Measuring the impact of political risk, natural resource endowment and ownership advantage on foreign direct investment (FDI) Inflows in Egypt"

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Extended abstract

Foreign direct investment (FDI) is generally considered as desirable for host countries, especially in emerging markets.FDI are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor(Galan and Benito 2001).It also benefits a country, politically, economically, and socially (Rogmans and Ebbers, 2013). FDI creates job opportunities and markets for businesses to grow (Galan and Benito, 2001).

Egypt, before the 2011 revolution was a great target for the establishment of overseas business dealings. Egypt during this period was attractive due to the country's location, natural resources, workforce, etc. Once the Arab Spring occurred, everything changed. The Egyptian economy was negatively wounded, facing stagnation. Growth stopped at 2% since the revolution, and the government budget deficit scored record levels (El-shenety, 2014). Once the new president was appointed in 2014, optimism developed; the ailing economy meant that the country still needs external support to be able to get out of its stagnation (El-shenety, 2014).

Egypt now is one of the emerging markets in the Middle East North Africa (MENA) region. FDI is seen as amore stable source of capital than portfolio investment (Lipsey, 2001). It is also said tohave important spillover effects, such as transfer of technology and managerial expertise (Meyer and Sinani, 2009; Lipsey, 2001).Hence, many emerging economies, including those in Egypt, have been taking steps to encourage FDI.FDI in Egypt increased to 3073.20 USD Million in the first quarter of 2014 from 2855.40 USD Million in the fourth quarter of 2013 (Daily News, 2014). Foreign Direct Investment in Egypt averaged 2234.19 USD Million from 2002 until 2014, reaching an all time high of 5572.50 USD Million in the fourth quarter of 2007 and a record low of 40.70 USD Million in the second quarter of 2002 (Central Bank of Egypt, 2014; Trading Economics, 2014).

It is important to identify the determinants of FDI flows for policymakers and academics alike. These factors can help businesses learn how to empower properly in a country (Be´nassy-Que´re´ et al., 2007). According to prior studies, a number of research either focused on the impact of individual elements on FDI flows (Globerman and Shapiro, 2002; Be´nassy-Que´re´ et al., 2007) or constructed a model of the determinants of FDI flows (Jun and Singh, 1995; Chakrabarti, 2001; Sethi et al., 2003).However, the evidence on the determinants of FDI flows into emerging market economies is mixed and incomplete. The relationships between FDI, natural resource endowments and the more traditional FDI determinants found in the literature needs much more research. Furthermore, Emerging or transition economies needed to be studied, given the importance of FDI in their development (Jun and Singh, 1995; Nunnenkamp, 2002;Bevan and Estrin, 2002). For these reasons, this study will focus on identifying the major determinants of FDI in the Egyptian context.

This study will build a model of the determinants of FDI inflows into Egypt. The researcher plans on testing some of the traditional determinants of FDI by examining the role of a country's resources and world energy prices in determining FDI flows. The outcomes of this study will add more insights and knowledge, contributing to the existing literature.

Research Problem

Ever since 2011, Egypt is currently in a turbulent situation (El-shenety,2014). FDI is a solution to enhance a country's economic position. Recovering from a political transition is a long and bumpy course. Foreign cash inflows are critical to make it through (El-shenety,2014). FDI is of growing importance to global economic growth (El-shenety, 2014).FDI allows money to freely go to whatever business has the best prospects for growth. Investors seek the best return for their money with the least risk. Investors receive additional benefits. Their risk is reduced because they can diversify their holdings outside of a specific country, industry or political system. Diversification always increases return without increasing risk (El-shenety, 2014). Therefore, the research statement in this study will be: ***measuring the major determinants that encourage business to carry out foreign direct investment (FDI) in the Egyptian context.***

Research Objective

The objective of this study is to add to existing literatures that concern the factors that lead to FDI inflow in emerging markets. By reviewing various prior and present theories and then evaluating them against the developing empirical finding achieves this purpose. The main aim of this study will be to investigate the FDI determinants and its impact in Egypt. This will be achieved by attaining the following supplementary aims:

- Gain preceding insights regarding the concept of FDI in emerging countries.
- Identify the vital variables associated with the creation FDI inflow.
- Investigate the barriers the political environment in Egypt creates for foreign investors.
- Consider the ownership advantage, such as intangible assets technological capacities and product innovations, in regards to FDI inflow in Egypt.
- Explore how natural resources are attractive when seeking FDI.

Research Questions

The research questions are developed to guide the research process; indicating what the researcher wants to know most and leading to the construction of the conceptual framework. The following questions will be perused to achieve the research objectives:

- What is the idea of FDI in emerging countries?
- What are the vital variables associated with the creation FDI inflow?
- Do the barriers of the political environment in Egypt encourage foreign investors to spend money?
- Does ownership advantage (intangible assets technological capacities and product innovations) create FDI inflow in Egypt?
- How does natural resources endowment attract FDI?

Research Importance

This research is academically and practically important and will contribute to the enrichment of the literature of this discipline as well as helping the government and its officials in enhancing the attractiveness of FDI in Egypt.

Academic importance

According to previous scholars, when studying FDI, one of the most important factors to consider is political events and a country's natural resources (Aharoni, 1966; Basi, 1963; Bass et al., 1977; National Industrial Conference Board, 1969; Scholl hammer, 1974, cited in Nigh, 1986). Previous research focusing on Egypt's political status and environment is limited, especially after the 2011 revolution. Thus, this study will be beneficial because it will add insights that can beused as background literature and will play a role in encouraging and opening new topics for research.

This study will expand on earlier studies of the determinants of FDI including political risk, natural resources, and ownership advantages that influence direct investment flows in Egypt.

Therefore this study will fill a gap in the literature by examining these qualitative factors. The empirical investigation in this paper focuses on the macroeconomic and sociopolitical determinants that influence FDI flows. There are no simple models or strong theoretical foundations to guide an empirical analysis of these issues. However, the results of past studies are employed as an imperfect, but useful guide. This study will be academically important because the researcher plans on forming a model regarding the vital variables associated with the creation FDI inflow.

Practical importance

Recent studies show that FDI can be an important and stable source of private capital for developing economies, particularly countries, such as Egypt, that are able to create a hospitable environment for new foreign investments (Singh and Jun, 1995).

FDI is generally considered as desirable for host countries, especially in emerging markets (Rogmans and Ebbers, 2013). FDI can be a more stable source of capital than portfolio investment (Lipsey, 2001). It is also said to have important spillover effects, such as transfer of technology and managerial expertise (Meyer and Sinani, 2009; Lipsey, 2001). Hence, many emerging economies, such as Egypt should take steps to encourage FDI.

FDI would have a huge positive impact on the Egyptian economy, especially after the 2011 revolution. These investments can help Egypt overcome the economic crisis resulting from the uprising. FDI can contribute in decreasing unemployment rate, since more productivity leads to the requirement of more labour (Castilla, 2005, cited in Arango, 2007).In view of the fact thatEgypt has an 11.8% of unemployment rate (Abdellatif, 2011), such businesses can take the country to a higher level of employment.

FDI is beneficial to a country for other reasons. It is valuable because of the transfer of technology, specialized knowledge, (Ramírez, 2006, cited in Arango, 2007), new goods and services, stronger relationships with foreign countries (Arango, 2007). FDI can help a country gain funds that are needed for growth and the internal savings capacity of a country. Thus, taking action to support the area of FDI shall help overcome various obstacles.

The Egyptian government needs to have a model helping them to attract countries and businessmen to invest in the nation and increase FDI inflows. This research aims to introduce a model that determines the factors that draws FDI flows. Such implementation would only be successful if adapted and planned by governments as part of its strategic planning (Metaxas, 2010).

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