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Bilateral Investment Treaties and Multinational Investors: Evidence from FDI in the MENA States

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ABSTRACT

The 2009 recession stiffened economic, financial, and business environment in the developed economies. This caused scarcity of funds available for investment abroad. The ensuing financial chaos also increased the skepticism of the multinationals concerning the loss of property in the developing nations. A Bilateral Investment Treaty (BIT) by imposing reciprocal protection of investment among the signatories shall reduce this uncertainty and encourage Foreign Direct Investment (FDI). The current research analyses BITs influence on inward FDI to the Middle East and North African (MENA) developing states. Multinational investment into a host developing economy is determined by the general FDI theoretical framework. Hence, BITs alone cannot be sufficient for attracting overseas investors. Thus, size of the host market, human capital and infrastructure availability, business facilitation, the openness of the economy, its economic/financial development, macroeconomic stability, and trade agreements etcetera are also considered. Exploiting annual observations for a panel of ten MENA nations from 1990 to 2016 the results through random effect panel method clearly manifest the importance of market size, level of economic and financial development, macroeconomic stability and bilateral investment treaties for overseas investors. The sway of a ratified BIT is found to be greater in comparison to just a signed BIT. On the contrary, trade agreements, availability of infrastructure and human capital, economic liberalization of the host etc. fails to significantly influence investors from abroad. A time trend employed to cover for any time increasing unobserved phenomenon equally affecting all the countries was also insignificant.

Keywords: MENA Countries, Bilateral Investment Treaties, Foreign Direct Investment

***JEL Classifications**: F210, F230, C330,*

INTRODUCTION

Developing countries need foreign investment capital for sustenance and growth of their economies (Shah, 2009). This is due to a dearth of domestically available funds. One of the many potential sources is to lure foreign venture financiers from capital abundant economies (Shah, 2011a). Moreover, foreign direct investment (FDI) is desired because it is also viewed as the sole form of capital from abroad that not only contributes to economic development and offers opportunities to enter overseas markets but also enables the host access to modern state of the art technologies and superior managerial knowhow (Busse, Königer, & Nunnenkamp, 2010; Shah, 2018a). Hence, FDI has become an opportunity that a single country can't afford to lose. Furthermore, post-1980s there is an enormous surge in FDI into the developing nations (Shah & Samdani, 2015). However, these flows vary from region to region and countries to countries. Realising this some of them has already started devising methods to attract Multinational Corporations (MNCs).

These include facilitating multinationals and reducing their apprehensions apropos of the loss of their property in foreign markets (Shah, 2013a). One of the possible methods is enacting Bilateral Investment Treaties (BITs) with the developed world. A BIT grants concessions and special privileges to the foreign investors including unbiased treatment, comprehensive security, protection and safeguard from state expropriation etcetera (Shah, 2010). West Germany and Pakistan signed the first ever BIT on 25th November 1959. Henceforth, numerous bilateral investment treaties were signed, witnessing a surge especially in the 1990s. UNCTAD (2009), a report on investment puts the number at above 2500 globally.

Investment of a company residing in one country into business concerns functioning in a foreign location is called FDI. Various methods including expansion of existing overseas operations, mergers, acquisition or Greenfield investment are employed to make FDI (Shah & Gulelala, 2017). It is expected to help the host or recipient nations to attain investment levels farther than their saving potential and gain from the resources of the developed economies. Due to the long-term nature of FDI, a BIT ensuring property protection is gradually becoming an imperative instrument for developing countries to convince more overseas investors (Shah, 2016a). BIT is a legal investment governance mechanism for the encouragement and safeguard of FDI (Shah, 2011c). Moreover, the worldwide financial crisis in 2009 has changed the global economic landscape. Commercial and business activities in advanced nations considered as the primary FDI sources have contracted sharply (Shah, 2018b). Similarly, tightening of the overall lending conditions, limiting the funding capabilities of multinational firms have augmented their risk aversion abroad (Shah & Tahir, 2017). Advanced countries economic recovery is slow, global liquidity less abundant and more expensive in comparison to the decades of 1990 and early 2000's. Therefore, the developing countries are competing brutally to lure multinationals. In this context, analyzing the factors helping the developing economies to attract FDI has attained complementary importance especially for regions like MENA

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that have witnessed a recent political, economic and financial turmoil (Shah, 2017b).

Moreover, though the applied research literature on FDI is fraught with bilateral investment treaties (BITs), whether they attract, constraints or fails to influence FDI is empirically an unsettled open question.

Research Questions

- Do bilateral investment treaties act as enablers of multinational investment?
- Does simply signing a BIT assist these economies in receiving more FDI?
- Is there any need for ratifying the bilateral investment treaties or just enacting one is enough?

Objectives of the Study

- To understand a Bilateral Investment Treaty
- To comprehend the possible BIT-FDI relationship
- To evaluate empirically the influence of BITs on inward FDI in MENA nations.
- To identify other major FDI driving factors in MENA region besides BIT and whether their sway is superior to the effect of BITs on FDI
- To understand, explain and discuss the findings of the research
- To make recommendations/suggestions apropos bilateral investment treaties pursuance by developing nations in general and MENA countries in particular?

H_1: BITs have a significant positive influence on inward FDI in the MENA region.

Scope/Limitation of the Study

Following are the limitations of the current research work

- Data availability constrained the choice of independent variables.
- Due to the scarcity of data availability some MENA economies were excluded.
- The research can't be performed for a longer period of time as the majority of the BITs are signed post-1990 and the paucity of complete data for earlier years.

The rest of the paper continues in the following order. The introduction is followed by literature review. Part three covers the research methodology and the fourth one explores the estimation problems. Section five analyses the results and the final part, six concludes the study.

LITERATURE REVIEW

Foreign direct investment - bilateral investment treaties nexus is explored by numerous researchers but the results are still inconclusive. The inception of BITs traces back to 25th November 1959 when West Germany and Pakistan inked the first treaty of such kind (Shah, 2011d). Then onwards there has been a phenomenal increase in BITs. Theoretically, ensuring the investors of their investment safety a BIT shall positively affect their investment decision.

However, when investigated empirically the results are mixed. Some researchers have demonstrated its positive influence on FDI, while many others concluded that it is insignificant in luring multinationals as evident from the synthesis of the literature given below.

Hallward-Driemeier (2003) examined BIT-FDI relationship for bilateral investment between twenty OECD member states and thirty-one developing nations for 1980 to 2000. He concluded that a BIT between countries does not act as a promoter of FDI. Grosse and Trevino (2005) investigated the BITs effect on inward FDI to thirteen Central and East European Countries (CEEC) from 1990 to 1999. The results confirm that greater number of host country's BITs decreased foreign investor's uncertainty and their apprehension of state expropriation. Thus, causing increased inward FDI. Neumayer and Spess (2005) evaluating BITs effect of 20 OECD members FDI in 119 developing countries from 1970-2001, used both fixed and random effects.

The results confirm that a developing country increases its FDI potential by signing a BIT with a developed nation. Third country multinational investors who are not signatories are also positively influenced by it because of the expected improvement in predictability and transparency in the overall investment regime. However, by adopting a BIT, developing economies, in general, are granting greater assistance to foreign investors, than domestic enterprises and mostly provide them complimentary market access. Salacuse and Sullivan (2005) using data for ninety-nine developing nations for 1998, 1999 and 2000 made three separate analyses on cross-sectional data for inward FDI in these economies. Moreover, the researchers assessed the dyadic FDI flows from US and OECD countries from 1991 to 2000 into 31 developing states. The results show that the OECD BITs are insignificant while the US ones led to increased FDI inflows. Swenson (2005) using negative binomial estimation framework analyzed the effect of BITs on FDI from 1990-1999. Dividing the time into two five-year sub-periods it was found that even after addressing issues such as investor's identity, economic appeal and timing, signing a BIT still attracts FDI.

Banga (2006) analyzing factors affecting FDI in fifteen nations from East, South and South East Asia for 1980-2000 found that to receive more FDI, the host nations offer business incentives and lessens restrictions on foreign firm's domestic operations. Using panel random effects, it was found that signing BITs with a developing nation is immaterial whereas those with capital abundant advance states positively affects inward FDI. Egger and Merlo (2007) assessed the stocks of outward OECD FDI to economies in transition. BIT ratification was given special attention. It was found by them that a ratified BIT's effect on FDI is twice in the long term in comparison to the contemporary short-run effect.

Elkins, Guzman, and Simmons (2008) stressed that most countries with similar economic fundamentals conclude bilateral investment treaties. The dyadic analysis from 1958-2000 shows that competition for increasing returns on investments, that they have made abroad, drives them to sign BITs with nations having a BIT with their competitor. Yackee (2008) examining ratified BITs with the eighteen major capital

exporting economies for 1945 to 2002 found negligible or no effect on investment decisions of multinationals. This is despite the fact that these BITs are likely to provide legal rights and protection to investors. Kerner (2009) exploring outward FDI of OECD countries into 127 developing countries from 1982-2001, on the contrary, found that BITs attract FDI from both the protected and unprotected investors. Busse, Königer, and Nunnenkamp (2010) studying the effectiveness of BITs on FDI from 28 source countries into 83 host nations for 1978-2004 used a gravity-type model. The findings show that BITs acting as a substitute for weak institutions significantly promotes inward FDI. Haftel (2010) examining the relationship between US FDI into 132 developing countries from 1977-2004, found that mutually ratified BITs, showing reliable commitment, positively influence inward FDI.

On the contrary, just signing a BIT fails to significantly affect multinationals investment decision. Kim (2010) examined the impact, of BITs signed with OECD and non-OECD nations, on FDI into a sample of ten Asian nations for 1984 to 2002. The 38 independent variables were divided into three categories namely: political, social and economic. It is found that BITs signed with both OECD and non-OECD members have a significant effect. Moreover, ratifying a BIT increases FDI by 2-3%. Mina (2010) empirically examined the long and short-term influence of BITs signed by Gulf Cooperation Countries (GCC) on FDI. He distinguished them by the contracting partner's income level. Using GMM panel estimation method for 1984 to 2002, it is revealed that OECD investors are not affected by BITs; rather it's the institutions protecting property rights that count the most. Moreover, ratified BITs with non-OECD high-income countries have a strongly positive long and short-term bearing on multinationals investment decision. On the contrary, BITs with low, middle and upper-middle income countries have a weak negative influence on overseas investors.

Fahad (2011) states that developing countries like Iraq sign bilateral investment treaties for providing desirable conditions to encourage economic collaboration between both parties needed for mutual investment. Likewise, it buoys up the revitalization of commercial initiatives and engenders prosperity in the contracting nations. It is also proved that the economically poor state is usually required to establish a policy framework that not only promotes poverty reduction, global financial integration, and national development but also protect and facilitate the overseas investor.

Jang and Lee (2011) studied FDI into 18 developing countries from East, South and South-East Asia for 1985-2009. Their results indicate that an economy shall receive more FDI if the BIT includes provision for a higher level of economic and business liberalization and act as a substitute for poor institutional quality. Tobin and Rose-Ackerman (2011) using fixed effects on five year averaged data from 1980-2003 for 63 states, say that the increasing number of BITs are supporting overseas investors a lot due to the assurances of the host state apropos diligent property rights protection. BITs enable the multinationals to reduce risk and bypass local laws, thus, at times leaving the local investors at a disadvantage. This can lead to loss of key local economic strengthening opportunities by indigenous investors. Therefore, the host should be abreast of the BITs growth stimulating and repressing effects. It is observed that relatively risky hosts attract more investment after a BIT. Majority of the developing countries are considered insecure by the overseas investors, so they are usually expected to gain from a BIT.

Baker (2012) analyzed the impact of BITs on all the 30 OECD members outward FDI for 1985 to 2006 going to 206 non-OECD host economies. The study concludes that other investor protection mechanisms reduce BITs effectiveness. Therefore, BITs have an insignificant effect on FDI from OECD nations. Büthe and Milner (2014) scrutinized BIT and trade agreements effect on FDI in 122 developing countries from 1970-2007. They found a significantly positive association between inward FDI and BITs.

Lee and Johnston (2016) considered FDI from OECD nations into 126 developing countries from 1971-2006. They state that BITs by protecting foreign investor's property plays an important role in increasing inward FDI to developing countries when they sign a BIT with the five most powerful OECD members. On the contrary, Yackee (2016) analyzing the BITs signed with France by developing countries finds no significant linkage between French BITs and its outward FDI to its BIT partner.

It is evident from the literature review that the results are inconclusive between insignificant and significant influences of BITs on inward FDI to developing economies. Moreover, the political turmoil that the MENA region faced in general and some of the members in particular in the recent past makes it imperative to investigate their FDI potential especially in the background of the FDI revival into developing countries post-2009 worldwide recession (Shah, 2016c). A BIT by reducing the apprehensions of overseas investors is expected to enhance the worldwide FDI flows. This has made them highly popular for the policy-making bodies of the developing nations as they usually comply with the widespread belief that signing them will enhance their FDI hosting potential.

RESEARCH METHODOLOGY

This part of the paper converse the way the research has been done, which method is used, data and its sources etc. The variables and the estimation approach are also discussed over here.

This research is of applied nature. The study mainly focuses on BITs signed between the sample member states and their effect on inward FDI. All data is of secondary nature and is arranged in a panel form for estimation purposes.

The population of the study consists of the twenty countries included in the Middle East and North Africa region by World Bank. The individual members are Bahrain, Algeria, Egypt, Djibouti, Iraq, Iran, Israel, Kuwait, Jordan, Libya, Lebanon, Oman, Morocco, Qatar, Syria, Saudi Arabia, Tunisia, West Bank and Gazza, United Arab Emirates and Yemen.

A sample is usually a subgroup or a segment of a larger population (Shah & Khan, 2017). In the current research, the sample consists of Egypt, Algeria, Iran, Lebanon, Jordan, Libya, Oman, Morocco, Tunisia, and Syria. Data for twenty-seven years from 1990 to 2016 for these economies is collected. Some of the economies like Bahrain, Djibouti, Iraq, West Bank and Gazza and Yemen were not included due to non-availability of complete data for all the variables for the time period under study. Israel, Qatar, Kuwait, United Arab Emirates and Saudi Arabia were excluded because they are considered as developed economies by World Bank due to their relatively higher GDPPC. Consequently, the maximum number of observations I can have for each of variable included in the study are:

Total Observations = Number of countries × Number of years = 10 × 27 = 270

After reviewing the literature, it is now important to set a reduced form equation for gauging the possible influence of bilateral investment treaties on foreign direct investment (Shah, 2015).

$$FDI_{jt} = f\begin{bmatrix} Market\ Size, Development\ Level, Trade\ Openness, \\ Macroeconomic\ Stability, Infrastructure\ Availability, \\ Human\ Capital, Financial\ Development, \\ Trade\ Agreements, Bilateral\ Investment\ Treaties \end{bmatrix}_{jt} \quad \ldots 1$$

The dependent variable, in equation one, is FDI. Explanatory variables are market size, development level, the openness of the economy, macroeconomic stability, infrastructure, human capital, financial development, trade agreements and the variable of interest i.e. bilateral investment treaties. Log-linearizing equation one and putting appropriate proxies for the independent variables gives equation 2.

$$\begin{aligned} lnFDI_{jt} = {} & \alpha_0 + \beta_1 lnGDP_{jt} + \beta_2 lnGDPPC_{jt} + \beta_3 lnTrade_{jt} + \\ & \beta_4 Inflation\ or\ ExchangeRate_{jt} + \beta_5 lnTele_{jt} + \beta_6 lnGSEP_{jt} + \\ & \beta_7 lnFD_{jt} + \beta_8 lnTA_{jt} + \beta_9 EnforcedBIT_{jt} + \beta_{10} TimeTrend_{jt} + \xi_{jt} \end{aligned} \quad \ldots 2$$

Where

Ln is used for natural logarithm, t for the time period, j for the individual countries, α_o = Constant and β_j = Coefficient for the respective independent variable, j varies from 1 to 10 and t from 1 to 27.

FDI represents the stock of foreign direct investment in the host economy

GDP i.e. gross domestic product proxy's market size.

GDPPC is used for development level. Trade as a percentage of GDP represents the openness of the host economy. Inflation and exchange rate measure's macroeconomic stability Teledensity is used for infrastructure Gross school enrolment at primary level proxy's human capital FD represents financial development TA gives the number of preferential, regional or free trade agreements signed by the host Enforced BITs refers to the number of bilateral investment treaties signed and enforced by the host. Time trend covers any phenomenon increasing over time, and ξ_{jt} shall include all the omitted variables and the error terms. The data for FDI is collected from FDI STAT. For GDP, GDPPC, trade, inflation, tele density, gross school enrolment at primary level and financial development is taken from World Bank, World Development Indicators. The statistics for trade agreements was collected from McGill University trade agreements database. The information on BITs was taken from Internthe ational Centre for Settlement of Investment Disputes (ICSID) website. Data is available for BITs signed between the countries as well those as that have been ratified. All the variables and their proxies are discussed one by one in the following lines. An effort is made to provide a rational for the use of each of them.

Foreign Direct Investment - Dependent Variable

The explained variable of the study is Foreign Direct Investment (FDI). The overseas investment of local entrepreneurs to get management control with a minimum of 10 percent voting rights in a foreign business concern is called FDI (Shah & Afridi, 2015). According to World Bank World Development Indicators, the aggregate of equity capital, reinvestment of earnings, and other short and long-term capital as shown in the records of a country's balance of payment statistics are included in FDI. It is important because it is expected to play a dynamic part in a nation's economic progress through job creation, greater access to overseas lending bodies, acquiring state of the art technologies and associated spill-over possibilities (Shah, 2011e).

Explanatory Variables

The independent variables are explained in the order of their appearance in equation 2.

The country's Gross Domestic Product (GDP) proxy's its potential domestic market size. The aggregate market value of all the services rendered and goods manufactured in the geographical confines of the country are included in GDP. The economic growth of an economy is measured through an increase in its annual GDP. Thus, it also acts as a yardstick of improvement in the living standard of the population (Shah, 2014b). Bigger markets offer higher sale opportunities. Therefore, a positive rapport with inward FDI is assumed.

This paper uses gross domestic product per capita as a measure of development level. It can also be termed as the average citizen productivity because dividing all the manufactured products and services by the country's population represents its GDPPC (Shah & Khan, 2016). Increasing productivity also indicates rising living standards, therefore, at times it's used as a raw measure of the population's standard of living (Shah, 2017a). It is also very useful because numerous countries included in the same sample it shows the relative performance of each country in comparison to others.

The international exchange of merchandise goods, capital, and services between countries is called multinational trade. It involves the transfer of ownership from one nation to another in return for monetary payment (Shah & Ali, 2016). Trade as a percentage of GDP is used in the current study as a proxy for business openness and commercial integration of the host economy with the rest of the world (Shah, 2017c). It also represents the interdependence of nations on one another. With growing globalization, multinational trade and production activities a positive effect on worldwide FDI flows is expected.

Macroeconomic instabilities, such as frequent currency crashes and high inflation deter investors (Shah & Zeb, 2017).

Distortions, such as fiscal profligacy or exchange rate misalignments, as well as poor micro and macro-prudential regulations, connected lending and governments interfering in the credit allocation process represent macroeconomic mismanagement and negatively affect FDI (Shah, 2013b). Inflation (CPI) and exchange rates are used as alternative proxies for this phenomenon.

Telecommunications availability and functioning are used as a proxy for infrastructure. Telecommunications are considered important by multinationals because it can help in accessing new markets via facilitating information exchange and e-commerce (Shah & Khan, 2016). State of the art telecommunications provision lowers the cost of capital by increasing financial markets functional efficiency.

Furthermore, telenetworking affords the multinationals with better supervision, staff training, and human capital development as well as generating many related positive externalities (Shah & Bangash, 2017). Consequently, a well-established effective telecommunications network is expected to be a key pre-requisite for the overseas investors to enter a developing country for a long term.

In the present study, primary school enrolment is used for representing the extent of human capital in the host countries.

By attending school, people learn to read, write and speak/pronounce a written word. Increasing enrolment ratios show the overall surge in the education level of the country. Moreover, with an increase in literacy, it is expected that the public and labor would easily follow the written instructions and be more productive for overseas investors (Shah, 2014a). Hence, it is expected that the presence of educated labor shall positively affect multinationals investment decision.

Literature concerning financial development and FDI nexus illustrates the need for a "threshold" level of institutional and financial progress that will enable an economy to get the maximum benefits from the multinational presence (Shah, 2016b). A nations potential to attract FDI from abroad among many other factors is dependent on the development of the financial sector. This is due to the fact that well-established finely honed local financial markets are a very helpful inefficient allocation of foreign funds between the competing commercial business ventures (Shah & Azam, 2017). Therefore, a positive effect on inward FDI is assumed. Trade agreements usually have explicit investment clauses. Moreover, the post-1990 third wave of agreements addresses a number of supplementary investment supporting clauses (Shah & Jamil, 2016). Such as harmonization of intellectual property right standards, customs cooperation, competition policy, services trade and settlement of trade and investment disputes. These provisions indirectly improve the overall investment climate of the FDI host, thus positively influencing the multinationals investment decision.

It is a contract or an agreement between two states instituting the regulations governing bilateral investment among the partners. The primary feature is the reciprocal protection of the investor's capital in each other economies, sans fear of state expropriation and fair compensation in accordance with the laid out terms and conditions (Shah, 2017d). Usually, it grants right to transfer the capital and hire management of choice, as well as binding international dispute settlement mechanism in case of a disagreement between the local government/business and the overseas investor. Many times BITs are established along or after trade pacts to further cement the commerce, trade and investment bond between the two economies. The nineteenth century United States Friendship, commerce, and navigation (FCN) treaties were considered the US predecessors of contemporary BITs (Alschner, 2013).

The United Nations Conference on Trade and Development (UNCTAD) synopsis of BITs states that they engender FDI by including a series of strategic incentives such as investment protection under transnational laws, right to international arbitration for dispute resolution and assurance of rules of dealing agreement (UNCTAD, 2000).

BITs provide official bilateral reciprocal legal commitment and outline potential penalties if the government violates these agreements (Vandevelde, 2017). In recent decades, BITs have become the vital global legal instrument for the governance of FDI (Ginsburg, Elkins, & Simmons, 2013). The increased skepticism of the investors concerning global investment in general and developing countries, in particular, necessitates the need for re-exploring the BIT-FDI relationship in MENA region (Shah & Faiz, 2015). To control for any time increasing phenomenon equally affecting the flow of foreign direct investment in the Middle East and North African Region a time trend was also included in the empirical analysis.

Estimation Issues

The common issues related to the empirical estimation process are given in the current part of the paper. All the estimations were made by Stata 13 software. Summary statistics is the summarization of the important statistics for every variable used in the research study. It gives the lowest and highest values, the total number of observations, standard deviation, median and mean for each of them as summarized in table 1.

Table 1: *Summary of Descriptive Statistics*

Variables	Mean	Standard Dev	Lowest Value	Highest Value	Median
LnFDI Stock	21.3	1.98	12.2	24.6	21.5
LnGDP	23.8	0.95	21.7	26.3	23.8
LnGDPPC	7.6	0.76	5.4	9.63	7.50
LnTrade	4.1	0.38	2.6	5.04	4.16
Inflation	1.9	1.11	-1.69	6.19	1.99
LnTeleM	13.6	1.54	9.7	17.7	13.4
LnGSEP	4.5	0.16	3.8	4.87	4.61
TA	0.7	0.64	0.0	2.07	0.69
FD	31.5	19.53	10.5	100.	31.1
Enforced BIT	1.7	1.09	0.0	3.73	1.60

Multicollinearity means that there is a very high linear association amongst the independent variables (Shah & Khan, 2017). It is tested through the variance inflation factor and correlation matrix. The Variance Inflation Factor was calculated for all the variables. The yardstick is of VIF > 10, a mean VIF of 2.91 exhibits the absence of problematic multicollinearity.

Correlation provides the strength and direction of the linear association amid two variables. Correlation of 90 percent or higher amongst the independent variables signals the presence of extreme multicollinearity (Shah & Qayyum, 2015). The explanatory variables that are highly collinear cannot be put in the same equation. The correlation matrix is given in Table 2.

Table 2: *Correlation Matrix*

No	Variables	1	2	3	4	5	6	7	8	9	10
1	**LnFDI Stock**	100									
2	**LnGDP**	52	100								
3	**LnGDPPC**	12	05	100							
4	**LnTrade**	-25	-86	31	100						
5	**Inflation**	-16	42	-24	-45	100					
6	**LnTeleM**	57	88	25	-61	29	100				
7	**LnGSEP**	17	06	67	26	11	28	100			
8	**TA**	79	16	17	-02	-51	20	-01	100		
9	**FD**	-18	-60	-15	58	-40	-34	-05	-13	100	
10	**BITEn**	87	25	25	05	-46	43	22	78	14	100

Summarizes this relationship. As evident, the extent of the relation between the explanatory variables is below the empirically established value of 90% or above. Therefore, both the VIF and correlation criterion validates the absence of problematic multicollinearity.

Breusch-Pagan/ Cook-Weisberg test is used for detecting heteroscedasticity. The null hypothesis of constant/equal variances in the error term against the alternate hypothesis that variance in the error term is due to the multiplicative function of a particular or all the variables (Shah & Khan, 2018). Checking in the dependent variable foreign direct investment it was found because the chi-square value of 105.4 and the probability value of 0.0000 easily reject the null hypothesis of constant variance. Performing the same test to gauge the existence of heteroscedasticity in the explanatory variables, the probability value is 0.0000 and chi-square is 358.94, both once more reject the null hypothesis and illustrates that heteroscedasticity exists in the explained and the explanatory variables. Hence, while running the regression we need to control for heteroscedasticity. The data taken for the ten MENA economies included in the sample is arranged in a panel form for 1990 to 2016. To use the best-suited estimation technique between the panel fixed and random effect the Hausman (1978) specification test was carried out.

Ho: *There is a non-systematic difference in estimated coefficients*

Chi^2 (7) = (b-B)' [(V_b–V_B) ^ (-1)] (b-B) = 6.34 Probability > Chi ^{2} = 0.5009. The null hypothesis cannot be rejected therefore we can use the random effect panel estimation method.

FINDINGS AND ANALYSIS

The main focus of this paper is whether bilateral treaties signed by the developing countries from the MENA region have stimulated the inflow of foreign direct investment? The estimation analysis by panel random effect method is summarized in table 3.

Table 3: *Results by Random Effects Panel Estimation Method*

Variable	Proxy	1	2	3	4	5	6	7	8	9	10
Market Size	lnGDP	2.91*** (0.99)	2.73** (1.12)	2.18*** (0.67)	2.01*** (0.58)	2.06** (0.82)	2.11** (0.85)	2.15** (1.01)	1.49*** (0.46)	1.51** (0.69)	1.66** (0.70)
Development Level	lnGDPPC		1.37*** (0.48)	1.54*** (0.39)	1.22*** (0.38)	1.20*** (0.36)	1.24*** (0.33)	1.18*** (0.27)	1.10*** (0.29)	1.24*** (0.36)	1.31*** (0.39)
Openness	lnTrade			1.52 (1.04)	1.45* (0.90)	1.37 (0.94)	1.50 (1.01)	1.51 (0.99)	2.28* (1.27)	1.91 (1.29)	2.01 (1.38)
Macro Stability	Inflation				-0.35** (0.17)	-0.34** (0.17)	-0.33* (0.17)	-0.33* (0.17)	-0.42*** (0.12)	-0.00 (0.01)	-0.01 (0.01)
Infrastructure	lnTelem					0.01(0.06)	-0.06 (0.14)	-0.06 (0.15)	-0.00 (0.21)	-0.45 (0.34)	-0.51 (0.74)
Human Capital	lnGSEP						1.16 (1.40)	1.26 (1.41)	-0.43 (1.11)	-0.60 (0.71)	-0.73 (0.74)
Financial Development								0.04 (0.03)	0.02*** (0.00)	0.01*** (0.00)	0.01** (0.00)
Trade Agreements									-0.02 (0.54)	-0.30 (0.45)	-0.30 (0.43)
Bilateral Investment Treaty	Signed									0.73*** (0.19)	
	Enforced										0.79*** (0.23)
Time Trend										0.40 (0.75)	0.61 (0.69)
R Squared		**17.30%**	**26.52%**	**28.82%**	**36.94%**	**38.37%**	**39.98%**	**41.01%**	**45.56%**	**56.78%**	**58.82%**
No. of Observations		**270**	**270**	**270**	**270**	**270**	**270**	**270**	**270**	**270**	**270**

***, **, * Shows significance at 1 %, 5 % and 10 % respectively. Coefficients are given with the standard errors in the parent

In accordance with the market size, economy of scales hypothesis, overseas investors seem to fancy bigger hosts with relatively progressing markets. This is evident from the series of significantly positive coefficients for market size and development level proxies.

Infrastructure, human capital, and trade agreements are completely insignificant, whereas trade openness is sensitive to the set of variables with whom it is tested. These variables are all empirically established important determinants of foreign direct investment but fail to exert their sway on multinationals in the MENA region. Lack of capable cheap labor availability and absence or inferior quality of current infrastructure justifies these findings. However, the insignificance of openness and trade agreements is unexpected due to the proximity to the European export markets of some of the host countries from North Africa. Macroeconomic instability dissuades capital away from the host countries. This is likely due to the revulsion of multinationals for the resulting macroeconomic disorder that economic mismanagement at the state level creates. On the contrary, financial development with a significantly positive coefficient lures investors from abroad to the MENA region. When read together with development level and market size the positive influence is natural as overall fiscal progress moves in tandem with financial growth.

Developed financial organizations afford freely accessible statistics on individual firms and the overall economy, to local as well as foreign investors. This lowers the expected operating costs and subsequently helps in improving foreseeable budgetary allocations. Moreover, post 2008-2009 financial crises in the developed world the multinationals have grown very sensitive to the availability of reliable financial data. Therefore, the positive effect may be due to this factor.

Finally testing for the existence of a bilateral investment treaty it is found that it has a significant influence on the investors FDI location decision. Though, signing a treaty lover the multinationals apprehensions and make them go ahead with their investment projects the ratification of a BIT further embolden, reassure and encourage them. This is clearly visible from the marginally stronger coefficient for a ratified bilateral investment treaty. As most of the BITs were signed during the time period under investigation a time trend was also tested along with them in model 9 and 10 to sift the effect of any time associated phenomenon causing these investments. It was insignificant. Thus, to sum up it can be safely concluded that BITs have a positive effect of their own on overseas investors in the Middle East and North African countries.

CONCLUSION

The increased competition for foreign direct investment among the developing nations has made FDI an important component of their economic policy doctrine. It is expected to partly offset the capital shortage due to scarce domestic funds, provide the needed foreign exchange, brings advanced technology and superior managerial practices.

The recession in the developed world have further trimmed the available investment capital and made it imperative for the nations seeking them to devise methods to lure overseas investors. One possible tool is enacting a bilateral investment treaty to ensure the multinationals of their investment safety. The current study was carried out to gauge the significance of these treaties in the North African and Middle East nations. They have recently witnessed an unprecedented economic turmoil and political unrest, thus adding to investor's skepticism for investing in MENA. Consequently, asking for establishing / ordaining mechanisms for ensuring the protection of their investment. In order to purely sieve the effect of BITs on FDI the conventional FDI causing factors were also included. The results show that signing a BIT does affect the multinationals and ratifying an existing BIT enhances this effect in the MENA region. However, it shall be kept in mind that the study is carried out for MENA member countries and BIT may not have the same sway on multinationals in other relatively stable regions of the world. It is also possible that through a significant influence may be there but the coefficients are of negligible intensity. Hence, with the future availability of data on the individual clauses of the bilateral investment treaties, there is a need for a detailed analysis to identify the possible effect of each of them rather than just a BIT. Micro industry-level data can also help in clearing some of the unanswered aspects of the multinational investing behavior in unstable regions like MENA.

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