A theoretical framework for FDI promotion strategies in Egypt's Suez Canal Economic area

*Ahmed Samir AbdelAziz

Abstract

The Suez Canal Economic Area (SCEA) represents a modern and comprehensive economic free zone corridor connecting East and West in the world's international trade. The state's fundamental goals in establishing the SCEA are to attract diverse categorizations of foreign direct investment (FDI), creating numerous new areas for investment in the fields of trade, services, and groundbreaking new technologies. The main goal of this encompassing framework is to provide the state with detailed and strategic recommendations on this basis, thus proposing a robust and extensive framework for attracting pioneering new investments to the Suez Canal Economic Area. It propounds a dynamic and forward-thinking policy framework to effectively redefine and reshape the future role of the Suez Canal Economic Area, considering the ever-evolving changes in external conditions and encompassing internal structures. The comprehensive study sets up and outlines a significant number of imperative basic objectives that span across both the general and sectoral domains, specifically aimed at fostering the development of novel and stimulating business opportunities to profoundly contribute to the non-traditional and groundbreaking elements of future industry in the Suez Canal Economic Area.

Keywords: Foreign Direct Investment, FDI, Suez Canal Economic Area, Investment Opportunities

*Head of Digital & Sustainable Business Economics Department at College of Management and Technology, Arab Academy for Science, Technology and Maritime Transport.

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إطار نظري لاستراتيجيات تشجيع الاستثمار الأجنبي المباشر في المنطقة الاقتصادية لقناة السويس في مصر

الملخص

تمثل المنطقة الاقتصادية لقناة السويس ممرًا اقتصاديًا حرًا حديثًا وشاملاً يربط بين الشرق والغرب في التجارة الدولية في العالم. تتمثل الأهداف الأساسية للدولة في إنشاء منطقة إقتصادية في جذب فئات متنوعة من الاستثمار الأجنبي المباشر، وإنشاء العديد من المجالات الجديدة للاستثمار في مجالات التجارة والخدمات والتقنيات الجديدة الرائدة. والهدف الرئيسي من هذا الإطار الشامل هو تزويد الدولة بتوصيات مفصلة واستراتيجية على هذا الأساس، وبالتالي يقترح البحث إطار شامل لجذب استثمارات جديدة رائدة إلى المنطقة الاقتصادية لقناة السويس.

الكلمات المفتاحية: الاستثمار الأجنبي المباشر، المنطقة الاقتصادية لقناة السويس، فرص الاستثمار

1. Introduction

The Suez Canal Economic Area (SCZone) is one of the main ongoing mega-projects in Egypt. It is a longitudinal strategic development corridor around the Suez Canal, which connects the Red Sea to the Mediterranean Sea. The main objective of the SCZone is to be an international logistics and industrial hub that capitalizes on the maritime, air, rail, and African clusters' competitive advantage. The main target of the SCZone is to establish an attractive investment environment to address three goals: investment creation, economic diversification, and social development. (Gonen, 2023)

The attraction of Foreign Direct Investments (FDI) is a fundamental goal of the SCZone, and the competitive advantages that it offers have been identified to propose its expected role in leading and boosting capitalism. However, to achieve its main target as soon as possible and avoid even partial failure, the SCZone's administrators should adopt the right FDI promotion strategies. In the literature, researchers presented a considerable number of promotion strategies that are needed to promote foreign investment. However, the target of those promotion strategies may be varied. Some FDI promotion strategies may target the host country's competencies, such as the host country's infrastructure, skills, and labor costs. Other strategies target the home country's companies' characteristics, such as their willingness to operate in risky environments. (Ali, 2020)

1.1. Background and Rationale

Egypt has a long history of attracting foreign direct investment (FDI). The Egyptian government has recently embarked on a number of bold policy initiatives to reform the economic structure. This includes dismantling the old statist policies of favors for cronies, market isolation, public sector dominance, tariff protection, impediments on movement of capital and reserves, hostile investment climate, and many more. The issuance of Law 8/97 of Investment Guarantees and Investment Incentives Law 8 of 1997, the acceleration of economic initiatives, and the formulation of strategic development plans for selected regions and leading-edge special economic zones are among the chief tools used by the government to accentuate Egypt's reputation as a dynamic free-market reformer and a bridge between Europe, Africa, and the Middle East. (Mossallam, 2021)

1.2. Research Objectives

The research explores FDI promotion in Egypt's Suez Canal Economic Area (SCEA). It analyzes driving factors and inhibitions for foreign investors. The study investigates national, regional, and global components of FDI promotion and their impact on the investment climate in SCEA. It examines regulatory, institutional, and physical factors of the enabling environment in SCEA. The research offers evidence-based recommendations for enhancing FDI promotion. It emphasizes the importance of institutional factors and stakeholder collaborations in attracting foreign investors. The study also focuses on infrastructural facilities and industrial clusters for attracting FDI. It provides a comprehensive perspective on FDI behavior in SCEA, contributing to knowledge and informed decision-making for economic growth.

1.3. Scope and Significance

The theory's assumptions focus on the interplay of numerous internal and external factors that impact the SC economic region, the largest such area in Egypt. This includes the horizontal and vertical concentration of specific industries within clusters, often untapped areas that act as centers for financial transactions, information sharing, and technology transfer along with local resources. By enhancing existing port services to ensure secure and efficient container handling, as well as increasing staff onboard ships to address piracy and passenger issues, investments can be made to improve operations.

This study aims to investigate the effectiveness of FDI promotion strategies in the Suez Canal Economic Area and their impact on economic growth in Egypt. It introduces a theoretical framework concerning strategies for promoting foreign direct investment in the economic region surrounding the Suez Canal in Egypt. The framework is structured in an organized manner, outlining its dimensions and underlying assumptions, discussing key components, emphasizing novel concepts introduced to the theory, offering a concise summary and overview of the framework, and addressing critiques before drawing conclusions. This approach allows for adaptability in conducting field research.

2. Foreign Direct Investment (FDI) in the Global Economy

For the host countries, receiving and benefiting from the inward flows of FDI is considered one of the shortcuts to accelerate economic growth and alleviate persistent poverty. Typically, the large part of inward FDI received by a host country is destined to stimulate and increase its economic efficiency via capital infusions. Therefore, the annual numbers of FDI by both developing and developed countries emphasize the most important determinant of the global expanding and multilateral trade and investment links of worldwide showcased development. This significant growth and development by large emerging countries and the continued economic success of some developing countries also contribute to the development of a global economic environment and therefore have made global firms extend their presence in other developed and developing countries as well via the process of internationalization (Macheru2023).

The interest and importance of foreign direct investment (FDI) have been extensively discussed in the literature in multidisciplinary fields of international business, management, and economics. The most significant feature of FDI is that it is a direct control of product and asset markets in a host country, and therefore is potentially a significant contributor to economic growth and development. By nature, FDI is a form of internationalization and business expansion, and it can be both the cause and effect of a variety of other international business activities. This ability of FDI to link economies is important for both the host and home countries. Specifically, for a home country, there is an outward flow of FDI. It can help to create or promote home exports and must possess a monopolistic advantage to justify the costs and risks associated with setting up business abroad rather than serving the country through exports or other forms of non-equity alliances. A significant role played by outward FDI also contributes to home economic growth and development by acquiring monopolistic wealth of knowledge via internationalization (Contractor et al., 2020).

2.1. Definition and Types of FDI

FDI can be defined in several ways. Clearly, FDI is foreign investment that establishes direct foreign control or ownership in a named local company. For the firm making the investment, it means a controlling ownership of a business entity. For the country receiving the investment, FDI means being the host of this business entity. The main reason for multinational enterprises to undertake FDI is when they find it more profitable to produce and sell abroad than to export goods and services to the host countries. (Alfaro & Chauvin, 2020)

Foreign direct investment (FDI) entails making alternative choices between various options and strategies. To make sound policy judgments, it is essential to define FDI. The definition can affect the policymaker's view of the potential benefits and costs associated with different levels of FDI. Despite the potential positive impacts that FDI may have on a host country's economic development and restructuring, not all types of FDI have the same economic or social implications, nor can all countries, or sub-components within countries, necessarily benefit from the same types of FDI. Ultimately, there are no simple recipes for attracting FDI. Whether or not FDI will have beneficial effects, the outcome largely will depend on the policies and regulations that the government puts in place to support and oversee this process. (Danzman & Slaski, 2022)

2.2. Trends and Patterns of FDI Flows

The main goal of this paper is to adapt Egypt's investment climate to be more attractive to foreign investors, especially in these sections aimed at in the accords. From that point, Egypt's orientation has been directed to offer potential foreign investors priority sectors and regional locations through providing special and discriminatory incentives and promising investment opportunities in marked geographical districts or areas. The Suez Canal Economic Area (SCEA) was thereby announced, established, and described to fulfill the above-mentioned request. The priority of this area is the simplification and easing of procedures related to investment in ways guaranteeing transparency, with the ability to depend on the accumulated experience of the Egyptian-Chinese Co. for commercial navigation, operations, and business, for the organization, design, establishment, and administration of the area (Costantiello & Leogrande, 2024).

In recent years, there have been significant changes in the volume and destination of foreign direct investment (FDI) due to the dynamic developments in the global political, economic, and technical environment. The new world economy, driven by sophisticated financial systems and a spectacular increase in the number and size of firms operating across boundaries of all kinds, attributes unprecedented importance to cross-border flows of FDI. Against this background, Egypt has been approved by the Council of the World Trade Organization to commence membership negotiation to join the organization and has signed some economic and political accords that require various internal reforms and modification measures to qualify for joining the WTO and thus enclose the minimum conditions of foreign investment attraction that are stated in these accords and regulations (Farzanegan et al., 2020).

3. Theoretical Perspectives on FDI Promotion

There are numerous theories considering the motives for international companies conducting FDI. As the paper's contribution is identified with the strategic choices that the zone's administration can adopt to attract foreign investment, and via the policy decisions that it has to make. The literature review attempts to figure out theoretical premises which either offer insight into the design and scope of such policies. There is also evidence that both the industrial sector or the home countries' characteristics and institutional "push" conditions affect the locational decision of MNEs. Econometric models have been used to test the effect of push-pull factors, focusing on the either aggregate FDI inflows, its intra and inter-industry distribution, or specific country location choices. Countries pursue different policies to attract FDI depending on their national environment and specific characteristics. General descriptions of FDI promotion strategies may not be informative when analyzing concrete country situations characterized by a specific level of development and a particular institutional framework. Although this would suggest that different criteria should be used for different situations, little theory development has been observed on when and why countries choose different paths. The way countries choose FDI promotion strategies in practice is only known by examples; the criteria guiding these choices are not well identified. (Urbański, 2022)

The relative importance of criteria in making concrete FDI policy decisions depends on the specific context of attracting countries. Policymakers have to make decisions according to the alternatives available to them; thus their choice is confined by institutional, financial and political constraints. These decisions are conditioned by the characteristics of the host and the source countries. The level of development of host and source countries, their political systems and sizes are major factors dealing with the latter. There is also empirical evidence that different FDI determinants are important for developed and developing host countries. And another important issue is the specific relations with both home and host countries, the phase of economic development and related policy priorities. Advanced industrialized countries, for example, use FDI to solve economic problems, such as those related to industrial restructuring and the creation of high-value added activities. In contrast, many developing countries attempt to attract labor-intensive industries, in order to address problems of poverty, unemployment and income inequality. And the financial importance of FDI uses grants within countries, as well as their involvement in internal policy-making exchanges after investments have been completed, bears directly on national security in general, and the security and integrity of the international finance system in particular. (Baci et al.2022)

3.1. The Eclectic Paradigm

The eclectic approach includes the internalization aspect by focusing on motives for foreign DFI as well as its impact. The eclectic theory focuses on the behavioral incentives for DFI rather than the static indexes. Indeed, the eclectic framework evaluates international businesses within the context of a national political economy. The eclectic framework integrates the political risk variable into the internalization decision by recognizing that MNCs originate from countries, which may become regulated by their own political institutions that influence the financial, legal, and competitive environment facing firms. Institution-specific factors affecting MNCs' competitiveness differ from one country to another. According to this theory, international trade is the most efficient way for foreign companies to service foreign demand since it reduces exposure to foreign activities (Paul & Feliciano-Cestero, 2021).

The eclectic theory is a pioneering work trying to integrate two inherently international economic forces, namely the advantages of international production (location and ownership advantages) and the ownership cost. "Eclectic" refers not to applicability in any country, but to a pluralistic framework. Indeed, the eclectic model attempts to bridge the underlying dichotomies of the location's determinants (i.e. production cost, trade potential, foreign ownership and control) among the traditional theories. It represents an extension of internalization theory, which explains the motivation of MNCs to internalize an exchange in the strategy of MNCs. The extensive nature of firms in the world economy is considered to be the antecedents for imparting advanced organizational and production methods, albeit on a global scale. (Canh et al., 2020)

3.2. Institutional Theory

The critical test of a successful theory of development is whether or not the prescriptive propositions based on the theory achieve desirable economic outcomes in the real world. There are plenty of theories dealing with the process of institutional change and how to design desirable institutions ex ante. The body of empirical work is much thinner because researchers and policymakers often lack the institutional resources required to undertake controlled experiments. Put another way, the value of the scholarly literature depends on the number of natural experiments or field trials that can be found or organized (Paul & Feliciano-Cestero, 2021).

Institutional theory is concerned with institutions—the formal and informal rules that can be applied as restraints on human behavior. An institution's effectiveness depends on its degree of insulation and also on the enforcement mechanisms employed. In the case of economic growth, institutions matter because bad ones encourage rent seeking and discourage creativity and productivity. People in society have different views about desirable and undesirable institutions, and they often result in different strategies for promoting development. Development ideas generate not only debates about institutional change but also debates about how institutional changes actually occur. Advocates of different theories of development often offer different plans and mechanisms for institutional change (Canh et al., 2020).

4. The Suez Canal Economic Area (SCEA)

The SCEA, known as the Suez Canal Economic Area, is a highly promising and attractively established economic zone that has captured widespread attention and interest from multinational enterprises (MNEs) seeking to strategically position and broaden their business expansion endeavors. The opportunities for exponential economic growth within the

SCEA primarily revolve around the vast Egyptian market and are intrinsically linked to the recent momentous signing of the Belt and Road International Cooperation agreement between the esteemed nations of China and Egypt. (Spear, 2020)

In the case of the SCEA, the Suez Canal waterway toll fees reign supreme as a significant source of economic income, solidifying its pivotal role in the flourishing regional landscape. Moreover, the potential for immense operational profit within the SCEA is undeniable, especially with the invaluable prospects of access to prime and fertile land, seamless logistics, robust infrastructure, and comprehensive financial support, all of which are poised to be extended to and embraced by prospective MNE investors. Notably, a substantial majority of these discerning investors are anticipated to hail from various prosperous Chinese provinces, further augmenting the enduring bond and mutually beneficial partnership between China and Egypt. (Laih et al.2022)

When contemplating their prudent decisions to expand their investments beyond their borders and venture into an alternative geographical market, Chinese investors place paramount importance on the concepts of "location," "land," and "incentive". These critical factors overwhelmingly influence their cogent rationale, as they seek to identify countries and regions that possess the ideal melding of advantageous geographic positioning, fertile and resource-rich land, and enticing incentives that serve as an impetus for their entrepreneurial aspirations to flourish and prosper. (Wang et al., 2024)

In their meticulous analysis of potential investment destinations, Chinese investors consider the SCEA as an exceptionally alluring proposition due to its unparalleled advantages. The new economic zone offers an expansive range of opportunities for enterprising MNEs, providing a fertile ground for their expansion strategies and facilitating access to a large and thriving Egyptian market. The signing of the Belt and Road International Cooperation agreement between China and Egypt has further enhanced the appeal of the SCEA, forging a solid foundation for robust economic cooperation and facilitating mutually beneficial exchanges. (Akhter, 2023)

The Suez Canal, a critical maritime route connecting the Mediterranean Sea and the Red Sea, acts as a vital artery for global trade and commerce. Its position as a strategic trade gateway amplifies the significance of the SCEA, as it capitalizes on the immense traffic passing through this crucial waterway. By strategically positioning themselves within this economic zone, MNEs can harness the opportunities presented by the constant influx of goods and services, allowing them to tap into a multitude of markets and establish lucrative trade networks. (Chorev, 2023)

Furthermore, the SCEA boasts a comprehensive infrastructure framework that supports seamless logistics and efficient transportation networks. With state-of-the-art facilities and modernized transportation systems, MNEs operating within the zone can streamline their operations and maximize their productivity. The advanced infrastructure not only enhances connectivity within the Egyptian market but also facilitates trade links with countries along the Belt and Road initiative, fostering an environment conducive to extensive regional and international collaborations. The availability of prime and fertile land within the SCEA presents an invaluable asset for MNEs seeking to expand their operations. This land offers ample opportunities for agribusiness, manufacturing, and other industries that rely on access to abundant resources. Chinese investors, renowned for their expertise in agricultural and industrial sectors, can leverage these prospects and capitalize on the rich potential of the Egyptian landscape, ensuring sustainable growth and long-term profitability. (Wang et al., 2023)

In addition to the advantageous geographic positioning and fertile land, the SCEA provides a range of attractive incentives to entice potential investors. These incentives serve as a catalyst for Chinese investors, motivating them to venture beyond their borders in search of lucrative opportunities. The SCEA offers a comprehensive package of financial support, including tax incentives, subsidies, and tailored investment programs that mitigate risks and enhance returns on investments. Such incentives play a crucial role in attracting MNEs, enabling them to establish a prosperous presence within the economic zone while maintaining a competitive edge in the global market. (Pinheiro de Almeida et al., 2020)

In conclusion, the SCEA emerges as a highly attractive destination for Chinese investors, who place utmost importance on factors such as location, land, and incentives when expanding their investments. The strategic positioning of the economic zone, coupled with its fertile land and enticing incentives, creates a compelling proposition for MNEs seeking to capitalize on the exponential economic growth opportunities within the SCEA. As Chinese investors embark on their entrepreneurial aspirations in the Egyptian market, they forge enduring bonds and mutually beneficial partnerships that contribute to the sustained development and prosperity of both nations.

4.1. Geopolitical and Economic Significance of the SCEA

The location of Egypt has made the country the historical trade hub linking the East and West. One of Egypt's current major geographical advantages is the Suez Canal, which links the Far East to Europe and the Gulf. Those geographical parameters have made Egypt an attractive area for establishing different trade agreements, e.g. Egypt-Turkey FTA, Egypt-EU Partnership Agreement, Agadir Free trade area with Jordan, Morocco, and Tunisia, Egypt-EFTA FTA, the buyer-seller preferential agreements with most of the COMESA countries and with Syria, the Egyptian-QIZ agreement with the United States and the Egyptian agreement and economic mechanism with Israel. Most noteworthy is the Egypt (Customs Union with Lebanon, Jordan and Syria) proposal, which was submitted by the Egyptian Ministry of Foreign Trade and the Federation of Egyptian Industries in 1999 to the countries involved and is now widely discussed all over the Mediterranean area (Foster, 2023).

Understanding and analyzing the global economic situation is a must for any country trying to develop and improve its competitiveness within the global economic environment. The global map of the capability of economic activities, for both developed and developing countries, is continuously under construction and reconstruction. Egypt possesses diverse comparative advantages. These strengths are related to Egypt's natural resources, the strategic location of the Suez Canal, infrastructure, the abilities of the Egyptian people, and an attractive investment climate. These strengths allow businesses to profit from serving both the domestic and regional markets, as well as the global market. The global trading system has been through periods of great change and growth. It is ready to help Egypt reach a level of economic prosperity that will make a difference for this generation and the next. However, the comparative advantages that favor Egypt are not unique. They are supported by other developing countries, creating more and more competition either at the regional or the global level. (Adelwini et al.2023)

4.2. Infrastructure and Investment Opportunities

The development of infrastructure plays an absolutely critical role in attracting Foreign Direct Investment (FDI) from all corners of the globe. Investing in world-class infrastructure in geographically advantageous locations is instrumental in luring location-specific FDI that would otherwise be directed towards alternative host nations with more economy-boosting investment environments. One of the most pivotal segments of infrastructure, especially in the eyes of international investors, is the transportation network. In geographical regions distinguished by the significance of trade services, the establishment of free zones, and the facilitation of customs processing hold extraordinary allure. Furthermore, the strategic locations and top-notch facilities of ports, coupled with close proximity to airports, as well as robust road and rail connections, serve as the bedrock of paramount infrastructure advantages. It is these very investments that captivate and entice international investors, galvanizing them to establish their presence in the region and embracing industrial endeavors that align seamlessly with the demands of the global market. (Fernandez et al.2023)

A robust and well-developed transportation network provides numerous benefits for both domestic and international trade. By investing in the expansion and enhancement of transportation infrastructure, countries can significantly improve their trade capacities and competitiveness on the global stage. For instance, the establishment of efficient and well-connected ports can facilitate the smooth flow of goods, reducing transit times and lowering transportation costs. This not only attracts more international trade but also opens up new opportunities for local businesses to participate in global value chains.In addition to ports, airports also play a crucial role in attracting foreign investments. International investors value the accessibility and convenience of well-connected airports, as they enable easy travel for business executives and facilitate the movement of goods through air cargo services. By strategically locating airports near major industrial hubs, countries can establish themselves as key logistical centers and hubs for regional and international trade (Alexandro and Basrowi, 2024).

Moreover, a comprehensive transportation network encompasses not only ports and airports but also road and rail connections. Countries that prioritize the development of modern and efficient roads and railways create an attractive environment for businesses looking to establish their operations. Such infrastructure investments improve connectivity and accessibility, enabling the smooth and timely movement of goods and people between different regions. This interconnectedness fosters economic growth, spurs innovation, and enhances overall productivity. By investing in world-class transportation infrastructure, countries can position themselves as prime destinations for foreign investment. These investments act as magnets, drawing in international businesses and investors who seek the advantages of well-developed and seamlessly connected transportation networks. When companies can easily transport their goods and access global markets, they are more inclined to invest in manufacturing plants, distribution centers, and other industrial ventures in the region. This leads to job creation, increased tax revenues, and overall economic prosperity. (Ali, 2020)

In summary, the development of a robust transportation network is crucial for attracting foreign direct investment. Ports, airports, roads, and railways form the backbone of this network, providing numerous advantages for international trade and business operations. By prioritizing infrastructure investments in these areas, countries can position themselves as favorable investment destinations, turbocharging their economic growth and competitiveness on the global stage.

5. FDI Promotion Strategies

Faced by this ever more aggressive competition for foreign direct investment, most countries have become increasingly concerned with the design and implementation of policies to promote FDI. Providing sound practical advice on what meaningful policy options are open to major actors in the FDI game (such as host governments, international organizations, lobbying groups, and multinational companies) is the subject of this section.

The implementation of any policy envisioned by a national, regional, or local authority in the area of FDI attraction requires the knowledge and understanding of the motivations and behavior of multinationals when they are deciding upon the location of their investments. Given this need, most developing countries began to increasingly question the general route to economic development, liberalization and integration into the world economy. These issues have gained the attention of national governments, prompting them to invent new policies in the hope of attracting foreign investors, which are usually drawn by the prospect of new market opportunities, the ability to reduce cost disadvantages (e.g. by taking advantage of lower labor costs or preferential trade agreements or export processing zones) or the chance to seek a new source of strategic resources. (Paul & Feliciano-Cestero, 2021)

5.1. Policy and Regulatory Frameworks

For a long time, the prevailing view of the correct investment promotion policy was that no special incentives should be offered to market investors in Special Zones, but such areas should offer an environment similar to the rest of the country and that SZ should rely on natural advantages to specifically attract international business know-how local investors to the area. The productivity of the SZ would be assured by being operated as import-export enclaves and being serviced by the area. However, with such conventional SZ operating, a more immediate investment risk was that the incentives and control would involve SZ as damaging tax vortexes in the domestic economy. (Essandoh et al., 2020)

Egypt has different zones targeted by the technological and managerial capabilities of foreign investors. The main concern in such zones is the policy necessity for differential treatment to unleash the supply potential of the foreign investors. The main concern of an investment promotion policy in a special zone is that it generally offers investors a set of incentives and benefits which act to lower the cost of conducting business operations, thereby creating specific advantages not available to domestic investors. As such, the establishment of Special Zones has sometimes raised the concern that promotion policy is actually discriminatory and may favor foreign investors over domestic investors. (Canh et al., 2020)

5.2. Investment Incentives and Disincentives

However, investing abroad is accompanied by risks and uncertainties caused by unknown new conditions, such as different legal systems, bureaucracy, government intervention, exchange rate fluctuation, resistance from MNEs buyers and suppliers, and political risks that may result in government takeover of purchased assets. Given these obstacles and uncertainty, the services provided by investment promotion authorities may significantly reduce risk perceptions and transaction costs, thereby encouraging MNCs to invest in the host country. However, the government of the host country may market the competitive advantages of the host country abroad, in order to promote Foreign Direct Investment (FDI) in its territory by providing various administrative, financial, and tax incentives. The purpose of this paper is exactly to develop a global proposal for a new investment incentive program in the Egyptian SCZone capable of attracting a suitable level of FDI in selected priority sectors. (Haudi et al., 2020)

In an open market economy, multinational firms are influenced by their respective economic theories. In their decision-making process, where to locate in host countries, it depends on their expected profit margins that are culturally increasingly influenced by the main objective of maximizing shareholder monetized wealth. Moreover, in this regard, Multinational Companies (MNCs) critically implement their entry choice among the countries of the world according to the main specific objectives of Direct Foreign Investment (DFI) in terms of seeking market and production needs, efficiency reasons and resource diversification financial and physical considerations. Furthermore, the evasion of the restrictive regulations and taxes of the Home Country of Investors (HCI) can be another reason for the location in the host country. In general, MNEs strive for a global decentralization of their operations, which leads to the establishment of a worldwide logistics and research network (Alfaro & Chauvin, 2020).

7. The impact of FDI on Suez Canal economic area

Foreign direct investment (FDI) is considered the catalyst of economic development. It plays many roles including supplying finance, supporting economic association, and introducing modern technology. But any economy is a party to the development of an uncomfortable transition from agricultural and mining sectors to a developed economy. Also, Egypt is a part of this difficult process. Despite the existence of many investment incentives and proper infrastructure, particularly in connection with the Suez Canal, Egypt's share of international foreign trade is still limited. Triggering FDI is a possible way of accelerating the economic development process. Consequently, FDI can mean substantial transfers of capital, technology, and organizational skills (Fon et al., 2021).

The reason more FDI is not coming into Egypt may be, at least in part, due to the fact that many of the FDI promotion strategies used in Egypt may not be offering conditions that are sufficiently attractive to credible investors. The policy implications of the theoretical framework presented in this paper are thus highly pertinent. By focusing on how to improve the structure of investment incentives, and particularly those that promote truly sustainable development, an honest estimate on the welfare effects of FDI promotion could be made. The rest of the paper is arranged as follows: next, a closer look is taken at many of the investment incentives used in Egypt's general authorities for investment promotion and export development (GAFI) and at some of the recent legal improvements to the Suez Canal region incentives package. Then some evidence on recent FDI trends and on companies operating in the Suez Canal Economic Zone (SCEZ) is presented. The paper is then concluded with some overall theoretical and policy implications for increasing FDI in the future (Paul & Feliciano-Cestero, 2021).

8. Challenges and Limitations in FDI Promotion

Suez Canal Economic Zone-based branches and companies should not be assessed in isolation but in comparison with other possible locations in other foreign countries with similar regulations. Similarly, firms interested in locating state-of-the-art, high-technology, high education, and knowledge-intensive outfits in the Suez Canal Economic Zone need to investigate reasons why they should not move to United States or to advanced European countries. Egypt's approach to technology transfer, investment conditions, legal and fiscal constraints, and exchange regulations, has to target the right companies. It has to define and communicate the conditions of these companies, particularly when they come to finalize their business plans. Failure to understand these crucial principles will result in wrong policy measures and wrong FDI assessments and hence would cause benefits to be less than they could be. (Gokan et al.2024)

While the objectives and the outlook for the economic zones should encourage special treatment, it is important to maintain balance and avoid overregulation with its characteristic disincentives and unintended consequences. The specifications of these zones imply that direct investment promotion strategies would necessarily differ from Egypt's traditional horizontal investment promotion strategy. Measures such as fiscal incentives, preferential exchange rate treatments, and approval and licensing procedures had to be tailored to investors from different backgrounds, industries, technology levels, and risk profiles. International companies proposing to move offshore some or all of their routine business activities would be more sensitive to production costs, particularly with their garment, leather goods, and other light industry lines of business.

For these companies, promises of low-cost, high-quality Egyptian-based franchise production could be an important element of the "Channel forward" corporate strategy. Those international companies proposing to use Sohour-registered companies as regional or international marketing bases would be more concerned with legal and fiscal conditions in Egypt (Rodríguez-Pose et al.2022)(Joudeh, 2023)

8.1. Political and Economic Risks

While there have been many papers on the success factors of special economic zones (SEZs), several of which have measured an SEZ's performance in terms of its contribution to GDP growth, FDI and trade. However, no known papers have discussed the vulnerability of an SEZ establishment against institutional risk factors such as the capture of the regulators. This study adds to the literature by identifying the inherent attraction of a specific SEZ, and its susceptibility to exaggerated risk factors reflective of institutional behavior typical of emerging markets as added factors influencing the zone's level of attraction. Thus, we approach the success of the Suez Canal Economic Strategy in terms of the UNCTAD FDI promotion framework within the broader evaluation framework suggested by Yajima (2012), Julian and Ito (Denney and Xayamoungkhoun, 2023).

To discuss the variables that affect the success of the Suez Canal Economic Area (SCZone) FDI promotion strategy in the framework of the United Nations Conference on Trade and Development approach (UNCTAD), it is necessary to use a theoretical framework. Drawing on agency theory, we believe that both economic risks and political risks are a function of the risk of getting captured and the ability of the government (agents) to signal institutional commitments that increase investors' level of confidence in the country as being enterprise friendly. Furthermore, the success of the investment promotion strategy is also affected by the attractiveness of the destination location itself. Destination attractiveness is the sum of both traditional locational advantages as well as the unique advantages of special economic zones (SEZs). SEZs have been in existence since the 1950s and they are established similarly to domestic autonomous regions, such as the Suez Canal Economic Area (Tang, 2023; Song et al., 2024).

8.2. Infrastructure Gaps

This will have a positive impact on the public sector through an increase in the speed of infrastructure provision, in addition to its principal duty with regard to setting infrastructure standards and a related supervisory role. Competition will create high standards in infrastructure management. The private sector could, therefore, encourage high standards in a specific operation.

The infrastructure management of the SC Zone should be accountable, transparent and, thus, efficiently governed. The appropriate timing and modalities for the shift of responsibilities from the public to the private sector in infrastructure provision and lending, count as another important aspect that we believe needs to be addressed. An effective commercial policy for the SC Zone will allow an increase in the speed of infrastructure provision and ensure the maintenance quality of related services. The image of an area and its surrounding facilities attract the interest of investors. Cross-border initiatives such as SC Zone with surrounding northern African countries attract foreign capital and stimulate local companies to reform and modernize their infrastructure services (Ochuba et al., 2024).

The main criterion for the successful industrial operation of the SC Zone is the capacity of existing infrastructure networks such as transportation, industrial estates, and electricity generation. Sufficient space availability of the industrial areas is necessary to fulfill the potential industrial development in the area. Otherwise, potential investors will relocate to other competitive areas and effective development will not be obtained. The long term development strategy for the area should include investment in infrastructure, and a development plan of the area that is ready to be implemented, with the private corporate sector taking its responsibilities in developing the area to ensure good governance which will lead, ultimately, to its success (Knapp, 2024).

9. Conclusion and Future Directions

Nevertheless, we agree with the idea that advanced countries should be cautious not to diminish the property rights features that make them advanced. However, this does not imply that developing countries should avoid selectively adopting these practices. There are advantages and disadvantages to enhancing certain institutions, and it is important for host countries to capitalize on the potential benefits of more advanced institutions by encouraging FDI from suitable investors. This does not always require large multinational corporations. Yet, the ability of countries to utilize these differences varies, as property rights features can influence and be influenced by a country's economic development level. The purpose of this paper is to present a novel theoretical framework for analyzing the factors that influence the effectiveness of initiatives designed to attract foreign direct investment (FDI), with a specific focus on the property rights institutions of the host nation. The study demonstrates that in cases where the property rights institutions of the host country are deficient, implementing tailored promotional incentives targeted at select investors in particular sectors is preferable to employing more general strategies. By adopting this approach, the potential risks to these property rights attributes are minimized. Essentially, the state of a host country's property rights institutions determines the appropriate measures that should be adopted to foster FDI.

9.1. Summary of Key Findings

For this reason, commercialization or entrepreneurship is one of the critical determinants of attracting FDI, just as FDI is a determinant that the private sector interacts with. Again, there is a certain probability that the strategic FDI policy tool that efficiently interacts with financial dependence cannot have a simple institutional or governance-oriented solution because of the differences in the private sector in the SC local area. Then, the institution effect or its role is important because no universal strategic R&D model is equally efficient across the board for all establishments in or around the SC. These observations appear to be an accurate reflection of the nature of the SC profitability of a variety of services in order to become a significant participant in influential capital of the host country in the future.

Egypt's SC is an area tailored for investment institutions. This SC has several features, a variety of facilitations, and resources for potential local and multinational companies, competitive production environment, strategic location, and finally an array of employment, which are very important in attracting foreign direct investment (FDI). Foreign investor strategies and the SC's local area in which the FDI sets up investment is an important determinant of the potential benefits and costs of the investment and of the effects on the host country economic development.

The main focus of this paper is to propose a framework of FDI promotion strategies in the Suez Canal. The proposed framework argues that SC’s local area must compete to attract the best foreign direct investment strategy that maximizes the short-term and long-term benefits of the investments for investors, the local area, and the host-country Egypt.

9.2. Recommendations for Policy and Practice

First, there is a severe need to manage FDI in such a way that its potential for contributing to economic and social development objectives – through the achievement of Suez Canal Economic Area's mission and objectives - are optimized. Second, the influence of these project promotion dimensions constrains the extent of the implementation of the projects that are most attractive to Egypt in terms of their ability to contribute to the development vision. There are some concerns relating to the transfer of benefits, the extent to which FDI projects can only negatively impact the host country and the implementation of the projects in such a way that provides a country with sub-optimal benefits from their implementation. This paper addressed the economic environment in which policymakers or other stakeholders operate to attract FDI among investment projects. This is by proposing and discussing a framework that supports the development and implementation of policy and practice that promote the attraction of FDI targeting investment projects to help meet socio-economic development goals and targets. Given the widely acknowledged success of FDI in promoting countries' and regions' economic development, a better understanding of the parameters of attracting FDI is critical for policymakers and industry stakeholders in order to contribute to Egypt's sustainable resource development.

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