allowed the construction of the basic industrial dies, the main part of the investments being realized by the State in the absence at the time of entrepreneurial class. - The second and the third decade were marked by the will of application of one policy of liberal opening or the accent was particularly put on the stimulation of private initiative and the development of exporting industries by

encouraging the agreement of subcontracting between local SME and foreign clients (this particularly in the sector of the textile clothing). The promulgation of the Law of 1972 aiming at the encouragement of the exporting activities and the outs FDI investment in the textile and clothing `is there for something. The Eighties were remembered by two phases of before and according to the program of structural adjustment (in 1986) implemented to face the degradation of the public accounts. This period saw a large investment of the State in teaching, the formation, the improvement of the infrastructure, an opening on the outs FDI and a will of diversification of industrial fabric: mechanical engineering industries, electric, leather and shoes, agro-alimentary, services (Asiedu 2003).

- Finally the fourth and fifth decades (90 and 2000) saw the beginning of the abolition of the tariff barriers and the end of the multifibre agreements what obliged the Tunisian State has to adopt a policy of reorganization, levelling (to face foreign competition) and of privatization of state enterprises which saw the introduction of a partial or total participation foreign investors for the majority into their authorized capital. The State continued its policy in favour of the improvement of the infrastructure (motorway which skirts Tunisia of north to the south, new airport of Nfida, modernization of the public administration by the generalization of the use of the Technologies of information) and the attraction of the direct foreign investments by the introduction of one-stop shopping, the diversification of the activities with strong value added (in particular by swarming), the creation of technopolises and all localised forms of systems productive.

The creation of Cells specialized within the ministry for the trade and of industry and the Ministry for Technologies of the Communication and the installation of the regional business districts, it payment of the customs formalities within the company, the replacement of approvals by specifications, the launching of remote administrative services (E-Government) and finally the establishment of connection between the university world (research) and the companies (formation of competence in adequacy with the needs for the companies, the creation of seedbeds of companies sponsored by the universities, and finally the assistance with the research and development). This national policy in favour of the direct foreign investments is based on a proactive step which privileges the targeting of the couple: Produced countries/areas and sectors/and reactivate based on the framing of the investors. This has as an instrument a system of day before the direct foreign investments and targeting and Comparison between the Tunisian offer and the existing potential in the world. This policy in favour of the encouragement of the direct foreign investments took on two aspects indeed: a legal aspect and another organisational:

### 1.3 Legal framework and institutional

To determine the various forms which the direct foreign investments took starts with its definition and its legal and legal approval. In more the foreign assets by is by downpour definition with the risk and thus it is consequently paramount to get all the security guarantees and stability to him. In particular political and legislative stability is essential. The latter makes it possible to perennialize the capital invests and to increase it in time. Tunisia had a balanced legislative policy with l' regard of the Direct Overseas investments. Liberty of access, with the first code of the investment of 1969, one has very early seized the importance of the direct foreign investments like engine of the development while granting to the national investments importance they deserve. Evolution went then towards a coding by economic sector and several codes were adopted in this respect. The law of 1972 is l' one of the first laws in the area, even in the world in the process of development, to pose the stakes d' an inciting policy with l' regard of the direct foreign investments and the companies exporters (Lazhar 2006). Currently, l' adoption of the code of the investment incentives in 1993, translated triple concern:

- Freedom of access to invest. Indeed, almost the totality of the sectors is given from now on an exemption of authorization and one has the system of the declaration and of the schedule of conditions tends to becoming the rule.- The code seeks to include the majority of the sectors of economy. The investment profits from a definition as broad as possible. - The concern today is that to prov FDI to foreign investor a whole of the guarantees of treatment, protection, in accordance with the international law. Investor is protected with respect to the political risks which can endanger its investment. Tunisia always was for the international arbitration. Arbitration is systematic and a code of arbitration was adopted in this direction in 1993. Lastly, Tunisia signed a whole of bilateral Conventions having milked with l' investment such as the convention of New York of 1958, convention of CIRDI of 1965 and that of MIGA of 1985. Accession of Tunisia on OMC and the conclusion an Agreement such as Association with European Union are likely to reinforce the guarantees of which investor needs. The same this code gives for the foreigners the possibility of holding the totality of the capital and their free transfer of the benefit and the capital ensures as they profit from the same advantages as the local investor.

### 1.4 The organisational framework

The Tunisian State obtained various national structures in charge of promotion of the investments such as the FIPA (Arranges Promotion of the Investments Outside), the API one (the Agency of Promotion of Industry) and the ANETI (the national agency for Employment and Free-lance work), in addition to various cells specialized within the ministry for the trade and of industry and that of telecommunications.

#### 1.4.1 Promotional strategy of the agency of promotion of FDI (FIPA)

Created into 1995 under the supervision of the Ministry for the Development and the International cooperation, FIPA constitutes the principal organism in charge to set up the national policy in favour of the attraction of the investments. Agency lays out a network of six offices located abroad at Brussels, Chicago, London, Cologne, Milan and Paris. The role of agency is to increase the attractiveness of the local economy for the investments, and to accompany the investor throughout the process. The FIPA stuck the services of office of consulting on a world level and this for the realization of comparative studies between Tunisia and other countries in the same situation and this according to their respective attractivities (Production costs, determinant of the localization. etc). It also places at the disposal of the investors several documents and supports attesting of the good health of the local economy and its main advantages as regards factor costs, of the incentives to the investment and the infrastructures.

Activities in Tunisia:

- To identify the sectors this can cause innovation and value to add using exploratory studies.
- To bring closer the potential investors to the various economic agents public and deprived and the mediums of businesses.
- To support the emergence of medium favourable with the investment such as the localised productive systems (technopolis for example) and this by using the specialization of the medium and local specificities of the areas.
- To assist the foreign promoter throughout the life of its project by facilitating l' integration of l' company in the new environment.

Activities with foreigner:

- To go to the front and not to await the arrival of the investor. It's necessary on the contrary to strike with its door to make develop in its eyes the medium of the businesses in Tunisia.
- To place at the disposal of interested specialized documentation in various languages presenting the socio-economic data on Tunisia, the legal framework and legislature, sectors key for l' investment, l' route of l' investor.
- To plan and prepare visits d' businesses of the various rooms of business and foreign trade.
- To encourage the Tunisian participation in the various fairs and promotional demonstrations

### **1.4.2 API, a network of services to the company**

The Agency of Promotion of Industry is a public corporation which has the role the setting in state of the policy of the government in favour of the promotion and the development of the industrial sector as a structure d' support with the companies and the promoters. Services of API are presented, according to six principal headings:- Assistance with the creation of companies to support the adhesion of the various economic partners to the programme of levelling.- The realization of various market research.

### **1.4.3 The National agency for Employment and Free-lance work**

It is a public corporation placed under the supervision of the Ministry for the employment and the professional insertion of the young people. It has as a main mission the implementation of the policy of the government relating to the promotion of employment and is in particular charged to animate the labour market, at the level national, regional, local and sectoral with the means in particular of the network of the offices of employment and free-lance work. The services of the National agency for Employment and Free-lance work are addressed primarily: - With the people in the search of an employment.- With the carriers of projects seeking to settle on their own account - with the young people in the search of a professional training - With the companies seeking to satisfy their requirements in human resources

## **1.5 Criticisms of the tunisian policy in favour of the FDI**

Despite everything the efforts made by the government and the progression enough number of company's notes having chosen to work in Tunisia, the current report is mitigated. Indeed, on the one hand these companies allowed the creation of almost 291000 stations of employment and one counts about half concluded from the partnership agreement facilitating occasion consequently the technology transfer. On the one hand, flows of recorded FDI remain in on this FDI hopes and of what would allow the intrinsic conditions of the country in term of climate of businesses, human capital, opening and production costs. Indeed, flows of received FDI constituted only 2, 10% of the GDP in 2004. In addition, the effect of the FDI attracted on the development of the country remains been unaware of. The two shares of the problems are closely dependent: the factors which attract the FDI are affected at the same time by the latter. The growth, the private sector investment, the commercial opening and the human capital determining than are determined as much by the IDE'. The econometric study of Lahimer (2006) based on three types of test: a test of sensitivity (EBA), a test of Granger and a simultaneous equations model with an aim of estimating the effects of the FDI on the development, in the case of an economic channel made up of the growth, local investment, commercial opening and indicators of human capital show the need for endogenize the whole of these variables. The FDI are overall favourable to the long-term development, but the relation is generally indirect and requires a certain time of adjustment and adaptation.

**Table 1: The determinants of foreign direct investment**

Variable to test		Coeff.	Prob.	R2	Exogenous variables	Robust/Fragile
CPIB	High	-0,0700	0,4549	56,28	EXPED, RN, LTX	Fragile
	Base	-0,0840	0,3933	35,33		
EXPORT	Low					
	High	0,0705	0,2837	51,09	EXPED, LINFLA, LTX	Fragile
	Base	-0,1739	0,1063	52,65	RN, TEL, LTX	
INV	Low					
	High	0,2434	0,0047	51,56	ICRG, LINGLA, TEL	Robust
		0,1917	0,0122	63,47		
	Base	0,1368	0,0719		ICRG, EXPED, RN	
Low						

*Noomen, L (2006)*

Table n°1 shows us the results of the tests of sensitivity for the explanatory variables of the FDI. We observe that only the domestic investments have significant coefficients, positive and stable. This variable is thus defined as being robust for the determination of flows of FDI in Tunisia. The exogenous variables associated with the highest and lower values of the coefficient of variable INV are: The indicator of the country risk, the rate of inflation, infrastructures, the expenditure in education and natural resources. In addition, the coefficients of the variables relating to the commercial opening and the economic growth seem to be fragile. The growth of the GDP has a minus coefficient, which is theoretically against intuitive. Indeed, the growth of the domestic market should be a factor justifying for the foreign investors. This coefficient is, in addition, non significant in the whole of the regressions tested. Alaya (2004) in a study where he seeks to explain the effects of the FDI on the economic growth in Tunisia through a simultaneous equations model also finds that `the effect of the growth on the FDI is “aberrant” but not significant.

In the same way, the coefficient of the variable EXPORT is significant only in the basic model. The addition of other information in the regression thus deteriorated the effect of the commercial opening on the IDE. Consequently, we characterize this coefficient as being fragile. According to these results, we can deduce that flows of FDI attracted in Tunisia are not the result of the process of commercial release committed in the country since a score of year. The interior market is not either a robust determinant of the FDI in Tunisia, at least in the short run. The Tunisian market remains relatively very limited to be able to release revenue raised for the foreign investors. Nevertheless, according to the tests, flows of FDI are correlated with the domestic investment what means the existence of complementarities between the two. The growth of the domestic investment is the witness of an economic stability and a favorable climate of businesses.

These elements are also very important for the foreign investors. In more one notes that the policy in favour of the FDI considered to be too liberal of dimensioned privileged the interest of the foreign investors with depends on that of the local economy. Indeed no guarantee limits, the transfer and circulation, of the benefit and the companies ins FDI or beyond the territory main road. If one takes the example of the sector of the textile clothing and with the abolition of the multifibre agreements concluded with the European Union, much foreign companies abroad left and it to gain more as regards cost. This caused a net loss of employment evaluated with more than 10000 employments. Of another with dimensions one notice that more than 80% of these foreign companies have chooses manufacturing industries and primarily the sector of the textile clothing like sphere of activity what shows the negligible contribution as regards the promotion and of the development of other branches of industry potentially judged providers of employment and technology. This excluded not that one notices during these last years the establishment of foreign multinationals in sectors of high technologies as it is the case of Mercedes which withdrawn the manufacture of some component of these vehicles in its factory from Tunis.

This shows that the efforts authorized by the Tunisian State formation valorization of its system of education start to bear their fruits and that local human resources became an important asset in the strategy of attractivity of the Tunisian economy. One notices examples of multinationals having chosen the Tunisia destination. The challenge of the Tunisian economy is to diversify the range of sectors which attract the FDI and which can generate employment and this especially that of the graduates of higher education. In more if one analyzes the distribution of the foreign companies by country of origin one notes dependence of the European client and in particular French and a progression to be supported of the investor of the Arab countries. In addition, one notices an imbalance of the establishment of the foreign companies between the various Tunisian areas. Thus, the areas north and center are monopolized more than 96% of the FDI contrary to the southern areas. This disparity is explained by imbalance on the level of the infrastructures, competences and sectoral diversity between the

Tunisian north and southern which are characterized by the prevalence of the energy sector and that of the mines. Indeed, historically this area was injured by the efforts in favour of the development authorized by the government.

### 2. CONCLUSION

As country of the Mediterranean region we have all the same challenges that impose Asian competition. It is done the perennialism of the whole of the system of production Euro-Med which is in question, which makes necessary a true approach of Co-development. One estimates at nearly 0.3% of growth of additional GDP for France the impact of a stronger integration with the Maghreb. For the Maghreb this impact would amount to +1 or +2 points. A public action concerted between the EU and the Maghreb would undoubtedly allow an increase and a significant diversification of the flow of FDI, a technology transfer and the innovation as well as the creation of employment and the fall of illegal immigration.

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