Investment in the MENA region in the time of COVID-19

4 June 2020

The COVID-19 pandemic has brought an additional set of challenges to the economies of the Middle East and North Africa (MENA). The region has been struggling to attract more and better FDI, constrained by investment climate weaknesses and regional geopolitical tensions. While the projected short-term declines are expected to hit the MENA economies hard, the crisis could also bring new opportunities to benefit from global trends, such as reshoring and restructuring of global and regional value chains. The extent to which this is possible will depend on sustaining existing reforms underway, enacting targeted new strategies and measures for the post-COVID-19 context, and reinforcing regional cooperation. This brief provides an overview of the impact of the COVID-19 crisis on investment in the region and highlights MENA government policy responses to catalyse investment and foster an inclusive post-crisis recovery. This note has been prepared by the MENA-OECD Competitiveness Programme and reviewed by the Investment Division of the Directorate of Enterprise and Financial Affairs – including inputs and data on FDI statistics, with the financial support of the Swedish International Development Agency (Sida) and the European Union. The Programme covers 18 economies of the region: Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestinian Authority, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen

Key takeaways

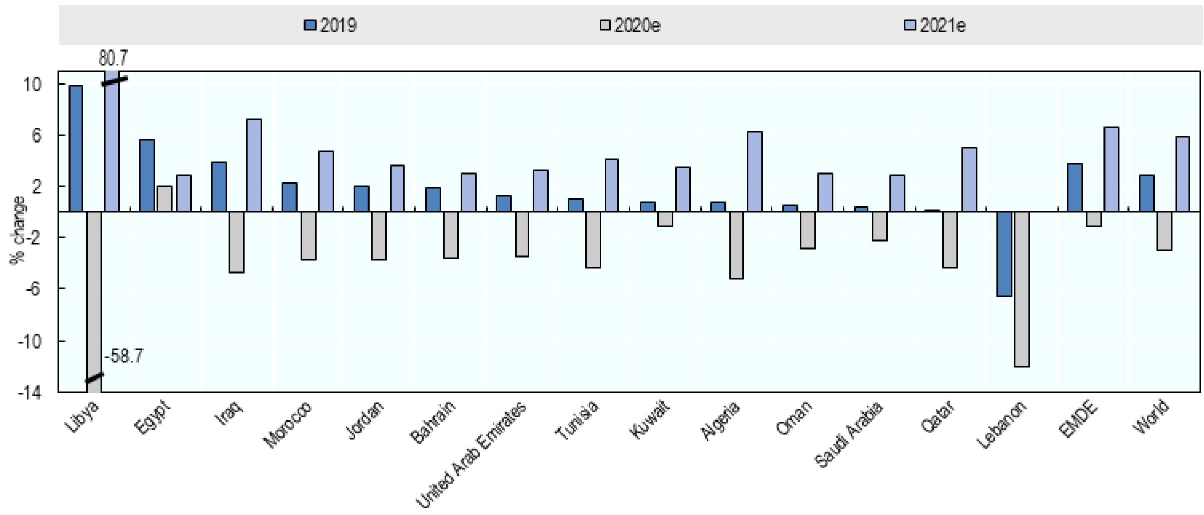
- Global foreign direct investment is expected to decline sharply due to the COVID-19 crisis by at least 30% in 2020 in the most optimistic scenario. MENA countries are likely to be even more impacted due to the large share of FDI in primary and manufacturing sectors, and the direct and indirect effects of the oil price drop.
- MENA governments quickly enacted policy responses to address the situation. In addition to supporting policy measures, some set up crisis units to inform and retain foreign investors. Although counterbalancing the impact of the pandemic on investment is difficult, relevant strategic policy reflections are emerging to assess the role of investment promotion agencies, the disruption of value chains and the future positioning of the region. Investment recovery measures should focus on the developmental impact of FDI and engage MENA economies into wider reforms towards more inclusive, green and resilient growth.

Governments in the MENA region, just like many worldwide, enacted containment measures to avoid the spread of the virus and directed specific support to mitigate the economic impact of the crisis. While it is difficult to estimate the magnitude of repercussions on MENA economies, severe disruptions to economic activity are expected to be accompanied by a sharp contraction in foreign direct investment (FDI) flows. Based on the containment measures implemented by MENA economies, the subsequent disruption in global supply chains and the structural characteristics of individual economies, the International Monetary Fund (IMF) forecasts that all MENA economies, with the exception of Egypt, will contract in 2020 (Figure 1). The two countries that are expected to experience the steepest decline in GDP growth are Libya and Lebanon, with -58.1% of GDP and -12% respectively. Their fragile situation is linked to the conflict in Libya and the social and political instabilities in Lebanon.[1] However, the IMF predicts a relatively rapid V-shaped recovery for the region, with nearly all MENA countries expected to recover in 2021.[2]

[1] https://www.imf.org/en/News/Articles/2020/05/13/na051320-covid-19-poses-formidable-threat-for-fragile-states-in-the-middle-east-and-north-africa?cid=em-COM-123-41587

[2] https://www.imf.org/en/Publications/REO/MECA/Issues/2020/04/15/regional-economic-outlook-middle-east-central-asia-report

Figure 1. Gross domestic product in selected MENA economies (y-o-y percent change)



Note: e=estimates; EMDE= Emerging market and developing economies
Source: International Monetary Fund, World Economic Outlook Database, April 2020

Attracting more and better FDI to the region will be critical to the success of MENA's post-COVID economic reconstruction. Besides being a much needed source of private investment, FDI would help countries in the region strengthen the resilience of their economies and enhance participation in value chains (see OECD note on investment policy responses to COVID-19). It would also help spur more sustainable, inclusive and technological growth, as multinational enterprises (MNEs) tend to be larger, more innovative and more productive than domestic firms. It could also play an important role in accelerating economic diversification and stimulating small and medium-sized enterprises (SMEs) through business linkages. Governments in the region see FDI as a key priority and have already started to think about revamped attraction strategies in a global economy transformed by COVID-19. The immediate and long-term effects of FDI flows will depend on the global recovery and effective economic policy responses.

This note provides an overview of trends in foreign direct investments in the MENA region.[3] [4] It also showcases information collected through research and consultations with in-country stakeholders on immediate policy responses to the crisis and policy considerations for recovery.

[3] Based on available official FDI statistics from the IMF Balance of Payment database and using publicly available and commercial databases on FDI flows.

[4] Between 2018 and 2020, the OECD undertook a review of FDI statistics for Morocco, Egypt, Jordan and Tunisia. In order to improve the availability of FDI information for the region, further reviews could be undertaken for other MENA countries in the future.

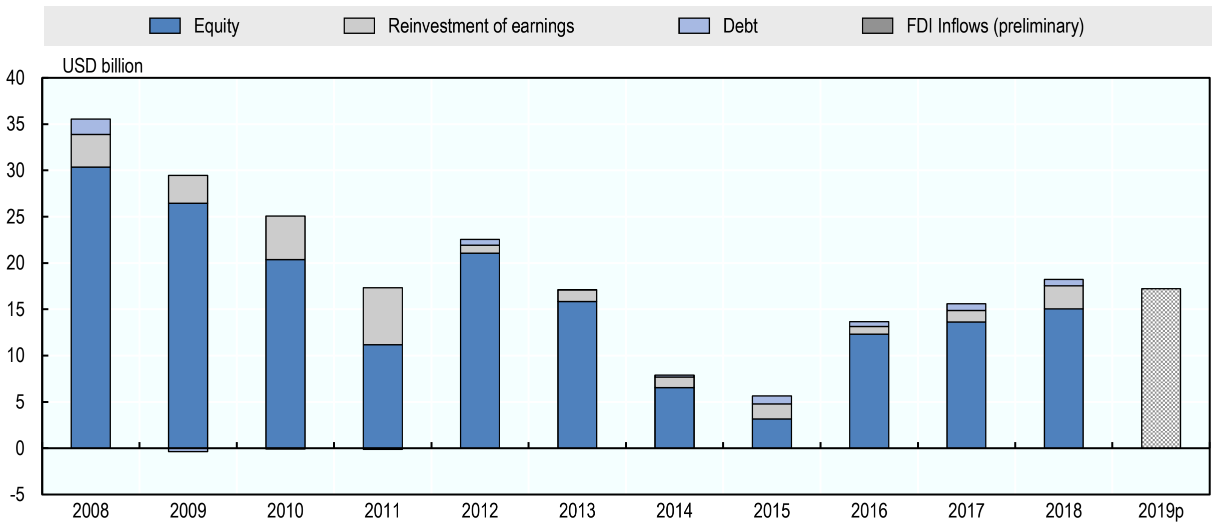
COVID-19 impact on investment

Sharp decline in FDI

The OECD expects a drop in global FDI flows by at least 30% in 2020 (most optimistic scenario) compared to 2019 before returning to pre-crisis levels by the end of 2021 (see [OECD note on foreign direct investment flows in the time of COVID-19](#)). The resulting demand and supply shocks, coupled with the drop in oil prices and lower confidence of investors, are expected to lead to an even more significant decline of FDI in MENA. The UN's Economic Commission for West Asia estimates that the Arab region is likely to lose 45% of its FDI inflows in 2020.[5] [6]

In 2019, global FDI increased by 12% to USD 1 426 billion but was still stalling when COVID-19 hit, remaining below the levels recorded between 2010 and 2017 (see OECD FDI in Figures, 2020). During the same year, FDI inflows in MENA[7] also amounted to USD 17.2 billion, a 10% increase compared to 2017, but still less than half of the level recorded in 2008, which was a peak year for FDI inflows in the region (Figure 2). With the advent of COVID-19, there will be an immediate impact on FDI globally and in MENA from a reduction in equity investments, as investors put greenfield investments and mergers and acquisitions (M&A) on hold. Preliminary estimates suggest that the value of M&A deals already decreased by 71% in the first four months of 2020, from USD 89.6 billion to USD 26.2 billion compared to the same period in 2019.[8] Greenfield investments represent more than 80% of total FDI projects in most oil-importing MENA economies,[9] while M&A mostly take place in the countries of the Gulf Cooperation Council (GCC).[10]

Figure 2. FDI inflows in the MENA region by instrument, 2008-2019



[5] https://www.unescwa.org/sites/www.unescwa.org/files/20-00153-en_impact-covid-19-trade-investment.pdf

[6] For example, the IMF estimates that Tunisia will experience a sharp decline in FDI of 82.3% in 2020, from USD 798 million to USD 141 million. https://www.imf.org/en/Publications/CR/Issues/2020/04/14/Tunisia-Request-for-Purchase-Under-the-Rapid-Financing-Instrument-Press-Release-Staff-Report-49327?cid=em-COM-123-41407

[7] Data excludes FDI flows in Qatar, Saudi Arabia and the United Arab Emirates. See more details on the country coverage in the note to Figure 2.

[8] Byblos Bank (2020), Country Risk Weekly Bulletin, Issue 628. https://www.byblosbank.com/Library/Assets/Gallery/Publications/CountryRiskWeeklyBulletin/Country%20Risk%20Weekly%20Bulletin%20628.pdf

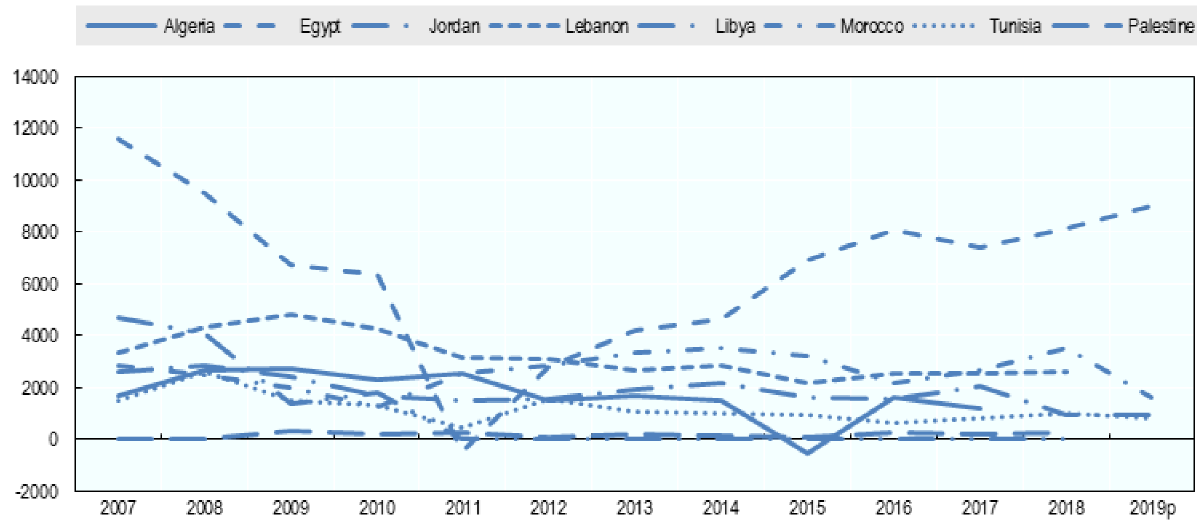
[9] https://www.iemed.org/observatori/arees-danalisi/arxius-adjunts/anuari/med.2018/FDI_MENA_region_Carril_Milgram_Paniagua_Medyearbook2018.pdf

[10] https://www.gfmag.com/magazine/february-2020/wave-m-megadeals-mena

Note: FDI data includes Algeria, Bahrain (until 2011), Djibouti, Egypt, Iraq, Jordan (from 2009), Kuwait, Lebanon, Libya, Mauritania (from 2012), Morocco, Oman, Syria (until 2010), Tunisia, Yemen (until 2016), and the Palestinian Authority. FDI flows by instruments details are not available for Qatar, Saudi Arabia and the United Arab Emirates, therefore the aggregated bars do not correspond to total FDI flows for the MENA region as a whole. For selected countries, the coverage of instruments in particular reinvestment of earnings may be limited and some of the instruments may be combined. Given that FDI flows by instruments details were not available for a sufficient number of countries at the time of writing, the overall line for 2019 represents preliminary FDI inflows.
Source: IMF BOP and IIP database

The distribution of FDI inflows across the eight MENA economies surveyed in Figure 3 shows that Egypt remains the main destination for FDI inflows, with USD 9 billion in 2019, a slight increase from USD 8.1 billion in 2018, but the largest since 2009. Morocco has also been an attractive destination for FDI in recent years, with FDI inflows reaching USD 3.5 billion in 2018, up from USD 2.7 billion in 2017. For most of the economies surveyed, FDI inflows have been volatile compared to other regions, particularly due to the political instability experienced by these countries since the 2011 uprisings. As a proportion of GDP, FDI inflows into MENA over the past ten years have underperformed the average for both emerging markets and developing economies, and advanced economies.[11]

Figure 3. FDI inflows, selected MENA economies, 2007-2019



Note: 2019 is preliminary and not yet available for Algeria (as well as 2018), Lebanon, Libya and Palestine.
Source: IMF BOP and IIP database and national sources websites for 2019 data of selected countries.

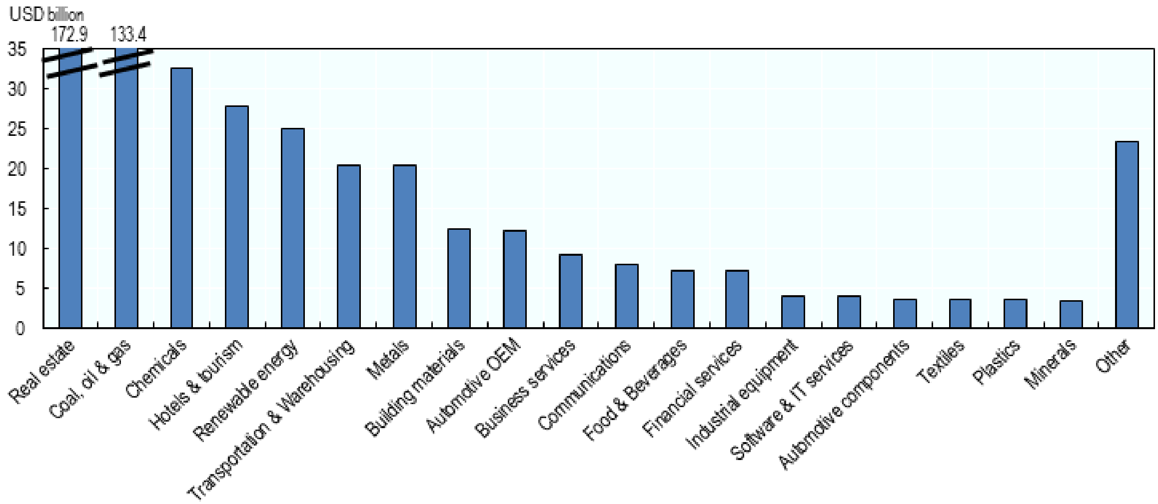
Investment drop in major industries and source countries

A sectoral breakdown of announced greenfield investments to the eight countries surveyed for the MENA region between 2003 and 2019 shows that real estate and coal, oil and natural gas accounted for 32% and 25% respectively of a total of USD 525.8 billion in investments (Figure 4). Manufacturing of chemicals, services such as hotels and tourism, and renewable energy also account for an important share of investments in the region. Egypt dominates the investment landscape with nearly half (USD 245 billion) of the announced greenfield FDI in the eight countries. The extensive lockdown measures, implemented widely across the region, are likely to have severe repercussions on greenfield FDI in many strategic sectors for the economies in the coming months. The region is expected to suffer large declines in the manufacturing sector, in line with the trends in non-OECD countries since the beginning of 2020 (see

[11] http://www.oecd.org/mena/competitiveness/ERTF-Jeddah-2018-Background-note-FDI.pdf

OECD note on foreign direct investment flows in the time of COVID-19). According to recent consultations with MENA Investment Promotion Agencies (IPAs), there are not yet divestment trends or cancellations of projects, but important investment delays are expected.

Figure 4. Value of announced greenfield FDI in the MENA region, by sector, 2003-2019

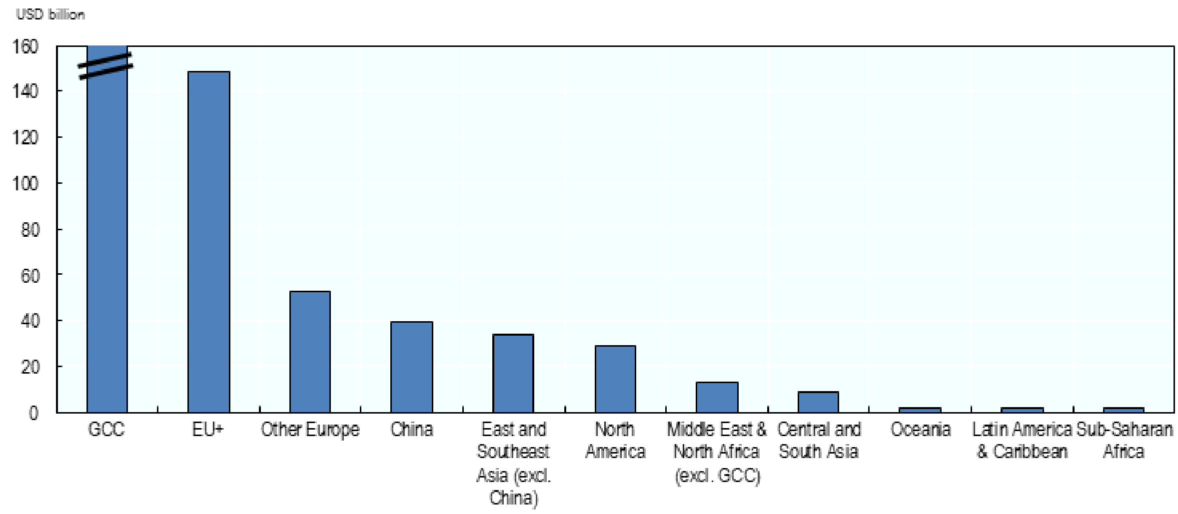


Note: Data is available for Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestinian Authority and Tunisia
Source: OECD based on FDI Markets (2020)

The drop in oil prices is also expected to lead to fewer investments from neighbouring Gulf countries, which were the largest source of greenfield FDI in the eight surveyed MENA economies between 2003 and 2019. Total announced greenfield FDI from GCC countries totalled USD 193 billion, with investments primarily in real estate (65%) and coal, oil and gas (14%). Most of these investments came from the UAE (55%), followed by Bahrain (17%) and Saudi Arabia (12%). With 28% of greenfield projects, the European Union also remained a key source of FDI to the region (28%), while Chinese investments have significantly increased from USD 1.4 billion during 2008-13 to USD 34.9 billion during 2014-2019, driven by the launch of the Belt and Road Initiative in late 2013.[12] In addition, intra-regional investments among the eight surveyed economies have been low at only 3% of total announced greenfield FDI. The crisis may offer further scope for investments among these countries.

[12] China Global Investment Tracker, (2019), the American Enterprise Institute. https://www.aei.org/china-global-investment-tracker/

Figure 5. Greenfield FDI into MENA region (excl. GCC) (2003-2019), by source



Note: Data for the MENA region includes Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestinian Authority and Tunisia. EU+ includes all EU27 Member States, United Kingdom and Switzerland. Other Europe includes Turkey, Russia, Belarus, Ukraine, Bosnia-Herzegovina, Monaco.
Source: OECD based on fDi Markets (2020)

Immediate investment policy responses

Government measures

The containment measures taken by government to combat the negative effects of the pandemic have led to a halt of large segments of production for many enterprises, including multinational enterprises (MNEs) operating in MENA economies. In some sectors, supply disruptions led to the adoption of import reductions and export bans. However, in the health and digital sectors, some MENA governments reduced import tariffs, provided **specific sectoral support** and encouraged **shifting production**. For example:

- **Algeria**: The government announced measures to cut the import bill by at least USD 10 billion (6 % of GDP). The authorities banned exports of several products, including food, medical and hygiene items. However, they announced the prioritisation of investments in agriculture to ensure food security. The President asked the Minister of Agriculture and Rural Development to set up a mechanism to promote agricultural investments, whether national, foreign or mixed.
- **Egypt**: The General Authority for Investment and Free Zones (GAFI) issued a decree (No. 187 of 16 April 2020) to allow industrial companies operating in free zones to re-orient their production towards health-related products (facemasks and protective supplies) using existing production lines for a period of six months. New projects are also granted a temporary six-month licence to operate without having to comply with the normal procedures if the production lines have been already installed.
- **Morocco**: The Ministry of Industry, Trade, Green and Digital Economy launched a support programme supporting SMEs to invest in the manufacturing of products and equipment used against the pandemic (hygiene products such as sanitising gels, personal protective equipment, surface decontamination solutions and medical equipment).[13]

[13] http://www.mcinet.gov.ma/fr/content/lutte-contre-covid-19-programme-de-soutien-financier-aux-investissements-des-tpme

Some countries have also taken **fiscal and financial measures** to release pressure on some industries and support contracted economic activities – measures that also benefit foreign investors. For example:

- **Qatar**: The government has temporarily exempted food and medical goods from customs duties.
- **Jordan**: The authorities decided to alleviate fees, postpone construction permit fees and monthly payment dues on investment enterprises working within development zones, and extend the validity of construction and trade licenses for projects in development zones until 1 June 2020.
- **Egypt**: A price reduction of natural gas and electricity for heavy industries and a freeze in electricity prices for other industries for at least three years was announced mid-March 2020. Foreign investors have also been permanently exempted from capital gains tax on stock market transactions.
- **UAE**: Governments of several emirates have introduced financial assistance measures. Dubai proposed a refund of 20% of customs fees on imported goods and a 10% reduction in water and electricity bills. The government of Abu Dhabi has reduced or suspended various government fees and penalties and granted substantial rebates to lease payments for companies in the tourism, hospitality and entertainment sectors. The offshore free zones apply fee reductions to companies. The Abu Dhabi' Global Market implemented 100% waiver on commercial licence, business activity and data protection renewal fees for a limited period. The Dubai International Financial Centre also waived annual licences for new companies until the end of 2020 and lowered of 10% the renewal fees for existing licences. The Dubai Free Zone Council announced an economic stimulus package on 28 March that includes the postponement of rents for six months, improved facilitation instalments for payments, refunds of security deposits and guarantees and cancellation of free zones applied fines.

Some MENA countries have been imposing local market access limitations on foreign investors, which can in turn benefit from specific incentives (e.g. status of totally exporting companies in Tunisia, specific legislations in special economic zones). With the crisis, some MENA countries decided to provide **larger access to their local market to foreign investors** under specific conditions or in specific sectors to release their operations. For example:

- **Tunisia**: The government allowed health and agribusiness firms with an exporting status to sell 100% of their goods on the domestic market (against only 30% usually). Other sectors benefit from a similar, albeit less generous, treatment (50% against 30%). This measure is supporting both foreign firms and domestic consumers.
- **Egypt**: GAFI's decree (No. 175 of 9 April 2020) allows export allowances to the local market of industrial companies located in free zones to be increased from 20% to 50% for a period of six months. Companies can also sell up to 20% of their raw materials and accessories to the local market with special approval from the free zone authorities. Another decree (No. 187 on 16 April 2020) allows industrial companies in free zones to open new production lines to serve the local market exclusively.

Sustaining and retaining existing investment

With the COVID-19 outbreak, IPAs are enhancing their role as interlocutor between foreign investors and the government, favouring aftercare activities *versus* attraction functions. IPAs are taking emergency actions to support existing investments and retain them to avoid possible divestments. Some agencies have set up **crisis units** to inform and communicate with investors, to respond to their queries and to follow on production disruptions. For example:

- **Tunisia**: The Foreign Investment Promotion Agency (FIPA) created a crisis unit of 12 people, including staff from FIPA's overseas offices. The unit has the following functions: inform on the situation and specific government measures, collect information on foreign investors' operations, co-ordinate with partners to respond to issues faced by investors, and support the implementation of solutions. A hotline is functioning seven days a week and replies to investor requests on a case-by-case basis. The Tunisia Investment Authority (TIA) also set up a web portal with FAQs and information for investors.

- **Morocco**: The *Agence marocaine de développement des investissements et des exportations* (AMDIE) set up a monitoring unit (*cellule de veille*) to provide information and aftercare services to investors and co-ordinate crisis responses with other institution.
- **Jordan**: The Jordan Investment Commission (JIC) established a "Crisis Management Group" with the chairman's advisers and all managers to communicate regularly, discuss issues, devise solutions for the retention of investments, and provide support to investors as needed.[14]
- **Egypt**: GAFI adopted new measures to facilitate the operations of its Investor Services Center (ISC) and set up electronic services to ensure that the communication between the ISC and investors continues to remain fully operational despite the lockdown. GAFI also envisages setting up a mobile application for investors to provide information and respond to queries.
- **Saudi Arabia**: The Ministry of Investment formed a taskforce called MISA COVID-19 Response Center to answer to company inquiries 24/7 and solve issues to allow businesses to continue operating.[15]
- **Lebanon**: The Investment Development Agency of Lebanon (IDAL) posted on its website all available measures – from tax incentives to targeted awareness campaigns – to help companies overcome the crisis. It builds on an initiative already put in place to support businesses during the political and economic crisis Lebanon was facing prior to the COVID-19 outbreak. IDAL is also tracking information on company initiatives to steer innovation and production towards critical sectors.

As part of the COVID-19 policy responses, IPAs are refocusing, redesigning and reinforcing their **aftercare services** aiming at investment retention, in particular in strategic and essential sectors. As some of their activities are cancelled (e.g. fairs) and functions put on hold (e.g. marketing, prospection, support to establishment), most of their resources are directed to emergency retention programmes. Extension of e-services and digital platforms to support investors are notable. For example:

- **Tunisia**: Aftercare now represents 70% of FIPA's activities. The Agency is offering aftercare services focusing on solving punctual requests and problems of investors operating in the sectors of health and agribusiness (as per a ministerial directive) and encouraging redirection of production lines toward demanded products and services. Problems often consist of production and exports being blocked or delayed because of logistics and transport issues – notably in the Radès Port which experiences blockages even before the crisis due on-going social and labour issues. Investors' requests in other sectors are not a priority and treated on a case-by-case basis. TIA also announced an on-line assessment survey of its customers to obtain more information.
- **Lebanon**: IDAL made available an online legal and tax advisors service, free of charge, to support all companies with COVID-19-related health, financial and fiscal measures.
- **UAE**: Abu Dhabi's Department of Economic Development placed all regulatory services such as business registration, licensing and permitting, online 24/7.

[14] World Bank, (April 2020), The Initial Response of Investment Promotion Agencies to COVID-19 and Some Observed Effect of Foreign Direct Investments.

[15] https://investsaudi.sa/en/news/misa-covid-19-response-center-mcrc-now-live/

Support to employment and Responsible Business Conduct (RBC) initiatives

The COVID-19 pandemic has exposed vulnerabilities in company operations and supply chains linked to working conditions and disaster preparedness. The economic effects have caused financial distress and liquidity problems for many companies as a result of reduction or cancellation of businesses. The impact can be high for workers whose livelihoods are at risk, especially for those who are not covered by regular or exceptional COVID-19 safety nets (i.e. independent workers, zero hour contract workers, or informal workers, among which many are migrant workers and women). MENA governments are particularly concerned about the rise of unemployment as a result of the COVID-19. The region has the highest rate of youth unemployment in the world (reaching 30% in 2017) and youth are five times more likely to be unemployed than their adult counterparts.[16] Beyond the impact on workers, COVID-19 has exposed and amplified a range of environmental and social risks, and created unforeseen issues such as digital risks, anti-competitive behaviours or emergency measures affecting freedoms (see OECD note on COVID-19 and responsible business conduct).

IPAs in the MENA region have reported a number of RBC initiatives taken by multinational enterprises. These initiatives include direct donations from companies to governmental funds to overcome the crisis, repurposing production lines to support supply of medical equipment, and support to employees. It is too early to analyse whether MNEs have been able to guarantee secured health conditions and job stability, better than domestic firms, but consultations seems to indicate a good level of responsiveness in companies observed by IPAs. For example, in Tunisia – as collected by FIPA, Teleperformance provides the urgent medical assistance service (SAMU) with a team of telephone operators; Huawei donated prevention materials and video conference equipment; Kromberg & Schubert manages a fund constituted by its employees for a hospital; Orange Tunisie and its Tunisian partners are producing protective visors; Saiph launched a chatbot for public awareness raising on the means of prevention against the virus; and Vistaprint reversed its decision to dismiss 80 of its employees.

MENA government measures were also taken to protect employees' health and minimum wages, and maintain jobs as soon as de-containment measures will allow resumption of productive activities. Some measures apply without differentiation to domestic and foreign investors. For example:

- **Egypt**: The government has set up a fund to ensure that salaries of affected regular workers are still distributed.
- **UAE**: Dubai Free Zones Council has launched economic stimulus initiatives, including allowing intra-corporate transfer of labour between companies and sectors operating in the free zones through permanent or temporary contracts without penalties during 2020. These advantages benefit workers who are under unpaid leave. The government economic package includes cutting labour charges and reducing work permit fees for companies with up to six registered employees.
- Some IPAs (Tunisia, Lebanon) are collecting information on MNEs' contributions and disseminating their innovative initiatives.

Strategic policy responses for post-COVID-19 recovery

At this stage, high uncertainty remains in terms of investment recovery, but the post-crisis environment will influence investment policies and investor behaviours. Governments are considering, at least in some industries, more protectionist policies and import-substitution strategies to rely less on global value chains, such as in Algeria or Lebanon. National security concerns may increase barriers to entry and screening measures in specific sectors considered of critical importance, while some emerging opportunities for the

16 https://www.brookings.edu/research/youth-employment-in-the-middle-east-and-north-africa-revisiting-and-reframing-the-challenge/

MENA region may arise in other sectors (e.g. the automotive sector – see box below). The medium and long-term responses will involve rethinking investment strategies and business climate reforms, new sectoral prioritisation and better targeting, and improved investment facilitation through digitalisation (see OECD note on investment promotion agencies in the time of COVID-19).

Governments will also have to manage investor expectations, as companies will have to cope with imposed production disruptions and may reconsider their business models and reorganise their supply chains. Knowledge-seeking FDI may become more relevant as some sectors such as healthcare and ICT are expected to grow significantly. At the same time, some firms will also face difficulties, particularly the ones investing in the energy sector, as the collapse in demand is expected to negatively affect the oil-exporting economies of the region dependent on resource-seeking FDI (see OECD note on foreign direct investment flows in the time of COVID-19).

Reorganisation of supply chains: reshoring and nearshoring?

The disruptions caused by the pandemic may affect MNEs' decisions to reorganise the geographical and sectoral spread of their production activities, providing possible opportunities for the MENA region. MNEs could shorten their supply chains and reduce the distance between suppliers and clients (nearshoring), or chose to move manufacturing activities back to the home country (reshoring).[17] Similarly, some companies may diversify their supply networks in order to increase resilience to shocks, which will involve divestments from some locations but expansion in others (see OECD note on foreign direct investment flows in the time of COVID-19). The COVID-19 crisis also comes at a time when global trade tensions are causing companies to reconsider their supply chains due to concerns about possible vulnerabilities of GVCs. The pandemic may also increase demand by consumers and companies for more sustainable and inclusive production methods (see OECD note on COVID-19 and responsible business conduct).

MENA countries are starting to reflect upon ways to take into account the implications of such considerations and respond to the new possible configuration of value chains, in line with the position of their main trading partners. For example:

- **Tunisia**: FIPA is already working on its investment promotion strategy for 2021. The strategy would focus on attracting foreign investors that are considering the relocation of their production lines to shorten their supply chains. It could entail a focus on European companies relocating from China in sectors in which the country already has competitive advantages, such as agribusiness, textiles and manufacturing. Following the same logic, the strategy could also consist of attracting Chinese firms to invest in Tunisia and export their production from Tunisia to the EU market.
- **Lebanon**: The government is exploring import-substitution strategies in specific sectors (e.g. pharmaceutical industries) to overcome not only the impact of the COVID-19 outbreak, but also the political, economic and monetary crisis the country is facing.

17 The academic literature provides some guidance on the definition of nearshoring or reshoring but still shows disagreement over the exact terminology. Ellram (2013) defined re-shoring as "moving manufacturing back to the country of its parent company", but others have described reshoring merely as a generic change of location with respect to a previous off-shore country (Fratocchi et al., 2014). In contrast, near-shoring has been described as the decision to relocate previously offshored activities not necessarily back to the home country of the company, but rather to a neighbouring country of the home country. See: De Backer, K., et al., (2016), "Reshoring: Myth or Reality?", OECD Science, Technology and Industry Policy Papers, No. 27, OECD Publishing, Paris, https://doi.org/10.1787/5jm56frbm38s-en

Morocco and Egypt: opportunities in the automotive sector

Thanks to their proximity and trade ties with Europe, countries in North Africa, in particular Morocco and Egypt, may benefit from the restructuring efforts of European automotive manufacturers (OEM) which are expected to reduce their dependence on Chinese manufacturing and shorten supply chains through nearshoring or onshoring. The automotive industry could create stronger business linkages in the region, as these manufacturers will aim to produce closer to their primary markets by investing in countries with favourable industry policies and low input costs, such as Morocco and Egypt.

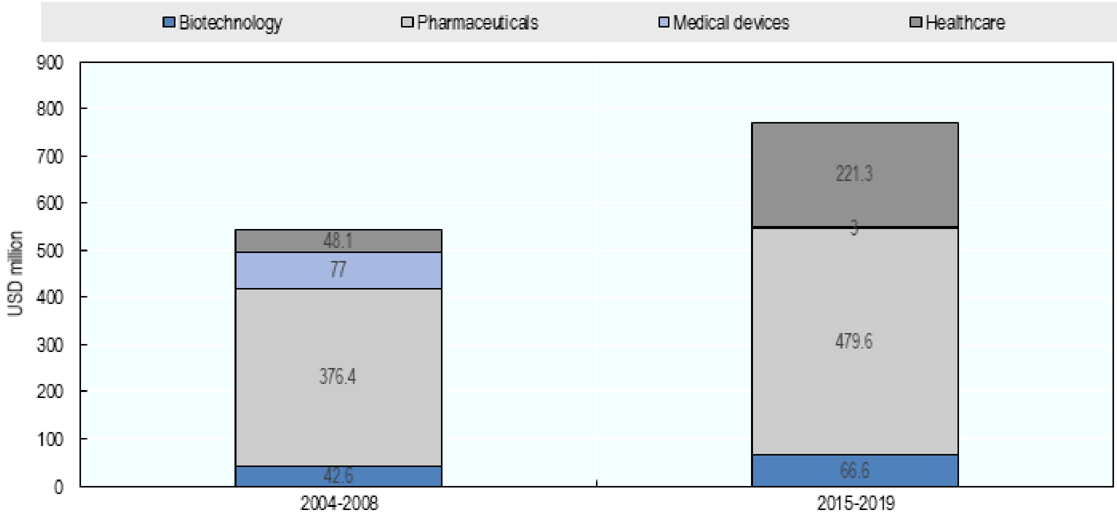
In Morocco, both Renault and PSA dominate the auto manufacturing industry with well-developed supply chains throughout the country. On 14 April 2020, Renault announced plans to exit the Chinese passenger car segment and its aim to increase its localisation rate from 50% in 2018 to 80% at the end of 2020. The entire value chain of Groupe PSA Kenitra's plant is in Africa, particularly in Morocco where it ecosystem involves a network of 62 Moroccan suppliers. In Egypt, Fiat Chrysler Automobiles (FTA) and PSA are also producing vehicles either through partnerships or contracts with domestic company Arab American Vehicle and are also expected to create stronger regional supply chains. The relocalisation would also be made more efficient thanks to the existing trade agreements between these two countries and the EU, which would facilitate the flow of components and vehicles.

Source: FitchSolutions (2020), https://www.fitchsolutions.com/corporates/autos/north-africa-benefit-automakers-post-covid-19-restructuring-23-04-2020

The implications of supply considerations are also important for goods and services needed for the health sector such as pharmaceuticals, medical supplies and equipment, and increasingly healthcare provision, which depend much more than in the past on global value chains (see OECD note on the face mask global value chain in the COVID-19 outbreak: evidence and policy lessons). In the MENA region, announced greenfield investments in these sectors have increased by 42% to USD 771 million during 2015-2019, up from USD 544 million during 2004-2008 (Figure 6). Ensuring sufficient supply to fight the pandemic has become the immediate priority for trade and investment policymakers in the region. For instance, the Egyptian Ministry of Industry and Trade banned for a period of three months the export of infection prevention supplies, including face masks and alcohol as well as its derivatives.[18]

[18] Ministry of Trade and Industry (2020). http://www.mti.gov.eg/English/MediaCenter/News/Pages/MTI-imposes-3-month-ban-on-export-of-anti-infection-supplies-1.aspx

Figure 6. Greenfield FDI into health-related industries to selected MENA economies



Note: Data is available for Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, Palestinian Authority and Tunisia
Source: OECD based on fDi Markets (2020)

While investments in health-related value chains have increased in recent years, the MENA region overall has a rather low participation in regional and global value chains. Yet, given its strategic location, the region could benefit from reshoring or nearshoring while companies are looking to produce closer to end users and limit supply risks.

Reflections on continental value chains

The MENA region (not including the Gulf countries) is one of the least integrated region in terms of trade and investment in the world.[19] The implementation of the African Continental Free Trade Area (AfCFTA), which entered into force in May 2019, could be an opportunity for the MENA region to build resilience and promote more trade and investment with the rest of Africa. As the largest free trade area in the world, comprising of a market of over 1 billion people and worth USD 3.4 billion, the AfCFTA is expected to increase intra-African trade by 52% by 2022.[20] Currently, only 6.5% of MENA's total trade is with the rest of Africa and only 3.9% of North African exports go to sub-Saharan Africa (SSA). Such limited intra-regional integration is the result of policies and strategies favouring developed and emerging markets and looking to the North.

The expected decline of MENA's trade and investment flows with its main trading partners such as China and the EU, due to the COVID-19 crisis, could be an opportunity for further economic integration between MENA and the rest of the African continent. Already, there is a growing interest by MENA governments to facilitate businesses' access to African markets. Promotional conferences are regularly organised by North African countries. Morocco is becoming one of the largest investors in West Africa and has applied for membership to the Economic Community of West African States (ECOWAS) in order to benefit from

[19] The OECD is working jointly with the Union for the Mediterranean Secretariat to analyse progress of economic integration in the Euro-Mediterranean region and to recommend policy action to enhance integration. A report on regional integration in the Euro-Mediterranean region will be published in the second half of 2020.

[20] Brookings, (2019). https://www.brookings.edu/wp-content/uploads/2019/04/Unlocking-Africa_Chapter1.pdf

preferential tariffs.[21] Tunisia has signed tax and investment agreements with several sub-Saharan African countries. Egypt's membership in COMESA has boosted exports in essential oils, electrical materials and hydrocarbons.

The implementation of the AfCFTA is likely to be delayed due to the crisis.[22] Trading rules in goods and services, originally scheduled for July 2020, are currently postponed.[23] Negotiations on the protocols on investment, competition and intellectual property rights, expected to be completed in December 2020, will also suffer delays. While the immediate focus is dealing with the public health crisis, it is important that countries maintain the political commitment and reflect on how the AfCFTA can help economies and businesses build regional value chains that will boost intra-African trade and investment.

Infrastructure for investment

The economic fallout caused by the COVID-19 pandemic is also creating the need for technologically advanced, sustainable and resilient infrastructure that can support the post-COVID-19 economic recovery and better integration in value chains. The region is facing an infrastructure investment gap of USD 100 billion per year over the next five to ten years.[24] Some countries are strategically using the period of the pandemic to finalise infrastructure projects in order to attract investors once the economy starts recovering, while others had to delay infrastructure projects. For example:

- **Egypt**: The government has fast tracked the release of overdue payments to contractors to pay workers and spur construction work on national projects.[25]
- **Jordan**: The government has recently approved a public-private partnership law (PPP) to increase private sector participation in infrastructure with a view to minimise public costs and achieve more competition and transparency.[26]
- **Tunisia:** The authorities will delay low-priority non-health/non-education infrastructure development projects worth about 3% of GDP to allocate to more urgent spending and further cuts in non-priority investments are expected.

Towards renewed investment strategies

Investment promotion frameworks, strategies and working methods will evolve in the post-crisis recovery, with possibly a refocus on specific markets and sectors, and institutional restructuring. Some MENA IPAs shared some reflections *inter alia* on better seizing opportunities in specific sectors in line with their competitive advantages (e.g. e-commerce, digital technologies, healthcare, renewable energies, and automotive industries), revising their incentives framework, and enhancing the role of economic zones with improved electronic procedures and services. The working methods are likely to change, with fewer promotional trips and participation in fairs and more virtual gatherings, revamped service provisions, more

[21] https://www.bbc.com/news/world-africa-40158089

[22] http://www.fao.org/3/ca8633en/ca8633en.pdf

[23] https://www.brookings.edu/blog/africa-in-focus/2020/04/30/how-the-afcfta-will-improve-access-to-essential-products-and-bolster-africas-resilience-to-respond-to-future-pandemics/

[24] https://blogs.worldbank.org/ppps/jordan-pioneer-investing-its-ppp-capacity

[25] https://www.ebrd.com/cs/Satellite?c=Content&cid=1395289942312&d=&pagename=EBRD%2FContent%2FDownloadDocument

[26] https://blogs.worldbank.org/ppps/jordan-pioneer-investing-its-ppp-capacity

co-operation with other IPAs (e.g. co-operative projects between agencies) and a better use of investors' networks. For example:

- **Jordan**: JIC established a "Corona Crisis Group" to understand the effects on investment and investor services and determine how to continue providing these services.[27]
- **Egypt**: The government announced simplified procedures and reduced costs for foreign and local enterprises in free zones (e.g. reduced rental prices)
- **Lebanon**: IDAL is considering the extension of existing tax holidays and creation of specific COVID-19 tax holidays. Instead of creating new tax incentives, which would require legal amendments, IDAL is working on relaxing/revising the criteria on the basis of which incentives are currently provided in priority sectors (agriculture and pharmaceuticals).

Enhancing investment facilitation through digitalisation

The pandemic provides strong incentives to accelerate digital transformation. The measures to contain the pandemic have prompted government and businesses to move towards greater digitalisation and online operations and services.

Governments and administrative bodies, in particular IPAs, can leverage digital technologies to alleviate administrative burdens on firms and reduce bureaucratic hurdles to increase delivery of needed products in the short-term and to support and facilitate investment processes in the long-term. While some MENA countries, particularly in the Gulf, are already advanced in digital services, some others are lagging behind and face implementation challenges, in particular at the sub-national level. Regardless of their status as leaders or laggards going into the crisis, however, most have already taken rapid measures to alleviate burdens on businesses in response to the crisis. For example:

- **UAE**: Free zone authorities have further enhanced their already strong digital channels, while slashing business fees and rolling out economic special incentives. In many of 50 free zones and special economic areas hosted by the UAE, the business set-up process, right from registration to payment and documentation, can be completed remotely.
- **Morocco**: The Exchange office (Office des changes) improved the newly launched SMART (Authorisation, Reporting and Processing Management System) platform in order to dematerialise formalities and procedures.
- **Egypt**: GAFI seeks to strengthen its Investors Services Center which aims at facilitating licenses and approvals, gathering representatives from 47 ministries and governmental agencies. To that aim, it recently expanded its services with the real estate and the commercial registries. GAFI also issued a decree to temporarily allow virtual attendance of general assembly meetings for companies. The Ministry of Finance has issued a decree requiring VAT registrant taxpayers to issue electronic invoices.
- **Lebanon**: IDAL provides technical assistance to manufacturing companies to help their development of their digital marketing strategy. It is proposing free webinars on companies' digital transformation and just released its Factbook on ICT sector in Lebanon highlighting its comparative advantages and investment opportunities.

The crisis is also an opportunity for companies to further deploy digital technologies, dematerialise and automate processes that will facilitate production and possibly re-shoring. As indicated in the OECD note on foreign direct investment flows in the time of COVID-19, a "factor present before the crisis is the deployment of digital technologies, which could expand following the experiences during the pandemic. To

[27] World Bank, (April 2020), The Initial Response of Investment Promotion Agencies to COVID-19 and Some Observed Effect of Foreign Direct Investments.

insulate themselves from future shocks, companies may make more intense use of e-solutions to dematerialise and automate processes, and to reduce reliance on unmovable assets and long-term contracts. This may mean less FDI in the long run but could also offer the possibility of market consolidation in the e-commerce and digital space that creates FDI opportunities. Progress in automation and other advanced technologies may also potentially facilitate re-shoring."

Keeping up investment climate reforms

The COVID-19 crisis may affect investors and economies differently depending on the national and regional contexts and FDI motivations. Undeniably, the MENA region will suffer from the lasting effects of decreasing FDI flows, already constrained in pre-crisis times by an insufficiently conducive investment climate: complex and sometimes unclear investment frameworks, restrictions and burdensome procedures, insufficient infrastructure logistics, and regional geopolitical tensions. Over the past decade, countries have undertaken significant reforms to improve their investment environments. However, those reforms will need to be sustained and new measures implemented for countries to durably improve their investment climate and diversify their economies in a post-COVID-19 context.

Several MENA countries have reformed their investment legal regimes and institutional frameworks for investment. Over the past years, investment laws have been enacted or amended in many MENA economies to modernise the regulatory framework for investment and investment promotion agencies were endowed with a wider range of mandates and responsibilities.[28] More recent reforms include:

- **Algeria**: The authorities took a major step in FDI opening. The Supplementary Finance Law for 2020, published on the Official Gazette on 4 June, repeals the 51/49 rule except for strategic sectors defined in a rather limited way. The 49% cap on the participation of foreign investor in the capital of an Algerian company no longer applies except for production activities of goods and services of strategic interest for the economy: minerals, energy, transport infrastructure, and pharmaceutical industries (except for essential innovative products). All other activities are open to foreign investment without any obligation to enter into a partnership with a local party. The Law also removes two major restrictions on the liquidity of FDIs (State's right of pre-emption and of repurchase) and the obligation for local financing (authorisation of the use of foreign financing from development financial institutions).
- **UAE**: The 2018 FDI Law enables an increased participation of foreign investors, allowing foreign shareholders to own up to 100% of companies in certain designated sectors (122 economic activities across 13 sectors).
- **Oman**: The new Foreign Capital Investment Law, issued in January 2020, enables investors to establish a company in some permitted activities and does not require for any minimum share capital requirement, nor any general limit on foreign ownership of an Omani company.
- **Qatar**: Full foreign ownership is now permitted in all sectors with the exception of banking, insurance and commercial agencies, following the issuance of the 2019 investment law.

[28] For example: enactment of a new investment law in Jordan in 2014; revision of the Tunisian Investment Code and the investment institutional framework in 2016; additional revision of the investment law in Egypt in 2017 with further guarantees and incentives for investors and a revamped role for GAFI on investment promotion and dispute settlement; the Investment Charter of Morocco currently under revision and significant transformation of the *Agence marocaine de développement des investissements et des exportations* (AMDIE) to merge export and investment functions in 2018.

- **Lebanon**: The Parliament enacted the private equity investment law on 21 April 2020 modernising the existing framework with new rules and control with a view to attract investments, in particular FDI, raise capital and contribute to the financing of the Lebanese economy.[29]

Testing investment treaties and dealing with investment disruptions to avoid disputes

MENA countries have been active signatories of bilateral investment treaties (BITs), with more than 550 entered into force. These treaties usually provide that all measures taken by a State, e.g. change of regulation or any measures disrupting the investment activities, must be reasonable, proportionate, non-arbitrary and non-discriminatory. In a case of conflict, these treaties usually contain investor-State dispute resolution provisions through international arbitration.

The MENA region experienced a relatively large number of investment disputes, which increased in some countries over the past decade. For instance, Egypt was involved in 34 cases against private investors, with 24 that arose after the 2011 uprisings, and Libya in 17 cases, all except one which took place after 2011. This shows a relative correlation between political and economic crises and the rise in investment disputes. Therefore, at a time when governments are adopting numerous public health and economic measures, the COVID-19 crisis could potentially provoke new disputes against countries of the region.

Lockdown measures have and will have a significant impact on foreign investors. Imposed halt in activities, shift in production lines, export restrictions and borders closures are all measures that have altered or discontinued MNEs activities. These measures may question the protection of foreign investors under investment treaties, which may be able to challenge COVID-19 measures taken through arbitration proceedings. The outcomes of potential disputes remain uncertain and are subjected to various interpretations regarding the flexibility of the States to implement emergency measures to protect public interest and health.[30]

MENA countries should remain vigilant on these issues and prepare for potential disputes, while reinforcing dispute prevention and management mechanisms. Any agency involved or related to an investment project should be made aware of international obligations and potential repercussions of their actions. Regular contacts and communications between agencies and investors in order to anticipate issues and discuss before a claim are crucial. The crisis units established in several MENA IPAs are set to answer and solve any issue foreign investors might have. They should also interact with dispute resolution and prevention entities set up in some countries to anticipate potential claims (e.g. the Egyptian inter-ministerial committee for investment dispute resolution, the Investment Grievance Mechanism set up by the Jordan Investment Commission).

There are many uncertainties on future reactions of investors, but already, given the magnitude of the crisis and global public health requirements, independent experts have called for an “immediate moratorium” on all arbitration claims that may emerge between private investors and governments.[31] They suggest a “permanent restriction” on all arbitration claims following the measures implemented by the governments to contain the COVID-19 pandemic, which are related to health and economy. The crisis may also be an opportunity to advance countries’ efforts to reform their BITs network to ensure right to regulate in the public interest and wider policy space for States.

[29] Byblos Bank, (27 April-2 May 2020), Economic Research and Analysis Department, Issue 630.

[30] Kluwer Arbitration Blog, (April 2020), “Investment Treaty Claims in Pandemic Times: Potential Claims and Defences” and “Pandemics, Emergency Measures and ISDS”

[31] Columbia Center on Sustainable Investment, (2020), https://mailchi.mp/law/call-for-isds-moratorium-covid-19?e=17b57bf90f

Towards an inclusive, green and resilient investment recovery

While many MENA governments are currently focusing on the short-term responses to alleviate the overall impact of the pandemic, this period also represents an opportunity for the region to design an ambitious reform agenda. Further opening to investment and reducing restrictions will not be enough. Governments need to be ready to attract quality investments that promote an inclusive, green and resilient recovery. The recovery should respond to the needs of everyone equally, from consumers, entrepreneurs, to the most vulnerable people in the society, including informal workers and women. In MENA, just like at the global level, the main challenges will be to design and integrate in a coherent manner the healthcare, labour, gender, environment and trade policies into an ambitious investment reform agenda. The OECD FDI Qualities Initiative can contribute to this reassessment, presenting a new policy toolkit to maximise the sustainable development impacts of FDI (see OECD note on OECD investment policy responses to COVID-19).

IPAs will play an important role in achieving these objectives, including through their aftercare and policy advocacy roles. They will need to rethink their strategies and adjust to priority sectors. The MENA IPA Mapping, capacity-building, peer-learning and networking activities conducted under the EU-OECD Programme on Investment in the Mediterranean, as well as the policy dialogue under the MENA-OECD Working Group on Investment and Trade, could further support countries to assess, implement and improve quality investment climate reforms in a post COVID-19 world.

Continued co-operation at the regional and international levels also matters for the recovery. The 30 March 2020 Ministerial Statement of the G20 Trade and Investment Working Group, under G20 Saudi Arabia Presidency, recalls “the importance of strengthening international investment” and the need to “continue to work together to deliver a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep our markets open”. The 14 May Ministerial Statement of the Group reiterated in particular the need to share information on taken actions and best practices on promoting investments in impacted sectors, encourage government agencies to work with companies and investors in identifying investment opportunities, and encourage consultations with the private sector, as part of policy making on FDI.[32] MENA economies are already engaged in these measures and should remain active to ensure that the COVID-19 crisis becomes a turning point for greater investment in the MENA region.

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[32] https://g20.org/en/media/Documents/G20SS_Statement_G20%20Second%20Trade%20&%20Investment%20Ministerial%20Meeting_EN.pdf

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