Tunisia after the Arab spring:

– How did the transition to democracy affect inflows of foreign direct investment?

INTER3090 Spring 2017

Candidate number: 509

Words: 5961

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Faculty of Social Sciences

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1. Introduction

A stable economy in growth is of great importance to any nation, especially after a revolution (Stepan & Linz 1996: 80). After the Arab uprisings in 2011, the Middle East and North Africa (MENA) region has experienced profound change, with dictators leaving power, new regimes and wars. For the demands of the uprisings to be met, the economy plays a key role, and outside help can contribute. This thesis will look at how the flows of foreign direct investment (FDI) were affected by the transition to democracy in Tunisia. It will do so in a framework combining theories on democratic consolidation and democracy and economic growth, with the literature on FDI. Egypt will be used for comparison, as it experienced a different kind of regime change after the Arab spring, but is otherwise quite similar. This thesis will be an addition to the debate on the inability of politics and economics to pull together, within political economy. My research question is: *Tunisia after the Arab spring – how did the transition to democracy affect inflows of foreign direct investment?*

The long reigning dictator in Tunisia, Zine El Abidine Ben Ali, left office in January 2011, instructed by the armed forces, due to massive popular protests. A turbulent period ensued, before the election of a constitutional assembly in October 2011, after which the Islamic Enahda party formed an interim government. The drafting of a new constitution brought Tunisia on the verge of a new crisis in 2014, but this was averted by the National Dialogue Quartet, which brought the parties together to finish the constitution, and was rewarded for its effort with the Nobel Peace Prize in 2015. Tunisia is now considered "Free" by Freedom House, and has been through successful alternations of power (Freedom House, 2012-2017, the Nobel committee, 2015). In Egypt, dictator Hosni Mubarak left office in January 2011, and elections started in November 2011, concluding in June the following year with Mohamed Morsi of the Muslim Brotherhood winning the runoff for President. The rule of the Brotherhood aroused new protests and popular discontent, resulting in a coup d'état by the army, led by general Al-Sisi in July 2013. This put Egypt back under authoritarian rule (Freedom House, 2012-2017).

By comparing Tunisia with Egypt, this thesis will combine political science and economics in an attempt to discover if a transition to democracy after a revolution attracts FDI. The global growth in FDI flows is relatively recent, and therefore a growing field of study with many unanswered questions. Revolutions are rare, especially in countries integrated in the global economy. I hope this thesis can contribute to the understanding of the interplay between these two phenomena.

1.2 Literature and methodology

I will draw upon the works of Stepan & Linz to discuss democratic transitions, and Knutsen and Jensen to understand the relationship between democracy and both economic growth and foreign direct investment. FDI is the main focus of the thesis, but as it is inextricably linked with the economic prospects of a country, the analysis will also build on theory concerning the relation between democracy and economic growth. My analytic framework will enable me to compare the cases both politically and economically, to understand how a transition to democracy affects FDI inflows. I will, as Knutsen, use the Freedom House Index as my measure of democracy, as it operates with "degrees" of democracy and annual aggregated data, making my comparison possible. Due to the scope and the cases discussed in this thesis I will not consider the causes of democratisation, but rather the criteria for democratic consolidation following the uprisings. I will use data on FDI from the United Nations Conference on Trade and Development (UNCTAD) for my analysis, employing different measures to ensure a balanced discussion. FDI inflows is not a perfect measure of multinational enterprises' activities in other countries, as it both omits the use of local capital markets and can be skewed by the internal moving of funds in companies (Kerner, 2014: 804). However, it does, to a larger degree than others, measure the strategical investment of multinational enterprises. To include a business perspective, I have interviewed Kari Sofie Bjørnson in the Sahara Forest Project by phone – with her subsequent approval of the transcription. Norway's Honorary Consul in Tunisia, himself a Tunisian businessman, Mr. Hassine Doghri, has also contributed with some comments on the current situation.

I have chosen Tunisia as the main case because it is the only democratic outcome of the Arab spring. As a comparison case, Egypt is chosen for its clear and relatively stable opposite outcome. Libya, Yemen and Syria also had grand uprisings, but are still trapped in civil wars, making them unsuitable (The Economist, 2016). As I wish to investigate the consequences of uprisings and regime change on economic attractiveness, Tunisia and Egypt are relevant and recent cases. The term revolution is used in the thesis, as this is a common denomination of the uprisings in the literature. However, this thesis makes no judgement as to whether this term is appropriate. I will be comparing the development in FDI inflows and the regime changes within a Most Similar Systems Design. With this design, I maintain that the cases are similar enough in other aspects, for my comparison to be fruitful. As I will not be doing quantitative analysis or a comparative study, and the thesis focuses on changes rather than absolutes, the bigger differences between the countries (population size, geography, history) will be less problematic, as they did not change. The countries have similar economic structures, trade partners, cultures, uprisings and they are both oil-importers (Chauffour, 2013: 55-56). The time scope is set to 2006-2016, which includes an early boom period, the financial crisis, the uprisings and five following years, and is the only period with aggregated data from Freedom House. The time after the uprisings will be given most attention.

In line with the earlier mentioned authors claiming democracy leads to economic growth and better governing, one would expect to see *Tunisia receiving more FDI than before the revolution, and displaying a better development than Egypt*. This thesis will strive to uncover why this has not been the case. As the chosen case is recent, there exists to my knowledge little or no peer reviewed academic work on the subject, and the thesis will therefore rest upon empirical analysis and contributions from working papers, research centres and media. As this thesis examines topics where influential factors are in abundance, no answers I give can be certain.

1.3 Plan

The thesis will first present the analytic framework. Using Knutsen and Stepan & Linz, democracy will be defined and democratic consolidation criteria will be explained, before moving on to the relation between economic growth and democracy. Afterwards, theory on, and a few relevant determinants of foreign direct investment, will follow, with contributions from Jensen, Busse and Hefeker. Further, the analysis will compare the two cases within this framework, first asserting the effect of the Arab Spring on FDI flows more generally, before briefly describing the regime changes and the economies, and then moving on to analysing the relation between FDI development and the political changes. Towards the end of the analysis, I will include the business perspectives in addition to the empirical results. Hopefully, this analysis will shed light on how and why the Tunisian political "miracle" has not been followed by an economic miracle, whilst Egypt has regained its previous levels despite a new authoritarian regime.

2. Analytic framework

2.1 Democratisation and economic growth

In his PhD thesis, Carl Henrik Knutsen uses a substantial definition of democracy; whether the goal of *popular control of decision making* (Beetham 1999 in Knutsen 2011: 57) is achieved. For the purpose of quantitative analysis, institutional definitions, which require certain institutional forms to be present, safeguard against subjectivity and can therefore claim strong reliability. However, the validity of substantial definitions is often stronger, and for case studies – such as this thesis – they better enable the study of changes (Knutsen 2011: 50-60). This thesis will use the Freedom House Index (FHI) to compare the regimes, as it encompasses many relevant factors. The Freedom House index is recognised by both Knutsen and Stepan & Linz as one of the better measures of democracy (Knutsen 2011: 86; Stepan & Linz 1996: 39).

Stepan & Linz define five conditions that need to exist for democracy to be consolidated. These are a civil society, a relatively autonomous political society, rule of law, a state bureaucracy useable by the new government, and an institutionalised economic society. A free and lively civil society has great capacity to mobilize large amounts of people from different social strata, but in order to move beyond the destruction of an authoritarian regime, an autonomous and valued political society is necessary to organise and move forward. For these two latter to function and fulfil their roles, rule of law is essential, both to guarantee them freedom and security, as well as a guarantee for citizens' freedoms and independent associational life. These three fundamental conditions need a usable bureaucracy and an institutionalised economic society for democracy to last (Stepan & Linz 1996: 7-11). The success of a non-democratic state's transition to a consolidated democracy depends on the five mentioned conditions, which are again greatly influenced by the previous regime, and certain actors and contexts. The military's role can be decisive for a successful transition. Hierarchical militaries often obstruct democratic consolidation, as they will often want to retain their privileged role as regards resources and power (Stepan & Linz 1996: 67).

A positive relation between democracy and economic growth has been found by many studies, but has been disputed by for example the influential work by Przeworski et. al. (2000), that finds no significant connection at all (Knutsen & Wig: 2015: 892). This work has again been disputed by Knutsen & Wiig (2015) who found methodical biases that would underestimate the effect of democracy on growth. Knutsen claims three main immediate sources of economic growth: technological change, physical capital accumulation, and human capital accumulation. Democracy affects the technology through freer flows of information and adoption of foreign technologies; affects physical capital negatively through both lower savings and domestic investments, but also positively through more foreign investment; and human capital through better education, higher school enrolment and better health care (Knutsen 2011: 142-145). Knutsen also draws upon Przeworki and Limongi's own theoretical arguments to evaluate the relationship between regime and economic growth. He finds that democracy better protects property rights, has better checks on predatory rulers, that authoritarian states do not necessarily save and invest more despite their abilities to do so, and that the autonomy of the state is better assured in authoritarian states (Knutsen 2011: 17).

2.2 Foreign Direct Investment

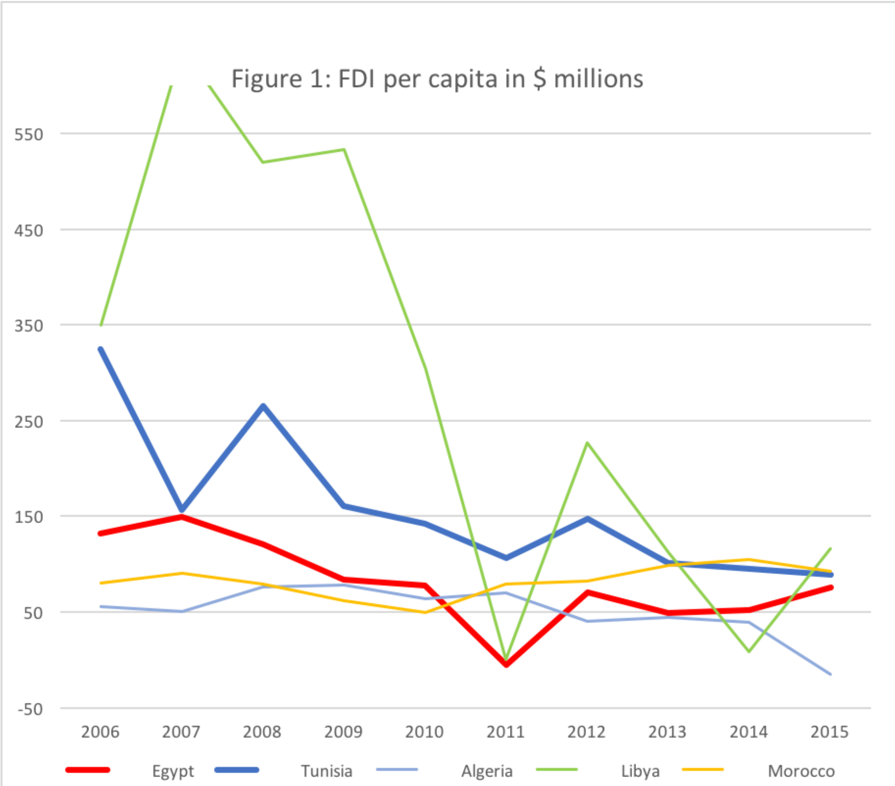
Foreign Direct Investment (FDI) can be defined as *cross-border expenditures to acquire or expand corporate control of productive assets* (Froot, 1993: 1). Operationalised definitions normally concretise this with a 10% ownership threshold for what is considered "control" of productive assets, and this thesis will be using UNCTAD data, which uses that threshold. FDI has grown in extreme dimensions since Froot's definition in 1993, and in 2015 the global FDI stock was equal to 34,62% of world GDP (UNCTAD, 2016). There are many different motives for FDI, for example the attempt to counter falling profit at home by producing elsewhere, to control factor endowment abroad (e.g. labour, resources) or to tap into bigger markets. In a globalised economy firms are looking for opportunities abroad (Froot, 1993: 1-2). FDI is also an important source of foreign capital for host countries, and is thought to have many positive effects, such as capital influx, job creation and spillover effects from technology and productivity of international firms (The World Bank, 2013: 21; Jensen 2006: 28-33). FDI can also have negative effects, for example in the resource extraction sector through increased inequalities and environmental damage, with pressure on tax rates and through the sophisticated tax models available to multinational enterprises (Hornberger, 2011; UNCTAD 2015).

Reviewing the literature on FDI, only a few attraction factors receive unison support. These are great market size, economic openness and richer host country than receiving country. Other factors such as corruption, education level, infrastructure, culture, political regime and even economic policies such as tax rates have mixed results (Bloningen & Piger: 2011). This thesis will focus primarily on the determinants that differ between democratic and authoritarian regimes, and more specifically those that changed in the time scope 2011-2016.

Jensen (2006) focuses on the localisation factors. He claims that multinational enterprises (MNEs) prefer democracies, and proves it through multiple statistical analyses (Jensen 2006: 82-91). He puts forth three important mechanisms to explain this. Democracies are more transparent, giving MNEs access to information – both ahead of the investment, and especially during the operation – and giving them the possibility to respond to policy change. Commitments are also out in the open. Democracies also give MNEs the possibility of representation through lobbying, as opposed to negotiating deals and policies with possibly corrupt authoritarian regimes. Lastly, credibility is an important asset to democracies, both in international agreements, and in national economic policy, with the "audience cost" of elected leaders giving them incentives to follow through with their commitments. Democracies also have more veto players than authoritarian regimes, fostering stability and status quo through institutional constraints, such as subnational institutions, courts and political opposition (Jensen 2006: 7-10). In a comprehensive study, Busse and Hefeker confirm the results found by Jensen, as well as proving positive links between FDI and government stability and less corruption. In their review of the literature linking the two, they highlight another aspect that Jensen did not; that democracies better protect property rights (Busse & Hefeker 2007: 398-400). Authoritarian regimes can however more easily provide monopolies, have higher investment rates (Knutsen 2011: 20-23), and can provide preferential treatment (Luciani

2013: 269). As democracies often foster better institutions, they often come with less political risk and corruption.

3 Analysis

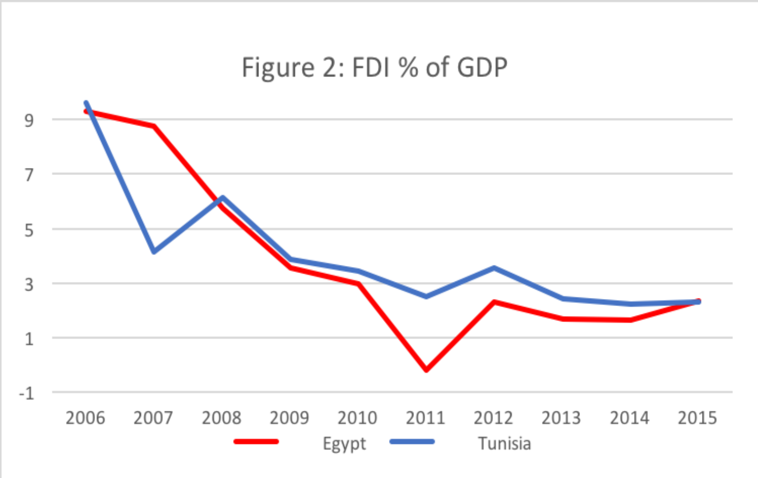


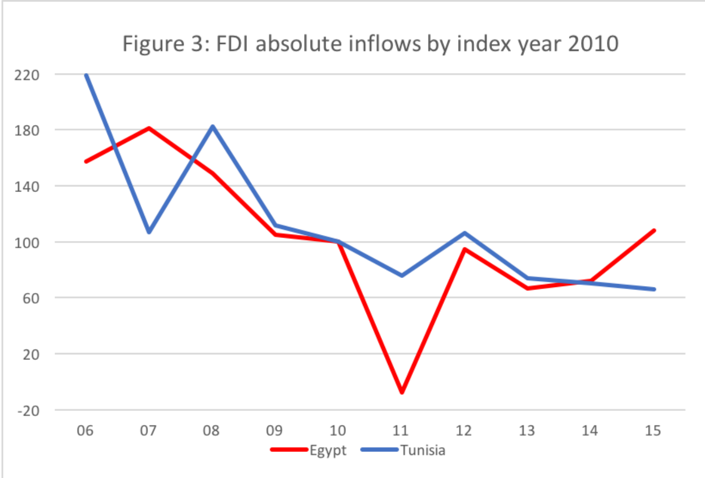
Source Figure 1: UNCTAD data, 2016

3.1 FDI: did the Arab Spring matter?

Worldwide, FDI inflows to developing countries show no dramatic drop following the Arab Spring. On the contrary, many experienced increased FDI inflows in 2011/2012 (UNCTAD, 2016). This is the case for most regions in Africa, as well as the less affected Arab countries, such as Morocco, United Arab Emirates, Kuwait and Oman. Substantial 2011 drops are observed in Libya, Egypt and Tunisia in Figure 1, where FDI per capita is employed. These drops are not necessarily only related to the Arab spring, but they show a clear tendency where the countries with major uprisings experienced a substantial drop in FDI, while others show no such drop (UNCTAD, 2016). Chauffour (2013: ii) outlines this in his report for the World Bank: "*The Arab Spring, coming on the heels of the region's recovery from the global financial and economic crisis in the late 2000s, had a dampening effect on foreign investment in the region.*". In addition, the Economist Intelligence Unit (EIU) states in its analysis

August 2016 "*The fall in foreign investment continues a trend that began after the 2010-11 revolution.*" (EIU, 2016a). The uprisings mattered, but the extent of the effect is impossible to ascertain in this thesis.





Source Figure 3 and 4: UNCTAD data, 2016

Figures 2 and 3 portray the effects of the revolutions with FDI inflows as % of GDP and with FDI absolute inflows change from index year 2010 (set to 100). The year 2010 is chosen because it is closest to the median inflows in the time scope for both countries, as well as being the last available data before the uprisings. As seen, the Egyptian demonstrations were far more brutal and lasted for a longer period, which apparently made many investors "wait and see", while in Tunisia the drop is evident, but not extreme. Both countries had relatively democratic elections at the end of 2011 (Freedom House, 2012), and in 2012, investors regained some confidence, and both countries returned to a situation resembling pre-revolution. In 2013, Egypt experienced a coup d'état. Tunisia struggled with a political deadlock, but held successful second elections (Freedom House, 2014). What is surprising is the development after 2013, where Egypt experienced a surge while Tunisia saw investments drop further. In Figure 2 a new convergence appears, while Figure 3 displays that measured in changes from 2010-levels, Egypt received comparably more FDI, whilst Tunisia received less.

3.1.1 FDI determinants: excluding the usual suspects

As mentioned in 2.2, certain factors seem to matter more for FDI than others. I will briefly go through these to check if they could have caused the changes seen in FDI inflows between 2006 and 2016. The rest of the analysis will revolve around the political developments.

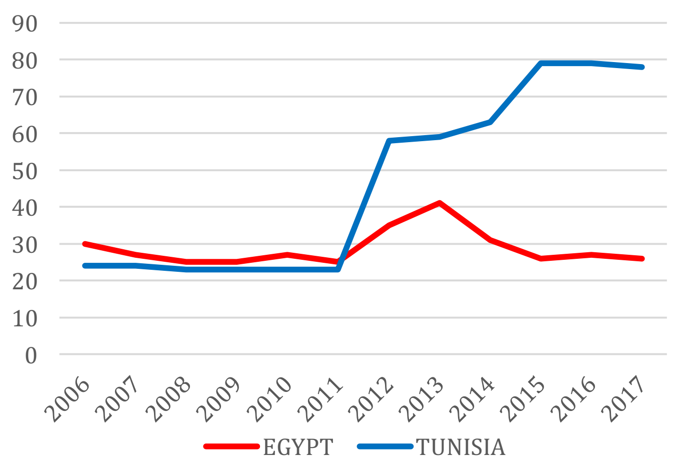
Despite turbulent times in both countries, market size in terms of population and geography has not changed substantially, and is unlikely a cause. Economic openness appears not to have changed drastically in either country, but forthcoming changes have been announced in Tunisia. Both have held large investment conferences during the last years, and Tunisia has recently passed a new investment code, but these events are too recent to have mattered during the time scope (Muasher, 2016; Adly, 2015).

A large part of FDI to Egypt and Tunisia comes from the European Union (EU) (UNCTAD, 2014), which suffered gravely from the financial crisis. The EU experienced no recessions around the time of the Arab Spring uprisings, apart from reduced economic growth in 2012 (EUROSTAT, 2016). Its investment in the region grew steadily after the financial crisis. As shown in Figure 2, this effect of the financial crisis flattens out in 2009/2010. Noting the results for Morocco, another country dependent on FDI from the EU, it seems quite unlikely that the financial crisis explains the drop in 2011, though this thesis cannot claim certainty on this point. FDI inflows also stem from the Gulf Cooperation Council (GCC) states (UNCTAD, 2014), so the recent oil price drop might have an effect, but as bilateral FDI data is only available up until 2012 the exact consequences are undeterminable. However, FDI outflows data from the GCC up until 2015 show no sharp drops (UNCTAD, 2016).

3.2 The uprisings: regime change

The regimes in Egypt and Tunisia were both authoritarian before the uprisings, but only one of them managed a transition to democracy. Reviewing the five proposed conditions for democratic consolidation, some vital differences between Egypt and Tunisia emerge. Both had civil societies working in harsh conditions, though Tunisia's was far more vibrant than Egypt's. However, Tunisia also had a relatively autonomous political society ready to lead after the fall of Ben Ali. Egypt not only lacked this, but had a tradition of military strongmen as leaders and a hierarchical and politicized military filling many important positions, making it difficult to move beyond the fall of Mubarak. In Tunisia, a process of negotiation within the exiled political society had been ongoing for years, so the Islamic party could rely on the support of other parties when they went on to win the election (Stepan & Linz, 2013: 88-93).

Figure 4: Freedom House Index



Source: Freedom House 2006-2017 aggregates

Looking at the Freedom House Index (FHI) in Figure 4, we can see that Tunisia scored lower than Egypt before the uprisings, with a score of below 25 (out of 100). In 2011, the situation changed dramatically, with both countries surging after democratic elections. Egypt rose on the "Electoral Process" aggregate by only two points after questionable elections, while Tunisia rose by eleven. Another vital difference is in "Political Pluralism and Participation"; in Egypt, the Muslim Brotherhood was legalised but other parties where scarce, while in Tunisia a whole exiled and sleeping political society finally blossomed, giving Tunisia a nine-point rise, and Egypt only four. After the coup in 2013, Egypt sunk to its pre-uprising levels, and remained "Not Free". Tunisia experienced a slump in 2012/2013, when the constitutional process halted, but has in recent years risen to 78 and the “Free” status, falling only two points short of Israel as the most democratic country in the MENA region. Rule of law, when looking at the FHI aggregates, was quite bad in both countries, but Tunisia has seen great improvements since 2013, while Egypt has reached an all-time low.

3.2.1 Hermit economies: corruption, cronyism and the status quo of an army conglomerate

Observing these first three criteria for democratic consolidation and their success in Tunisia, there is an apparent mismatch with the meagre investment results. Reviewing the last two conditions for democratic consolidation, a useable bureaucracy and institutionalised economic society, provides the missing link. The mechanisms in democracies that attract FDI and contribute to economic growth, are institutional and long term changes.

Both countries struggle with crony capitalism, meaning the nurturing of a business class whose fortunes depend on their access to the political leadership and their preferential treatment (Luciani, 2013: 269). This hinders the growth of a job-creating private sector, and increases the already problematic inequality. In many sectors this is the case of serious corruption, which also affects investor confidence. In both economies, old economic structures, and the social ones that went with them, remain very important (Luciani, 2013: 269-270). Egypt has a hierarchical, politically involved military. In Tunisia, the army does not share the practical or political characteristics of their Egyptian counterpart, and functions in a separate and professional way from the regime, thus paving way for a simpler transition with fewer vested interests (Stepan & Linz, 2013: 86-87). The Egyptian army is a major player in the economy, with estimates of its share in it ranging from 5 to 40%, including vast industrial complexes and important official positions (Masoud, 2011). This means that when military strongman Mubarak was replaced with the new general Al-Sisi, Egypt seemed to return to status quo. This change is predictable, and combined with the iron grip on upheavals shown by Al-Sisi, Egypt has again become stable (Adly, 2015).

The bureaucracy in Tunisia is less weighed down by political interests from for instance the military, but Kari Sofie Bjørnsen from The Sahara Forest Project, (SFP) a Norwegian company considering a large investment in Tunisia, explains that it is both old and cumbersome, and still bears remnants of Ben Ali's former system (Bjørnsen, 2017).[1] Though it may already be *usable* by the new regime, in the sense meant by Stepan & Linz, it does not necessarily have the level of transparency and credibility that attracts FDI, according to Jensen, nor the advantage of less corruption, explained by Busse and Hefeker. For businesses such as the SFP, which invest great sums in building their facilities, a smooth bureaucracy adapted to foreign investment is necessary, and though the situation is still not good, the company is expecting better conditions with the recent implementation of a new investment code passed last year, as are other analysts (EIU, 2016b). Tunisia also held a large international investment conference, had a grand meeting with former U.S. secretary of state, John Kerry, and is currently negotiating a new free trade agreement with the EU (European Commission, 2016; Muasher, 2016).

Transparency and the fight against corruption has begun, but as seems to be the central theme in these mechanisms; it takes time. Despite the revolution's strong demands of an end to corruption, Tunisia has fallen on the Transparency International Index (Mourdoukoutas, 2017). With a large informal economy, low economic growth and unemployment, this is a difficult situation to escape. It appears that corruption has also been "democratised", so that while former corruption was mostly by cronies tied to Ben Ali, it is now more widespread (EIU, 2015). At the same time, the government is implementing austerity measures demanded by international lenders such as IMF, including depreciating the currency, slashing subsidies and introducing a value-added tax, while protests from still unemployed youths are common. The government is making some progress, and in close cooperation with both business unions and labour unions, the process is given legitimacy and durability (Amr & Meddeb, 2017). So, when analysts and investors know that Tunisia is becoming more business friendly, taking measures to ensure macroeconomic stability and working to reduce corruption, why are they not investing in the only democracy in North Africa?

[1] The interview was conducted in Norwegian, and all translations are mine; with the subsequent approval of Kari Sofie Bjørnson.

3.3 Effects of the Arab spring: FDI determinants

3.3.1 Democratic consolidation and mechanisms of democracy: how long?

Despite ticking off the boxes for democratic consolidation, Tunisia has not achieved the mechanisms highlighted by Jensen, Knutsen, Busse and Hefeker. The FHI clearly defines Tunisia as a democracy. However, there appears to be not only degrees of democracy, but also time stages. In his PhD, Knutsen (2011) makes some reservations on his proposition of democracy positively affecting economic growth, claiming there is often a "time lag" before the effects of these mechanisms kick in on economic growth. How long is this lag? How stable and consolidated must a democracy be before it is not considered immature? Here the literature provides little insight. One possible result of this time lag is a self-sustaining process where economic growth and investment is necessary for consolidation of democracy, but consolidated democracy is necessary for economic growth and investment. When companies with a long time horizon "wait for stability", this can come close to the issues of coordination that we know from development economics; where one investor's decision depends on those of others (Ray, 1998: 137).

The main problem for Tunisia is the dual time horizon of FDI, where long term investment is based on current situations. As Tunisia is well on its way to consolidate democracy, its long-term prospects should be better than most other countries in the region, considering the framework presented. However, according to most economic forecasts, the risk that these prospects do not materialise, is severe enough to deter investment (Bjørnsen 2017; EIU, 2016a; Issa, 2013). Comparable cases of democratisation waves have seen extreme surges in FDI, for example in Eastern Europe, Latin America and Asia. The Arab countries, however, were not closed for business beforehand. This makes the Arab spring an extremely interesting case study for FDI, as the region was already integrated in the world economy, albeit poorly (Chauffour, 2013: 55-56). This could imply that the firms in the former cases had more faith that the countries would stay democratic, or it could imply that being part of a "wave" strengthens confidence. As Tunisia is a small, new democracy with two giant authoritarian neighbours, one of which is engulfed in a civil war, uncertainty is high (The Economist, 2016). In this case, as opposed to the waves of democratisation, FDI inflows and MNEs are already present in the country, but the attraction of democracy has not made its mark. The potential is there, but there seems to be no rush to invest, as opposed to the "waves".

3.3.2 Credibility and veto players: why Egypt, not Tunisia?

Tunisia's transition is progressing, admittedly with some difficulties. After returning to authoritarian rule, Egypt has still experienced a better FDI development. What makes Tunisia less attractive than Egypt?

Considering the three aspects of democracy that Jensen considers attractive for FDI, it seems they too come with a time lag. For Tunisia, credibility takes time to establish, and when combined with the still persistent corruption and continued demonstrations by the youth (Meddeb, 2017: 4-5), it is possible that a statement from the Egyptian authorities seems more legitimate for the time being. Jensen also claims that veto players constitute an attractive aspect of democracy, as they maintain status quo through constraint on policy changes. However, when the status quo is not desirable, having many veto players becomes an obstacle. Examples are the annulment by a Tunisian court of the decree that confiscated the assets of former president Ben Ali (EIU, 2015), and the labour union UGTT, which was part of the Dialogue Quartet, but is now delaying economic reform (Adly & Meddeb, 2017). These actions harm credibility both domestically and internationally. Furthermore, Tunisia is struggling both with domestic terrorist attacks, conflict in neighbouring Libya, and young Tunisians joining Islamist organisations outside its borders (Meddeb, 2017: 1-2, 5).

Using Przeworski's proposed arguments for the link between regime and economic growth, which again attracts investment, one factor stands out – the autonomy of the state. General Al-Sisi keeps his people under control with ruthless jailings of protesters and journalists (Freedom House, 2017). He has agreed to economic demands from the IMF without facing political constraints, as well as being able to provide one essential thing to investors: stability (Adly, 2015). Though it might not be a "good" regime, it seems unlikely to be toppled in the foreseeable future. The army ruled behind the scenes eight years ago, and they rule now. Despite the risks for property rights and corruption being higher than in Tunisia (EDC, 2017), the political risk is lower.

3.3.3 Political risk and stability

This thesis rests on the assumption that the political climate matters for foreign direct investments. In the World Bank's Enterprise Surveys from 2013, half of the firms asked in Tunisia and Egypt listed Political instability as the biggest obstacle for their business. To put this in perspective, the number of firms that listed tax rates as their biggest obstacles, which are often blamed for hindering investment, was less than 4% in both countries (World Bank Group, 2013). The Global Competitiveness Index 2016-2017 ranks Tunisia the 95th most competitive economy, while Egypt is considered the 115th. In the 2010-2011 edition of the report, which is based on data from before the uprisings, Egypt was 84th, and Tunisia 32nd (World Economic Forum, 2017). Part of this change can be improvements by other countries, but the sharp drop also shows that the situation for firms has become increasingly difficult in both countries, but more so in Tunisia than in Egypt. Assessments like these may carry weight with MNEs, and then further contribute to deterring investment.

Another clear sign that political risk is on the corporate agenda is the proliferation of political risk insurance firms, such as the World Banks Multilateral Investment Guarantee Agency, the International Country Risk Guide and Export Development Canada (EDC). The latter has a risk model that claims authoritarian regimes with "military strongmen" and "immature democracies" have the highest risk (Jensen 2006: 94-95). The EDC rates Egypt's risk at "high" both short-term and medium/long-term. Tunisia is rated "medium-high" short-term, and only "medium" in medium/long-term (EDC, 2017). Thus, the EDC confirms that the long-term prospects for Tunisia are indeed better than those for Egypt. Burger et al. finds that the resource extraction sector is less affected by political risk, while Tunisia relies especially on manufacturing FDI and tourism, where risk matters more (Burger et al. 2013: 18; Chauffour 2013: 55). This might contribute to the results, and make them less generally applicable. Generally, if companies *can* wait, a coming improvement might be a good reason to, especially as competition is currently not an issue. How can this waiting period be reduced?

3.4 Effects of democratisation and the need for politics

Omer Karasapan of the World Bank sums up the main motivation for this thesis: "*Making Tunisia a success politically and economically will send a much needed message on inclusive politics and economics to the region at a time when much of the West provides billions in trade deals and aid to autocrats of various stripes. A comprehensive, multi-donor support program for Tunisia is sorely needed to give it breathing room to engage in substantive reforms.*" (Karasapan, 2016).

Despite calls for investment such as this, and the likeliness that Tunisian reforms will be more stable and should increase investor confidence in the long run (Adly & Meddeb, 2017), the FDI inflows have not followed. Through combining the two fields of study as I have here, a paradox emerges. Democracy induces economic growth, is more attractive for investors and, is in general more stable. On the other hand, for democracy to consolidate, economic institutions and growth are important. According to Przeworski and Limongi, democratization can be caused by a number of factors, but new democracies stabilize because of economic development (Knutsen 2011: 123). On the assumption that both these arguments hold true it might seem that Tunisia finds itself in a Catch-22 situation, where it needs to stabilize to receive investment, but needs investment to stabilize. At the same time, Egypt, which also changed regimes, seems not to be perceived as unstable in the same way, most likely because the new status quo is similar to the old, and thus more predictable.

Apparently, the corporate logics determining FDI localization are not favorable to feeble democracies, as they are too risky. When the market comes up short, the public steps in. In Tunisia, both the IMF, the European Bank for Reconstruction and Development, and several other public actors have contributed with some sort of economic relief or longer term economic aid (Oxford Business Group, 2016). However, this brings to mind the proverb about giving a man a fish; if he rather receives a fishing rod he can feed himself for a lifetime. Thus, political support to actual private sector growth seems to be a better solution. The Norwegian Ministry of Foreign Affairs (MFA) has taken this initiative (Hattrem, 2015), by for example sponsoring the SFP's feasibility study for Tunisia. SFP is considering building facilities – the country seems to be a good location resource-wise for them. Though this location would at some point be considered without the aid of the MFA, Kari Sofie Bjørnsen from SFP says it would be with quite a different time horizon. She explains that the company considers Tunisia to be very vulnerable right now, but with the MFA granting the opportunity, it hopes that it might be able to contribute to creating jobs and stabilizing the young democracy. Though it has not decided whether to invest at the time of writing, she states: “it looks promising, it is an intriguing country that is beginning to do some things right” (Bjørnsen 2017).[2]

The revolution is now six years old, and despite the long, cumbersome road from the fall of Ben Ali, things seem to be looking up. The Honorary Consul for Norway in Tunisia, Mr. Hassine Doghri, himself a Tunisian businessman, reports that FDI inflows have been growing so far in 2017, and that the government has recently undertaken massive long-term investments. On Tunisia’s prospects, he states “*we expect 2 % economic growth comparable to 1% recorded in 2016, which is positive, but not enough to resolve the problematic of unemployment. In fact, we need to come back to a level of 5% growth and more*.” (Doghri, 2017).

4 Conclusion

The revolution and subsequent transition to democracy has deterred foreign direct investment in Tunisia, due to the perceived increase in risk and vulnerability. The time after the revolution reveals disappointing economic results, which endangers Tunisia’s vulnerable democracy. This thesis has shown that the mechanisms of democracies claimed to attract FDI and foster economic growth, take time to attain. On the other hand, transitions are seldom easy, and certain recent developments are very promising, much attributed to the vibrant new democracy.

The Economist’s Simon Long recently said: “*the usual cliché I suppose: Markets hate uncertainty*” (Long, 2017). Political instability indeed does not go unnoticed by investors. Democracies tend to both be more stable and foster economic growth and FDI. However, it is apparent that political stability, notwithstanding regime type, is more important, giving

[2] My translation, with her subsequent approval.

immature democracies harsh conditions. It seems that in this situation, risk is the decisive factor, rather than regime. To conclude, the findings of this thesis are not very optimistic for those cheering for swift democratic transitions, as it seems that – for once – money moves slower than politics.

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