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Review Article

Analysis of Foreign Direct Investment in Egypt

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Abstract *- Globalization has made worldwide mobility of money extremely easy. Investors prefer to invest in places that offer attractive returns and are relatively less risky. The inflow of FDI gives developing countries access to capital that would otherwise be not available. This study's main objectives are to find out the status of Egypt as a destination for FDI, the factors that attract FDI into Egypt, and the factors that hinder the flow of FDI into Egypt. This study is based on secondary data and covers five years. The study analysis various determinants of FDI like market size, economic growth, infrastructure, political risk, corruption, labor market, raw materials, technological readiness, innovation, financial system, taxation, cost of capital, ease of doing business, and government policies. The study reveals that the parameters making Egypt an attractive destination is the vast market, high growth rate, strategic location, young labor force, competitive labor cost, well-organized financial system, low corporate and individual income taxes, improving innovation friendliness, improvement in the ease of doing business, and a reform-friendly government. The parameters that hinder FDI inflow into Egypt are insufficient infrastructural developments, low market efficiency, high-interest rates, high political risk, and a high level of corruption.*

Keywords *- Foreign Direct Investment, Growth Rate, Investor-friendly, Market Size, Multinational Corporation.*

I. INTRODUCTION

Foreign direct investment (FDI) is one of the most important contributors to economic development and growth. FDI enables corporations to quickly acquire new products, technologies, and new markets for their existing products. It is observed that companies investing overseas experience higher growth rates and can diversify their sources of income. A sustainable flow of FDI can generate sustainable development in the host country, creating jobs and contributing to economic prosperity and political stability. World Economy has seen a rapid rise in foreign direct investment for more than three and a half decades, but the current trend is not quite disturbing. Global foreign direct investment flows slid by 13% in 2018, to US$1.3 trillion from $1.5 trillion the previous year – the third consecutive annual decline, according to UNCTAD's World Investment Report 2019. The inflow of FDI gives developing countries access to capital that would otherwise be not available, as Transnational Corporations (TNCs) often have privileged access to capital from the international banking sector. Similarly, FDI provides much-needed foreign exchange and, therefore, adjusts some of the macroeconomic imbalances in developing countries (Fernandez & Joseph, 2016). Most of the Middle East and North Africa (MENA) countries are in the growth model, but the resources available for development with many of them are limited and insufficient; hence all these nations are competing against each other to make the investment climate better and project itself as the best FDI-friendly destination.

Egypt, officially the Arab Republic of Egypt, is a transcontinental country spanning the northeast corner of Africa and southwest corner of Asia by a land bridge formed by the Sinai Peninsula. Egypt is a Mediterranean country bordered by the Gaza Strip (Palestine) and Israel to the northeast, the Gulf of Aqaba and the Red Sea to the east, Sudan to the south, and Libya to the west (Wikipedia, 2020). Egypt is the most populated country in the Arab world and the third most populous on the African continent, with more than 102 million inhabitants (worldometers.info, 2020). Table 1 gives the data on the inflow of FDI into Egypt during the period 2013 to 2019.

Table 1. Foreign Direct Investment in Egypt: Net inflows (US$ in Million)

	2013	2014	2015	2016	2017	2018	2019
Net inflows	4,192	4,612	6,925	8,107	7,409	8,141	9,010
Increase		420	2,313	1,182	-698	732	869
Y-O-Y Growth (%)		10.02	50.15	17.07	-8.61	9.88	10.67

Source: Compiled from World Bank data & World Investment Reports

The inflow of FDI during the last seven years has increased by US$ 4,818 million, from US$ 4,192 million in

2013 to US$ 9,010 million in 2019, an increase of approximately 115%. The net inflow of FDI into Egypt had a growth of 50.15% in 2015, but in 2016 it declined to 17.07%, and it went to negative 8.61% in 2018 and has started its recovery from there. In 2019, the FDI inflows to North Africa decreased by 11% to $14 billion, with reduced inflows in all countries except Egypt. Egypt remained the largest FDI recipient in Africa in 2019, with inflows increasing by 10.67% to $9,010 million. Economic reforms instituted by the Government have improved macroeconomic stability and strengthened investor confidence in the country.

This study's main objectives are to find out the status of Egypt as a destination for FDI, the factors that attract FDI into Egypt, and the factors that hinder the flow of FDI into Egypt. The study's findings would help the investors arrive at a better decision regarding FDI into Egypt, and similarly, help the regulators and other stakeholders formulate appropriate policies and take necessary steps to enhance Egypt's FDI attractiveness. This paper's remaining parts are organized as follows: Section 2 presents a literature review on FDI. Section 3 states the methodology. Section 4 focuses on analysis and discussions, and Section 5 concludes the paper.

II. LITERATURE REVIEW

Foreign direct investment is widely perceived as a powerful development engine for many receiving (host) countries. The study by Osunkwo (2020) attempted to estimate the impact of Foreign Direct Investment on the Economic Growth of Nigeria for the period 1980-2018. It was found that FDI has a positive and significant impact on GDP. Virtually all countries are actively seeking to attract FDI because of its expected favorable effect on income generation from capital inflows, advanced technology, management skills, and market know-how (Cho, 2003). The motivational factors such as natural resources, market resources, strategic resources, efficiency resources, locational advantages, etc., influenced Multinational Enterprises (MNEs) to perform various activities in the host countries. Initially, MNEs search for the customers in host countries and conclude by encompassing productive activities when the foreign market confers higher value to the firm (Bhattacheryay, 2018).

A large number of studies on FDI has been conducted in different parts of the world. The majority of the studies have been mainly concerned with various host-country determinants that are associated with attracting firms to specific locations (e.g., Balasubramanyam *et al.*, 1996, 1999; Borensztein *et al.*, 1998; Alguacil *et al.*, 2002; Chakraborty & Basu, 2002; Liu *et al.*, 2002; Baharumshah & Thanoon, 2006. The most frequently investigated determinants include market size, growth rate, government policies, entry barriers, cost of production, wage rate, infrastructure, geographical location, cost of capital, etc. (e.g., Loree & Guisinger, 1995; Reiljan, 2003; Fernandez *et al.*, 2020).

The literature review presentation is sequenced so that the literature relating to market size is presented first, followed by political stability, and then all literature relating to all other factors is arranged sequentially.

Market size is expected to have a positive relationship with FDI. Market-oriented FDI aims to set up enterprises to supply goods and services to the local market. The general inference is that host countries with larger market size, faster economic growth, and a higher degree of economic development will provide more and better opportunities for these industries to exploit their advantages and, therefore, will attract more market-oriented FDI (OECD, 2000). Several studies such as that of Schmitz & Bieri (1972), Dunning (1980), Lunn (1980), Kravis & Lipsey (1982), Nigh (1985), Culem (1988), and Agyenim *et al.* (2015) gauged that high rate of FDI is positively associated with a lower cost of production and enormous potential demand, which is further supported by the findings of the studies of Tsai (1994), Billington (1999), and Pistoresi (2000), that indicated that market size has positive effects on the inflow of FDI. The study by Makki et al. (2004) on the US food processing industry found that market size, per-capita income, and openness significantly affected the US food processing firms' decisions to invest abroad. The study by Reiljan (2003) of foreign direct investment determinants in Estonia found that most foreign investors in Estonia have a market-seeking nature. Thus one may presume that large host countries with a high growth rate and higher per capita income attract higher foreign direct investment due to larger potential demand.

Political stability and reliability determine the FDI inflows. TNCs prefer a stable government so that their investment is protected. Political instability may be in the form of the Government's negative attitude towards TNCs, non-allowance of fund transfer, currency convertibility, war, bureaucracy, and corruption. The study by Root & Ahmed (1979), and Schneider & Frey (1985), looking at aggregate investment flows into developing economies, found that political instability significantly affects FDI inflows.

The study by Okwu *et al.* (2020) analyzed the effects of foreign direct investment inflows on the economic growth of 30 leading global economies between 1998 and 2017. It concluded that FDI inflows enhanced economic growth. Balasubramanyam *et al.* (1999) analyzed the role of FDI in promoting economic growth and found that an important role is exerted by both the domestic market and the competitive climate in relation to local producers. It also reported that interactions between FDI and human capital exert an especially important influence upon growth performance. Baharumshah & Thanoon (2006) carried out a quantitative assessment of the effect of various types of capital flow on East Asian countries' growth process and found that FDI is growth-enhancing and that its impact is felt both in the short and long run. Moreover, the study found that countries that successfully attract FDI can finance

more investments and grow faster than those that deter FDI.

Borensztein *et al.* (1998) tested FDI's effect on economic growth in a cross-country regression framework, utilizing data on FDI flows from industrial countries to 69 developing countries over the two decades in the late nineteen nineties. The results suggest that FDI is an important vehicle for transferring technology, contributing relatively more to growth than domestic investment. But, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy. Chakraborty & Basu (2002) explored the link between foreign direct investment and India's growth using a structural cointegration model with vector error correction mechanism and found a long-run relationship between FDI and GDP. The study also found that the trade liberalization policy of the Indian Government had some positive short-run impact on the FDI flow.

The study by Bouchoucha & Benammou (2020) examined the effect of governance on the attractiveness of FDI through a sample of 41 African countries to identify the institutional quality aspects that affect the attractiveness of FDI in African countries, using both the static panel data approach and the dynamic panel approach. The empirical results showed that the attractiveness of FDI to African countries is positively correlated with the control of corruption, governments' effectiveness, the quality of regulation, and the voice and accountability.

Tax policies, including corporate and personal tax rates, influence inward FDI. Hajkova *et al.* (2006) explored the impact of taxation on FDI while controlling several policies and non-policy factors and found that taxation and the business environment are the main drivers of FDI in OECD (Organization for Economic Co-operation and Development) countries. Mutti & Grubert (2004) examined empirical asymmetries associated with the effects of taxation on foreign operations by U.S. MNEs and validated that the host country's tax rate can have a negative effect on subsidiary profit. Other things being equal, a country with lower tax rates should stand a greater chance of attracting FDI projects than a country with higher rates (Chandal, 2003).

According to Neumayer & Indra (2005), the availability of raw materials provides investors with an added advantage in producing efficiently. According to Milner (2013), a productive labor force is one of the determinants that influence the scope of FDI in a country.

Numerous studies have been conducted on FDI in different parts of the world, but most of them have focused on a few of the FDI's determinates. Moreover, studies focusing on Egypt are very few and are constrained by focusing only on a few factors. Hence, this study is undertaken to analyze the FDI environment in Egypt from a holistic perspective.

In brief, the trend in FDI flows differs by region and country. Although FDI has innumerable effects on host countries' economies and most countries are trying hard to attract FDI, the inflow of FDI continues to be uneven, with some countries getting the lion's share and others barely getting any.

III. METHODOLOGY

This study's main objectives are to find out the status of Egypt as a destination for FDI, the factors that attract FDI into Egypt, and the factors that hinder the flow of FDI into Egypt. The study is based on secondary data collected from local, regional and international agencies like Government of Egypt, Central Bank of Egypt, World Economic Forum, International Monetary Fund, Transparency International, World Bank Group, United Nations and various publications of the statistical departments, governments, and the press. The study covers a period of five years from 2014-2015 to 2018-2019. The collected data are tabulated and analyzed using appropriate analytical tools.

IV. ANALYSIS AND DISCUSSIONS

The Global Competitiveness Report 2019, published by the World Economic Forum, assesses the competitiveness landscape of 141 economies, providing insight into the drivers of their productivity and prosperity. These 141 economies account for 99% of the world's GDP. The competitiveness ranking is based on indicators organized into 12 'pillars': Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labor market; Financial system; Market size; Business dynamism; and Innovation capability. Each indicator or 'pillar' uses a scale from 0 to 100 to show how close an economy is to the ideal state or 'frontier' of competitiveness in that area (Global Competitiveness Report, 2019). The Report series remains the most comprehensive assessment of national competitiveness worldwide. Table 2 presents Egypt's year-wise ranking by the global competitiveness index for the years 2014 to 2019.

Table 2. Global Competitiveness Index: Ranking of Egypt - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	119	116	115	100	94	93

Source: Compiled from Global competitiveness reports from 2014 to 2019

The data in Table 2 shows that the relative ranking of Egypt has gradually improved from rank 119 in the year 2014 to rank 93 in the year 2019, which is the result of the determination and political will of the regulars in floating appropriate policies and taking necessary developmental steps to boost the FDI-attractiveness of Egypt in the face of high competition from other countries who are enhancing their competitiveness at an accelerated pace. Let us go forward for an analysis of various determinants of FDI, beginning with the market size.

A. Market Size

Market size, growth in market size, and market efficiency are important determinants of FDI. The market size and the growth prospects of the host country's market are important to pull factors and are positively related to FDI flows (Chandalert, 2000). A huge market size allows the attainment of economies of scale, and transaction costs are lower in countries with higher economic development levels (Caves, 1971; Zhao & Zhu, 2000).

The population of Egypt is more than 99 million, the GDP is US$302.256 billion, and GDP per capita income is US$ 3,046.59 according to the International Monetary Fund, World Economic Outlook Database (October 2019). The market size can be measured by the population and the growth of the population of the country. Egypt is the 14th most populous country in the world, with a constant population growth rate. Egypt is the most populated country in the Arab world and the third most populous on the African continent. By 2030, the population will grow to more than 120 million, as forecasted by worldometers.info. A larger population means a better domestic market that can consume goods and services provided by investors. The growing population brings plenty of opportunities for investors, both domestic and international. This definitely will attract more FDI. Table 3 gives the global ranking for Egypt on market size for the period 2014 to 2019.

Table 3. Market size: Global Competitiveness Index Ranking of Egypt – 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	29	24	25	25	24	23

Source: Compiled from Global competitiveness reports from 2014 to 2019

Throughout the study, Egypt's position improved, though slowly, but gradually from rank 29 in 2014 to 23 in 2019.

B. Economic Growth

Over the past decade, growth in advanced economies has been very weak. Many emerging economies - including Argentina, Brazil, Russia, India, and China - are experiencing some slowdown or stagnation. In least-developed economies, growth remains well below potential and highly volatile. Productivity growth started slowing down well before the financial crisis of 2008. Between 2000 and 2007, total factor productivity (TFP) annual growth averaged just 1% in advanced economies and 2.8% in emerging and developing economies. TFP then plummeted during the crisis. Between 2011 and 2016, TFP grew by 0.3% in advanced economies and 1.3% in emerging and developing economies (Obstfeld & Duval, 2018). Corporates do not operate in a vacuum. They are highly influenced and attracted by the environmental factors and economic growth of the economy in which they do business. Corporates in high growth economies can envisage growth at a higher rate than those in the low growth countries as the environment highly influences the entity. For emerging economies like Egypt, FDI is often referred to as the most effective way to transfer capital and technology from other economies, especially the developed ones. Table 4 shows the annual percentage growth rate of GDP at market prices based on Egypt's constant local currency from 2014 to 2018.

Table 4. Economic growth of Egypt - 2014 to 2018

Year	2014	2015	2016	2017	2018	Average
Growth rate	2.92%	4.37%	4.35%	4.18%	5.31%	4.23%
Global Rank	100	57	54	69	38	

Source: Compiled from TheGlobalEconomy.com, reports 2014 to 2018

The global average growth rate for 2018 was 3.31%. In 2019 Egypt had the 38th highest growth rate of 5.31%. During the last five years, Egypt was growing at an annual average of 4.23%, which is one of the world's highest. Currently, global growth is slowing amid sluggish investment and weakening trade. Like many countries, Egypt's economy is facing challenges, with consumption softening and investment slowing, which calls for immediate action from all stakeholders to retain the economy's growth for a better future.

C. Infrastructure

Infrastructure is a major determinant of FDI. Excellent infrastructure plays a major role in the productivity and profitability of Multinational Corporations (MNCs) and their decision about FDI location. Table 5 gives the global ranking of Egypt for the period 2014 to 2019 based on road connectivity, quality of road infrastructure, railroad density, the efficiency of train services, airport connectivity, the efficiency of air transport services, liner shipping connectivity, the efficiency of seaport services, utility infrastructure, electricity access, electricity supply quality, exposure to unsafe drinking water and reliability of water supply.

Table 5. Infrastructure: Global Competitiveness Index Ranking of Egypt - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	100	91	96	71	56	52

Source: Compiled from Global competitiveness reports from 2014 to 2019

The infrastructure sector is a key driver for the economy. The sector is highly responsible for propelling Egypt's overall development. The Government is continuously investing in infrastructure projects. It is keen on initiating policies that encourage private sector players to invest heavily in infrastructure projects, ensuring the time-bound creation of the country's world-class infrastructure. Despite all this, the infrastructure still seems insufficient, and Egypt

is ranked 52 in the Global competitiveness report, 2019. For getting a clearer picture, a probe is made into the Logistics Performance Index.

a) Logistics Performance Index

Logistics is the backbone of the trade, and good logistics can reduce trade costs and make countries compete globally. Getting logistics right means improving infrastructure, skills, customs and regulations, policies, and governance in the right proportion. The Logistics Performance Index is reported by the World Bank once every two years, based on qualitative and quantitative data on six core performance components: (1) The efficiency of customs and border clearance, (2) The quality of trade and transport infrastructure, (3) The ease of arranging competitively priced shipments, (4) The competence and quality of logistics services, (5) The ability to track and trace consignments, (6) The frequency with which shipments reach consignees within scheduled or expected delivery times. Table 6 gives the ranking of Egypt from 2014 to 2018.

Table 6. Logistics Performance Index: Ranking of Egypt - 2014 to 2018

		Parameter-wise Global ranks					
Year	**LPI Global Rank**	**Customs**	**Infrastructure**	**International shipments**	**Logistics competence**	**Tracking & tracing**	**Timeliness**
2014	62	57	60	77	58	43	99
2016	49	65	50	45	43	54	48
2018	67	77	58	73	63	89	74

Source: Logistics Performance Index, 2014 - 2018

Egypt's ranking in the Logistics Performance Index has decreased from 62 in 2014 to 67 in 2018, despite a significant increase in 2016. When comparing with the data of 2016, the decline is noticed in all the six pillars. This calls for immediate and serious steps to be taken to improve to enhance its competitive advantage. The position of Egypt among the emerging markets is at rank 20, according to the Agility Emerging Markets Logistics Index, 2020.

D. Productive Labor Market

When international investors look for an investment destination, considerations about the skilled nature of the labor force is a matter of priority that determines their scope of success in a country (Brakman & Garretsen, 2008). Table 7 gives the data for the labor force, which comprises people ages 15 and older who supply labor for the production of goods and services during the study. It includes people who are currently employed and people who are unemployed but seeking work and first-time job-seekers.

Table 7. Labor Force in Egypt - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Labor Force (million)	30.23	29.81	30.16	30.66	31.32	31.96
Global Rank	18	19	20	19	19	19

Source: Compiled from TheGlobalEconomy.com reports 2014 to 2019

In 2019 the labor force in Egypt was 31.96 million. Throughout the study period, Egypt had been retaining positions between 18 and 20, and the demographics of Egypt are young. According to worldometers.info, the median age in Egypt is 24.6 years. Now let us look at the labor market efficiency. Table 8 gives the ranking for Egypt on labor market efficiency from 2014 to 2019 based on cooperation in labor-employer relations, the flexibility of wage determination, hiring and firing practices, redundancy costs, active labor market policies, workers' rights, ease of hiring foreign labor, internal labor mobility, the effect of taxation on incentives to work, pay and productivity, reliance on professional management, and the ratio of women in the labor force.

Table 8. Labor Market Efficiency: Global Competitiveness Index Ranking of Egypt - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Global Rank	140	137	135	134	130	126

Source: Compiled from Global competitiveness reports from 2014 to 2019

An efficient labor market, easy availability of skilled labor, the ready availability of training facilities, and the capacity to attract and retain the right talent from within the country and other parts of the globe are the most important factors that attract international investors. Egypt is ranked 126 out of 141 nations ranked, which is quite gloomy.

E. Political Risk

TNCs usually assess political risk before investing in any country. There are many forms of political risks, but the extreme form is the possibility that the host country will take over a subsidiary. However, this form of political risk is an extreme case and not very common in today's global world. The more common forms of political risk include the host government's negative attitude to TNCs, blockage of fund transfer, currency inconvertibility, war, bureaucracy, and corruption. Credendo Group provides business and economic data for 200 countries. It has classified country risk under different indicators like political risk short term, political risk medium/long term, special transactions risk, transfer risk, expropriation risk, and political violence risk; under each of these indicators, countries are classified into seven categories: from 1 (low risk) to 7 (high risk); among them, the last three are related to direct investments, and let us probe into that a little bite.

a) Transfer Risk

The currency inconvertibility and transfer restriction risk refer to the inability to convert and transfer out of the host country any funds related to the investment. The average value for Egypt during the study period is 6 for each year from 2014 to 2018 and has slightly improved to 5 in the year 2019. This indicates that currency inconvertibility and transfer restriction risk are relatively quite high for Egypt, though it shows signs of improvement.

b) Expropriation Risk

The risk of expropriation encompasses all discriminatory measures taken by a host government which deprive the investor of its investment without any adequate compensation; and also includes events of the embargo, change of (legal) regime and denial of justice, and the probability of a negative change in attitude towards foreign investments. Egypt's average value was 5 from 2014 to 2016, which has improved to 4 during the period 2017 to 2019. This indicates that expropriation risk is above average in Egypt.

c) Political Violence Risk

Political violence includes all violent act(s) undertaken with a political objective; and includes terrorism (political, religious, and ideological objectives) and political violence damage (damage to material assets as a result of political violence); business interruption as a result of political violence damage. To assess the political violence risk, the index looks at the actual levels of internal violence in and external conflict with a country and the conflict potential that arises from (lingering) internal and external tensions, frustration, and dissatisfaction. The average value for Egypt during the study period is 5, which indicates that the political violence risk is quite high for Egypt. Table 9 gives the consolidated ranking for the period 2014 to 2019.

Table 9. Country Risk: Credendo Group Index Ranking of Egypt - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Transfer risk	6	6	6	6	6	5
Expropriation risk	5	5	5	4	4	4
Political violence risk	5	5	5	5	5	5

Source: Compiled from Credendo Group index reports 2014 to 2019

The international investors may have to appropriately factor in these factors while making the investment-decisions as there is no guarantee that their funds will not be blocked, may not always enjoy easy convertibility, and may come across bureaucracy bottlenecks. Now let us go a deeper look into the levels of Corruption in Egypt.

d) corruption

Corruption distorts competition and investment and hinders free and fair trade. When the corruption level is sufficiently high, no investment will take place. Transparency International has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries by their perceived Corruption levels, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as 'the misuse of public power for private benefit.' Table 10 displays the ranks assigned to Egypt during the last six years.

Table 10. Corruption: Global Ranking of Egypt - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	94	88	108	117	105	106

Source: Compiled from the Corruption Perceptions Index 2014 to 2019

The Corruption Perceptions Index ranking shows that the nation has to improve a lot in containing and controlling corruption. The data in the table show that corruption levels are getting worse, declining from rank 94 in 2014 to rank 106 in 2019.

F. Interest Rates

High-interest rates tend to slow the growth of an economy and reduce the demand for the TNC's products, and can negatively impact the flow of FDI. High loan interests translate into the cost burden of a company. They have been evidenced by the companies that decide to halt operations and move to other regions with low-interest rates. From the perspective of an investor, low-interest rates are better than high rates because returns are high when the interest charges are low. The Government of many countries is introducing the reduction of interest on loans to create an ideal environment for domestic and international investments. Destinations with such incentives are bound to attract more investors than destinations with high-interest rates.

The lending rate is the bank rate that usually meets the private sector's short- and medium-term financing needs. This rate is normally differentiated according to the creditworthiness of borrowers and the objectives of financing. Table 11 gives the lending interest rates in Egypt during the period 2014 to 2019

Table 11. Lending interest rates in Egypt - 2014 to 2019

	2014	2015	2016	2017	2018	2019
Interest Rate (%)	11.7	11.6	13.60	18.17	18.32	16.12
Global Rank	48	51	38	15	15	14

Source: Compiled from TheGlobalEconomy.com reports 2014 to 2019

The global average lending interest rate for 2019 was 10.99%. The lending rate in Egypt is higher than the global average and was decreasing year after year till 2018, but has slightly declined in 2019, which is in tandem with the

declining global trend. According to the data published by the CAPMAS (August 2020), inflation in the country has decreased. This deceleration has left the country with the world's highest interest rates when adjusted for inflation. High-interest rates are bad. It makes the cost of the borrowed component of the capital high, the cost of capital impacts the corporate decisions and return on investment measuring parameters.

a) Developed Financial System

Financial institutions with sufficient liquidity and transparency to grant quick loans at competitive rates is an important determinant. Egypt has been a regional banking powerhouse for more than a century and is home to the biggest banking sector in North Africa. The industry is also one of the region's most stable, surviving both the economic turbulence that followed the Arab Spring and a more recent foreign currency crisis that saw government auctions of US dollars and the growth of a parallel market for foreign currency. According to the Central Bank of Egypt (CBE), the Egyptian banking system consists of 40 banks categorized as commercial, non-commercial public, and private sectors. Table 12 gives the top 10 African banks, and three of them are Egyptian banks.

Table 12. Top 10 Banks in Africa

Regional Rank	World Rank	Bank	Country	Tier 1 capital (US$ Million)
1	152	Standard Bank Group	South Africa	10,547
2	169	FirstRand	South Africa	9,163
3	190	ABSA Group	South Africa	7,773
4	232	Nedbank Group	South Africa	5,731
5	237	National Bank of Egypt	Egypt	5,673
6	296	Attijariwafa Bank	Morocco	4,321
7	305	Groupe Banques Populaire	Morocco	4,139
8	366	Banque Misr	Egypt	2,967
9	369	CIB Egypt	Egypt	2,943
10	386	Zenith Bank	Nigeria	2,789

Source: www.thebankerdatabase.com

Table 13 gives the ranking for Financial System of Egypt 2014 to 2019 based on the availability of domestic credit to the private sector, financing of SMEs, venture capital availability, market capitalization, insurance premium, soundness of banks, non-performing loans as a percentage of loan portfolio value, credit gap and banks' regulatory capital ratio

Table 13. Financial System: Global Competitiveness Index Ranking of Egypt - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	125	119	111	77	99	92

Source: Compiled from Global competitiveness reports from 2014 to 2019

Egypt's rank had been improving during the study period, from 125 in 2014 to 92 in 2019, but can further strengthen the financial system.

G. Tax Rates and Clarity of Taxation Policies

Lower tax will give corporates and individuals more after-tax income to enhance the corporates' wealth, and individuals could use for buying more goods and services or saving. Investors prefer lower-tax locations to locate or relocate their businesses.

a) Corporate Tax

Table 14 gives the corporate tax rates for Egypt and the global and African averages.

Table 14. Corporate Tax Rates (in %) - 2014 To 2019

Year	2014	2015	2016	2017	2018	2019
Egypt	25	22.50	22.50	22.50	23	22.50
African average	27.83	28.14	28.03	28.21	28.26	28.23
Global average	23.88	23.77	23.62	24.06	24.05	23.81

Source: Compiled from KPMG data

During the study period, the corporate tax rates in Egypt are one of the lowest and lower than the African and global averages. This is a factor that can attract FDI into Egypt.

b) Income Tax

Table 15 gives the individual income tax rates in Egypt and the global and African averages.

Table 15. Income Tax Rates (in %) - 2014 To 2019

Year	2014	2015	2016	2017	2018	2019
Egypt	25	25	25	22.50	22.50	22.50
African average	31.41	31.63	31.60	31.92	32.40	31.96
Global average	31.08	30.8	30.97	31.41	31.35	31.45

Source: Compiled from KPMG data

The individual income tax rates are decreasing in Egypt and are lower than the African and global averages. Lower-income tax reduces the cost of running a business because, at the time of salary negotiations, the prospective employee looks at the after-tax annual pay package. The country's taxation policy can attract a highly talented and skilled workforce needed for the domestic and MNCs operating in the country.

H. Strategic Location / Global Connectivity

Egypt has a natural strategic advantage due to its location at the crossroads of Europe, Africa, and Asia. Egypt is a Mediterranean country and is bordered by Libya to the west,

Sudan to the south, and Israel and the Gaza Strip to the north-east, placing the country in the heart of the MENA region. The country lies between two major water bodies: the Mediterranean Sea, which provides a route to Europe and North America, and the Red Sea, which continues on to the Indian Ocean. The two seas are linked by the Suez Canal, one of the world's busiest shipping lanes, with approximately 50 ships passing through its waters per day. The advent of crude oil as a major commodity in global maritime transport has further facilitated Egypt's strategic importance. Almost 20% of the world's oil now travels through the red sea in addition to the already existing trade shipments passing through the red sea. Thus, Egypt's geostrategic location has affected Africa, Europe, and Asia's activities and continues to act as a dominant force in the world.

I. Availability / Easiness to Import of Raw Materials

The availability of raw materials means that international investors can do business in the country without having concerns about the supply of production materials. Egypt has several natural resources, namely oil and gas, iron ore, phosphates, and limestone. These raw materials have motivated many foreign investors to invest in the country. The import-export policy is relatively quite liberal, which, to a large extent, permits manufacturers to import those raw materials that are not readily available in the country. But, the Government will still have to improve the policies to attract more FDI into the country.

J. Technology Adoption and Innovation

Technology is an important consideration made by foreign investors because it determines the scope of operational efficiency. From an investment perspective, the lack of efficient technology systems implies that operations would be slow and costly. Thus, there will be a need for choosing destinations with a higher level of technology. Table 16 gives the ranking for Egypt on ICT adoption from 2014 to 2019 based on mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed broadband internet subscriptions, fiber internet subscriptions, and internet users.

Table 16. ICT Adoption: Global Competitiveness Index Ranking of Egypt - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	95	98	99	94	100	106

Source: Compiled from Global competitiveness reports from 2014 to 2019

In ICT adoption, Egypt had weakened from rank 95 in 2014 to 106 in 2019. The policymakers have to encourage faster adoption of ICT to stay competitive and current in a world where technology upgrading is taking place at a tremendous speed. Table 17 gives the ranking for Egypt on innovation friendliness from 2014 to 2019 based on diversity of the workforce, state of cluster development, international co-invention, multi-stakeholder collaboration, scientific publications, patent applications, R&D expenditures, prominence of research institutions, buyer sophistication, and applications made for trademark.

Table 17. Innovation Capacity: Global Competitiveness Index Ranking of Egypt - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	124	120	122	109	64	61

Source: Compiled from Global competitiveness reports from 2014 to 2019

In innovation friendliness, Egypt has shown tremendous progress from rank 124 in 2014 to rank 61 in 2019. Improvement. Now let us look at the ranking of by Global Innovation Index, which ranks on criteria that include institutions, human capital and research, infrastructure, credit, investment, linkages; the creation, absorption, and diffusion of knowledge; and creative outputs. Table 18 gives the ranking of Egypt in the Global Innovation Index from 2014 to 2019.

Table 18. Global Innovation Index: Egypt's Ranking - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
GII	99	100	107	105	95	92
Innovation Inputs	104	108	107	106	105	106
Innovation Outputs	89	96	98	97	79	74

Source: Compiled from the Global Innovation Index 2014 to 2019

Over the last six years, Egypt's ranking has improved from 99 in 2014 to rank 92 in 2019. It's ranking in innovation inputs has marginally declined from 104 in 2014 to 106 in 2019. Simultaneously, innovation outputs have increased from 89 in the year 2014 to 74 in the year 2019. The above data show that Egypt has to develop more investments and more friendly policies to enhance technology adoption and innovations. This is a huge opportunity for both domestic and international investors to invest and reap high returns and, at the same time, make Egypt a better place to live and do business.

K. Ease of Doing Business

The World Bank Group's Doing Business Report ranks economies based on their ease of doing business. A high ease of doing business ranking means the regulatory environment is more conducive to a local firm's starting and operation. Table 19 gives the ranking for Egypt from 2015 to 2020.

Table 19. Ease of Doing Business: Egypt's Ranking - 2015 – 2020

Year	2015	2016	2017	2018	2019	2020
Global Rank	112	131	122	128	120	114

Source: Compiled from the Doing Business Report 2015 to 2020

Egypt jumped six spots to rank 114th out of 190 countries in the World Bank Group's 2020 Ease of Doing Business report, up from 120th last year. Egypt made changes in four key areas that improved the ranking: The process of starting

a new business became easier over the past year with the improvement of our "one-stop-shop" system; Paying taxes has also been made easier through the introduction of an online system that allows businesses to file and pay their corporate income and value-added taxes; By stepping up protections for minority investors by creating new requirements for listed businesses to get shareholder approval when issuing new shares on the stock market; and improvement in the reliability of electricity supply. But when data for the last six years are analyzed, it is observed that Egypt's position had been declining from 112th position in 2015. Of course, it has started to improve recently, and the World Bank report said Egypt was among the top 25 countries in the world in terms of the number of reforms in the 2020 report. This high ranking reflects the Government's sustained commitment to improving the investment climate and simplifying investors' procedures.

V. CONCLUSION

In 2019, the FDI inflows to North Africa decreased by 11%, with reduced inflows in all countries except Egypt. Egypt remained the largest FDI recipient in Africa in 2019, with inflows increasing by 10.67%. Economic reforms instituted by the Government have improved macroeconomic stability and strengthened investor confidence in the country.

A number of global business indexes and global ranking agencies have recognized Egypt's advantages and have duly ranked it. The parameters making Egypt an attractive destination is the huge market, a growth rate that is higher than the global average, and is constantly increasing year on year, strategic location, young growing labor force with diversified skills, competitive labor cost, the well-organized financial system - regional banking powerhouse and is home to the biggest banking sector in North Africa, low corporate and individual income taxes, improving innovation friendliness, improvement in the ease of doing business, and a reform-friendly government. The parameters which hinder the inflow of FDI into Egypt are insufficient infrastructural developments, inefficiency in the logistic performance indicators, low market efficiency, high-interest rates - highest in the world when adjusted for inflation, high political risk, and high level of corruption which is getting worse. Recently, the Government has taken many initiatives and is announcing a number of reforms, which have retained Egypt as one of the attractive destinations for the FDI. Moreover, the current global economic outlook is precarious due to the U.S.-China trade war and the Novel Coronavirus COVID-19. Egypt is an attractive option for MNCs looking for a platform to serve the African common market. Moreover, Egypt must invest heavily in education and training to produce skilled labor and upskill the existing labor force with the skills needed for the modern high-tech manufacturing industry. It should further liberalize its trade policies to benefit from international relations.

This study's limitation is that the impact of current Novel Coronavirus COVID-19 is not fully factored into the study, as it is still an ongoing pandemic. Hence the investors are requested to factor in that while making the investment decisions.

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