TOWARDS A STRATEGY TO MAXIMIZE THE SUSTAINABILITY OF ADVANTAGES OF FOREIGN INVESTMENTS: CASE OF THE SUEZ CANAL CORRIDOR PROJECT

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ABSTRACT: The Suez Canal Corridor Project (SCCP) is considered as the national mega project in Egypt within the 21st century. The initial estimate of the required investment for the project is one hundred billion dollars. Taking into account, being a global project and the domestic resource gap in Egypt, relying on Arab and international investments is essential. Despite Egypt's efforts of creating a favorable environment to attract investments, there is no guarantee for the sustainability of the advantages of the upcoming investments. Considering these aspects, the purposes of this paper is to identify the factors that currently attract investors to the project and to analyze if they can be valued in the long term. In order to reach these goals, specialized literature will be analyzed, the main characteristics of the project's area will be mentioned, the main factors might represent the sustainability will be studied.

Keywords: *FDI determinants, human capital, long term favorable environment, Suez Canal Corridor Project, sustainable development*

1. INTRODUCTION

The financial capital is considered one of the essential factors for the development of any country. There exist several determinants that affect and are affected by the inflows of investment in the country in general and to the mega global projects like The Suez Canal Corridor Project (SCCP) in particular. The new theories of growth that focus on long-term growth highlight the rule of foreign direct investment (FDI) in enhancing economic development. FDI inflows in port hinterlands has a positive impact on the economic health of regions as well as the nation as a whole (Cho and Ha, 2009). Contrary to developed countries, developing countries lack the funding sources. Accordingly, the challenge becomes on how to attract FDI and maintain the sustainability of the gains from the presence of it.

The initial estimate of the required investment for SCCP, as announced by the Chairman of The Suez Canal Authority, was one hundred billion dollars. Taking into

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ccount the huge investment cost; the domestic resource gap and being a global project, relying on a combination of local, Arab and international investments to fund the establishment of the proposed projects is essential. Despite Egypt's efforts of creating a favorable environment to attract investments to the project; there is no guarantee for the sustainability of taking the advantage of the upcoming investments. Especially with inviting foreign banks that targets to maximize their profits to be a partner in financing the project as it might contradict with the development plans for the project. Considering these aspects, the purpose of this paper is to identify the factors that currently attract the investors to the project and to analyze if they can be valued in the long term. In order to reach these goals, theoretical framework and specialized literature will be reviewed, the main characteristics of the project's area will be mentioned and the main factors might represent the sustainability and the long term advantages will be studied.

The paper's findings confirmed the literature as incentives to investment and location advantages are critical in locating foreign investment in the SCCP. Additionally, responses record the effectiveness of government incentives in addition to laws and regulations in supporting sustainability. Moreover, the results give effective supportive policies to be adopted by both the government and the projects to enhance sustainability.

2. THEORETICAL FRAMEWORK AND LITERATURE REVIEW

In a trial to find the theoretical basics of the research purposes the literature on factors attracting the localization of foreign direct investment, the concept of sustainable development, its dimensions and requirements of sustainability in attracting foreign direct investments to any country factors are reviewed.

2.1 Factors Affecting the Localization of Foreign Direct Investment

The first attempt that mentions the foreign direct investment (FDI) can return implicitly to the writings of the classical school of international trade in the Ricardian theory of comparative advantage. Although FDI cannot be explained explicitly by the comparative advantage theory due to its assumptions, the theory highlighted the theoretical possibility of the benefit from investing in sectors where the country has comparative advantages. Then in Heckscher-Ohlin's theory, international movements of capital responded to the variety of resource endowments between counties in order to gain from international trade (Kurtishi-Kastrati, 2013). Since then the internationalization of production processes and the spread of the activities of multinational corporations have inspired extensive research on the determinants of FDI in addition to theories that explain these determinants (Assunção *et al.*, 2011; Leitão, 2010).

Various theories on FDI set out a number of determinants that explained foreign FDI flows, involving the micro and macro dimensions. These theories refer to the flow of FDI to factors related to both host and donor countries. These theories include Heckscher-Ohlin Model /MacDougall-Kemp Model, Market imperfections, Oligopoly markets, Eclectic paradigm, new theory of trade, the Institutional approach, product life cycle, behavior theory and internalization.

MacDougall-Kemp built their model on the different abundance of capital between nations; and therefore its price and differences in marginal productivity between them. Accordingly, the model mentioned that capital moves from abundant countries to scarce countries and this can lead to the equalization between the marginal productivity of capital between nations (Nayak and Choudhury, 2014). Forssbaeck and Oxelheim (2008) advised countries to adopt international financial market segmentation as a way to motivate the financial benefits of FDI, as they mentioned in their research the determinants of FDI for European firms' cross-border activities.

Imperfect markets theories relate FDI to the actions of host countries to improve the investment climate and the business's environment of the country. According to these theories, the primary factor for FDI attraction is to make up normal ownership benefits from an imperfect market to overcome the high costs and risks of being a foreigner (Zvirgzde *et al*., 2013). These up normal benefits can be generated from the government incentives, discriminatory pricing, bargaining situations; and differentiated products (Assunção *et al.*, 2011; Forssbaeck and Oxelheim, 2008; Jadhav, 2012; Nayak and Choudhury, 2014). Forssbaeck and Oxelheim (2008) stressed on the importance of financial market imperfections in attracting FDI. Antràs *et al.* (2009) emphasized the role of market imperfections, such as the market power in affecting FDI inflows.

Eclectic paradigm or OLI paradigm theory suggests the engagement in FDI occurs if three main conditions are satisfied. The first is the ownership advantages over domestic and foreign competitors that can be generated from owning tangible and intangible assets that can reduce costs over the competitors. The second is to discover that it is considered best to do their own activities abroad by providing services to foreign companies to take advantage of them. The third is the location advantages of different countries to host the investment which is explained by the motivation of FDI (Gutiérrez-Portilla *et al.*, 2016; Jadhav, 2012; Kersan-Škabić, 2013; Leitão, 2012, Nayak and Choudhury, 2014; Stefanovic, 2008; Yin *et al.*, 2014; Zvirgzde *et al*., 2013). Casi and Resmini (2010) stressed on the importance of location advantages such as market potential, labour costs, the quality of transportation and communication services. Accordingly, the study concluded that FDI is best when located in dynamic regions. Gutiérrez-Portilla *et al*. (2016) stressed the importance of good transport infrastructure in attracting FDI. Leitão (2012) added economic and political stability to the factors. Gutiérrez-Portilla et al. (2016) added the own characteristics of Madrid and stressed the headquarter effect to the determinants of FDI inflow to Spain. Leitão (2010) found that the problems of macroeconomic stability discourage FDI to invest in Greece.

The new theory of trade identified the main factors attracting FDI in the country's characteristics including market size, the potential growth of the market, liberalizing the economy, trade openness and factor endowments in natural resources. Additionally, ownership and location advantages are critical (Assunção *et al.*, 2011; Franco *et al*., 2008; Gutiérrez-Portilla *et al.*, 2016). Several studies confirmed the importance of the country characteristics in attracting FDI. Jadhav (2012) studies the main determinants affecting FDI inflow in Brazil, Russia, India, China and South Africa using panel data for the period 2000-2009. The study found that the economic factors including the market size,

trade openness and natural resource availability are statistically significant in the model. Leitão and Faustino (2010) confirmed the same idea in studying the determinants of FDI inflow in Portugal. Walsh and Yu (2010) added economic indicators including income levels and exchange rate valuation, as well as development indicators such as financial depth to the determinants of FDI inflows. Demirhan and Masca (2008) stressed on the effects of the growth rate of per capita GDP, infrastructure quality, inflation rate and tax rate. Gutiérrez-Portilla *et al.* (2016) and Leitão (2012) added human capital, inflation, taxes and relative wages to the factors affecting FDI inflow. Leitão (2010) focused on the importance of relatively lower wages to attract FDI in Greece. Franco *et al*. (2008) highlighted the importance of low cost foreign works in attracting FDI.

The Institutional approach focuses on the governmental institutions factors in the host country that can create firm-friendly favorable conditions and affect the investors' decisions between FDI and licensing. These factors include fiscal and financial incentives, easy repatriation of capital, the legal framework and levels of corruption (Assunção *et al.*, 2011; Kersan-Škabić, 2013; Yin *et al.*, 2014; Zvirgzde *et al*., 2013). Zvirgzde *et al*. (2013) added the social pillar of societal values that the society embraces to the factors attracting FDI inflows. Leitão and Faustino (2010) found that tax exemption is statistically significant in affecting FDI inflow in Portugal. Walsh and Yu (2010) found that institutional factors such as judicial independence and labor market flexibility are critical in affecting FDI inflows to emerging markets. Gutiérrez-Portilla *et al*. (2016) stressed on the effect of liberal regulations in affecting FDI inflow. Leitão (2012) found that corruption has a negative effect on FDI inflow to Portugal. Kersan-Škabić (2013) also stressed on the importance of corruption and additionally he added large scale privatization, the development of trade, the overall infrastructure and forex systems to the factors affecting FDI inflow in of Southeast Europe countries. Forssbaeck and Oxelheim (2008) found that financial determinants are more important for firms originating in relatively less financially developed countries and for firms with high knowledge intensity. Sissani and Belkacem (2014) stated that in spite of the economic and institutional reform in Algeria during 1990 to 2012, foreign direct investments inflows was weak and insufficient. They found that the most important factors affecting FDI inflow in Algeria were the control of inflation and the high level of foreign exchange reserves.

The Product Life Cycle Theory relates the flow of FDI to the growth stage in the product life which affects the production function characteristics. When firms move from the innovatory to the standardized stage of production, it starts moving its production searching for the lower production costs. Accordingly, incentives given by the host countries, the location and the abundance of factors used intensively in producing these products can be the critical effects of attracting FDI (Gutiérrez-Portilla *et al.*, 2016; Nayak and Choudhury, 2014).

The behavior theory reflects the strategic rivalry between companies in the global market as it also explains the flows of FDI as a result of reactive behavior to the entry of competitors in certain markets (Assunção *et al*., 2011; Leitão, 2010; Nayak and Choudhury, 2014).

The Internalization theory explained that the FDI flows to advantages related to vertical and horizontal integration. While vertical FDI is affected positively by factors

such as the quality and costs of production factors or the endowments of natural and technological resources, horizontal FDI is more sensitive to market characteristics (Forssbaeck and Oxelheim, 2008; Gutiérrez-Portilla *et al.*, 2016; Zvirgzde *et al*., 2013). Antràs *et al.* (2009) stressed the significance of supporting factors to enhance horizontal or vertical motivations of FDI.

Referring to the previous theories and studies on the determinants of FDI, Franco *et al.* (2008) and Zvirgzde *et al.* (2013) distinguished three main broad classes summarized these determinants, namely (1) resource incentives, (2) market incentives, and (3) strategic assets incentives.

The first category includes all the incentives that can attract FDI inflows for reasons that lead to lower real factor costs relative to its value in the investors' home country. This category includes natural resources, skilled and unskilled labor, relative productivity of resources as well as technological and managerial capabilities. In addition to all the rest of the factors related to the location of the host country. This category covers the factors included in MacDougall-Kemp model, the Product Life Cycle Theory and Internalization theory regarding vertical integration.

Market incentives includes all the determinants of FDI inflow related to the demand size of the host country and the surrounding area including the market size, inflation rate, trade openness, exchange rate valuation, economic and political stability, institutional quality, corruption and regulations. This category covers the factors included in iimperfect markets theories, Eclectic paradigm theory related to the location advantages, the new theory of trade, Institutional approach, behavior theory and Internalization theory regarding horizontal integration.

Strategic assets incentives indicate all the incentives related to assets those are not directly related to the market transactions. This category includes infrastructure quality and technological progress. This category covers the factors included in the Eclectic paradigm theory related to the ownership advantages.

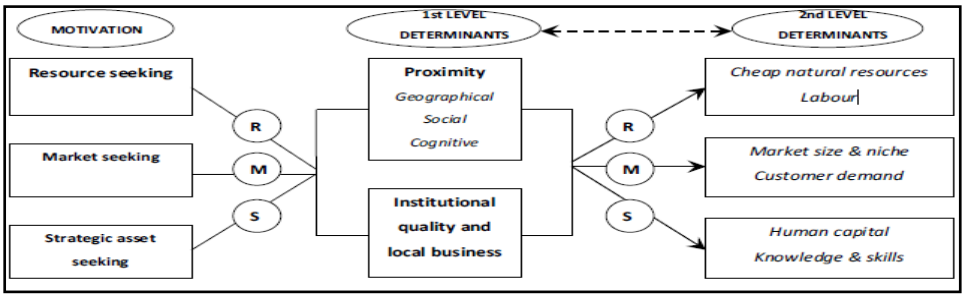

Figure 1. The Classification of FDI determinants

Source: Franco *et al*., 2008 and Zvirgzde *et al*., 2013

Since this paper aims on identifying the factors that can best explain FDI inflow to SCCP; the concentration will be on the macro factors related to the host country. The focus will be on resource seeking factors and institutional factors.

Regarding the determinants of FDI flows in port cities, few studies were found. Cho and Ha (2009) studied the main factors attracting FDI inflow to Pohang-Yeongil port

hinterland in South Korea. In order to explain the theoretical background of determining the factors affecting FDI flows two theories are used "resource-based view and institutional theory". From the resource-based view perspective the effective factors that attract FDI include location advantages relative to competitors, assets, capabilities, information, knowledge, organizational attributes and organizational processes. These factors can be classified into physical, human, or organizational capital and they emphasize the importance of human and organizational capital as physical capital can be imitated more easily. According to the institutional theory, institutional environments including laws and regulations, policies, norms, infrastructures, investment incentives, establishing free trade zones, forming industry cluster and cultures are the main determinants.

2.2 The Role of Capital Accumulation in Sustainability

The concept of "Sustainable Development" was launched by The World Commission on Environment and Development (WCED) as a "global objective" to guide policies oriented to balance "economic and social systems" and ecological conditions. It is often represented with the "triple bottom line of economy, environment and society" (European Commission, 2002; WECD, 1987).

Sustainable development can be defined as "meeting the needs of the present without compromising the ability of future generations to meet their own needs." It could be also defined as "the long-term" stability of the economy and environment, which is only achieved through the integration and acknowledgement of economic, environmental and social concerns throughout the decision making process. (Emas, 2015; WECD, 1987).

The main idea of sustainable development is to maintain at least the same stock of capital available over generations. Capital stock considerably includes three types of capital: natural[2], human and man-made[3] capital. From this standpoint, two levels of sustainability recognized in literature the first is the "weak sustainability", which explains that only the aggregate level of capital matters. Accordingly, man-made and manufactured capital can substitute natural capital. The second level is the "strong sustainability", which recognizes the unique features of natural resources that cannot be replaced by manufactured capital (Stoddart, 2011).

Sustainable development could be generated from several important principles, which can be briefed as follows (Dernabach, 1998; United Nations Conference on Environment and Development, 1992):

a. Intergenerational Equity Principle: it recognizes the long-term scale of sustainability in order to address the needs of future generations.
b. The Polluter Pays Principle: it states that governments should require polluting entities to bear the costs of their pollution rather than impose those costs on others or on the environment. Thus, government policy should ensure that environmental costs are internalized wherever possible.

[2] Natural capital can be defined as the stocks of natural assets.
[3] Man-Made capital describes goods that are used to produce other goods and services, such as manufactured capital, machinery and infrastructure.

c. The Precautionary Principle: it states that where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measure to prevent environmental degradation.

Mabey N. and R. McNally (1999) stated that economic theories of sustainability imply that economic growth depending on accumulating FDI lead to unsustainable patterns of development. Especially, the inefficient use of scarce natural resources coupled with the increased flows of trade and foreign investment unless if combined with more efficient use of natural resources. Accordingly, they concluded that the transition to sustainability requires policy changes that are often inconsistent with the economic incentives, higher resource exploitation and pollution.

The theoretical basis of sustainability and its relation with investment can be found in the optimal capital accumulation, the neoclassical, the modern neoclassical and the neo-Malthusians theories of growth. Solow (1974) stated that the boarder approach of the standard theory of optimal capital accumulation should consider the justice between generations. This should be done with special attention to the needs of the least favored group in each generation.

The neoclassical theory targets maximizing welfare by offering the widest number of people greater opportunities for consumption. The neoclassical approach believes that self-regulation of free markets in addition to technological advances are able to ensure capacity of substitutions endless between the various forms of capital, which will allow a sustainable development with a level of consumption that does not decrease over time (Dragulanescu, 2013). Within this theoretical framework, the sustainability of development is restricted if countries rely mainly on exhaustible resources because the theory assumed decreasing marginal productivity of capital, then only a finite amount of output can be produced and consumed. Accordingly, relying on exhaustible resources could decrease the level of consumption over time. This requires an efficient plan to reinvest in renewable capital (Solow, 1974).

The modern neoclassical theory recognized the importance of dynamic efficiency in which the costs of pollution and the need to internalize "external costs" on the private sector. The theory introduced "The decision-making rule of cost-benefit analysis model" which concerns socially efficiency of allocating resources. Consequently, the efficiency of allocating resources should be corrected to involve any benefits and/or costs that may result from environmental changes resulted from the allocation of resources (Turner *et al*., 1994).

The neo-Malthusians, who focused on the environmental crisis, found that population growth which requires enhancing economic growth caused a pressure on resources. Although the discoveries, which increased the supply of reserves of mineral and energy, and technologies which enhanced the productivity of them, the exponential nature of growth would lead to the depletion of much of resources. This requires changes in physical- economic- social relationships that can guide the development (Chenoweth and Feitelson, 2005).

From studying these theories, it is clear that, although they have different arguments, they agreed on that governments should enter affecting the directions of FDI in order to

enhance merging the social and environmental effects of allocating resources into consideration.

3. DEVELOPING PLANS OF SCCP AREA

SCCP is a mega project in Egypt launched on August 2014. It is considered the main mega project in Egypt in the century. The vision of the project is to transform the area of the Suez Canal into a world-class global logistics hub and industrial processing centre. One of the main objectives for this project is to adopt best practices to enhance sustainable development.

The project aims to develop 3 major regions along the banks of Suez Canal. These regions are Port Said, Al Ismailia and Suez. The project takes three phases, over a total of 20 years. In the first phase, Ports of Port Said and Suez will be transformed into global warehouses. Facilities will be built to serve navigation, related businesses and industrial projects. Additionally, a container terminal as well as a shipyard will be built and a new wave breaker, railways, dock walls, and telecommunications equipment will be put in place. The second phase includes establishing an industrial zone to host industries such as the textiles, packaging factories, machinery, building supplies, and ship maintenance centers in addition to light tourism. The third phase will set up a technology center in Ismailiya for technology, commerce, communications, and tourism (El-Asmar *et al.* 2015).

Figure 2. The Development Zones in SCCP
Source: Flanders Investment & Trade

Policy makers in Egypt believed that the desire to establish such a global hub requires the strategic alignment of the legal, economic, administrative and planning frameworks at both national and regional level.

In order to enhance sustainable development, the General Authority for the Suez Canal Economic Zone announced that the planned project targeted three directions.

The first is to enhance manufacturing in the three regions[4]. The second is to facilitate transportations around the development zone[5]. The last is to reduce negative effects of the concentration of industries and supportive activities in the three regions through adopting some ecological projects (Zaafarany and Alsahar 2014).

To support its role enhancing sustainable development and putting into consideration the centralization of manufacturing activities, planners supported having some ecological projects in the three major regions as follow:

a. Wind farms to supply renewable power to the Suez Canal Zone in Rural Suez (Ras Sedr).
b. Solar PV Fields to supply renewable power and support the development of the solar power industry in Egypt. it is proposed to locate in East Ismailia and Rural Suez.
c. Waste to energy incineration plants to diversify energy sources and support waste recycling in East Port Said, El-Arish, Qantara and Ain Sokhna.
d. New desalination plants to provide long term water security to the Suez Canal Zone in Ain Sokhna and the North Coast of Sinai.
e. Combined cycle gas turbine power station to use waste heat to desalinate water or generate chilled/hot water for the district network, serving both industrial and residential developments.
f. New wastewater treatment plant and disposal system in East Port Said, East Ismailia and Ain Sokhna.
g. Provision of additional wastewater treatment capacity in West Port Said, Qantara, Ismailia City and Suez City.

The estimates of initial cost of project infrastructure can be as high as one hundred billion dollars according to the authorities' announcements (Troubled Waters, 2013). Two main factors led to attract foreign investors to step in. The first is the high investment costs coupled with Egypt's huge domestic resource gap. The second is to bring more global status of the project.

3.1 Incentives Given to Attract Foreign Investment for the Project

The SCCP is created under the law no. 83 of 2002 and it was amended in 2015. According to this law, SCCP is supervised and managed by the General Authority of the Suez Canal economic Zone which is an autonomous body created under Law no. 83 of 2002 and its amended in 2015. The General Authority has an executive powers of regulation and approval, including full authority to oversee all areas of operation, staffing, controlling budgets and finance, in addition to develop partnerships with developers and business facilitation services.

[4] The project targets establishing manufacturing activities in three main areas (East Port Said, Qantara and Ain Sokhna) as shown in figure 2.

[5] Studies set 28 major projects to develop the Suez Canal corridor, 6 of those projects are necessary. Those 6 projects are mainly aiming at facilitating transportations around the development zone. These projects include developing the Cairo-Suez –Ismailia roads into free zone roads, constructing Ismailia and south of Port Said tunnels to connect between the west and east banks of the Canal and developing Neouiba Port and Sharm Al Sheikh air port. In addition to extending the Ismailia sweet water channel till the new development zone along the Suez Canal (Zaafarany and Alsahar 2014).

In order to have the ability to compete with similar areas, the Special Zones Law no. 83 of 2002 (SZ law) and its amended no. 27 of 2015 (SZ law amended) gave several advantages in order to provide an investor friendly business environment including:

a. The independency of the General Authority: the authority has the public legal personality. Additionally, it is, with no others, competent to apply the provisions of the law (Article 4 of the SZ law amended).
b. The one-stop-shop: article 13 of the SZ law provides the authority with the capacities of the Ministers with the exception of the ministers of defense, interior, foreign affairs and justice to achieve its independency.
c. The Access to Domestic Market: articles 21 and 42 of the SZ law stated that products of the zone can enter to the domestic market. Customs should be paid only on the imported components.
d. High Quality infrastructure: The law authorizes the Board of Directors of the Authority to approve the appropriate planning, execution and management of the area internal infrastructure or it can assign a development company to apply and manage the internal infrastructure (Article 17 of the SZ law amended).
e. Full exemption from duties and sales tax: the SZ law provides investors with certain tax and customs benefits including sales tax, fiscal stamps and fees (article 41). Additionally, article 42 exempts all the imported purchases from tax and customs as long as they are allocated to produce goods and services.
f. Complete protection of private property: article 43 of the SZ law clarifies that the companies and branches established within the Zone shall not be nationalized. Moreover, article 44 states that they will not be subject to sequestration and their funds will not be seized, confiscated, frozen or put into custody without a court ruling.
g. Full freedom to determine the prices of products: article 43 of the SZ law states that companies and branches working in the Zone shall set exclusively their prices for their products.
h. Full exemption from export and import procedures: all the companies and branches working in the Zone may import or through others their needs of production or export directly or through others without having a permission (article 48 of the SZ law).
i. Non-tax benefits and incentives for certain industries: the addition to article 38 in the SZ law amended clarifies the possibility of granting projects with operating heavy labor or working to deepen the local component in their products or those which work in the areas of logistics, power and renewable energy and agriculture concessions with non-tax incentives.

3.2 Restrictions on Investments to Ensure the Sustainability of Development

Achieving sustainability is one of the key commitments and objectives of the work of the Suez Canal zone. Consequently, The General Authority for the Suez Canal economic Zone aimed at supporting sustainable development with its three dimensions – economic, social and environmental dimensions - in the SCCP. From the economic perspective, it is

targeted to use the SCCP as a locomotive of development in Egypt to enhance economic growth and employment in addition to fight poverty.

From the environmental perspective, the project targets maximizing the efficiency of the use of energy, materials, water and waste in addition to promoting biodiversity. To achieve these goals, the legislator has set a number of rules and incentives to combine with the economic returns of the project, including:

a. Setting the general policy of the Zone taking into account the environmental aspects: the SZ law gave the authority a full power to set the general policy of the Zone and manage it putting into consideration the commitment towards the environment through establishing the conditions that should be met for granting environmental permits for at least the requirements stipulated in the environmental protection act[6] (articles 13 of the SZ law and the same article in its amended).
b. The integration of the concerned authorities to preserve the environment in the decision-making: article 10 of the SZ law stated that the board of directors of the authority should include a representative from Ministry of Environment. Moreover, if the board assigned establishing and managing infrastructure to a development company, the license should include a commitment to protect the environment and application of environmental management systems in order to conservation of plants and rare creatures, treatment of dangerous wastes, commitment to technical terms of such treatment, all in coordination with environment affairs system (article 17 of the SZ law amended).
c. Incentives for eco-friendly projects: article 38 of the SZ law amended gave the authority board of directors the right to grant projects which invest in the areas of electricity from conventional, new and renewable energy or agricultural projects concessions and non-tax incentives.
d. Ensuring the application of environmental management systems to preserve rare plants and organisms: article 17 of the SZ law authorized the Board of Directors of the Authority to include protecting the environment and implementing environmental management systems in order to preserve rare species of flora and fauna in licenses to the development companies and investors.
e. Licenses to investors include the environmental terms and standards: article 14 of the SZ law gave the board of directors the authority to issue licenses to establish projects in the Zone including the environmental and professional health and safety licenses.

From the social perspective, the project targets engaging in corporate social responsibility while promoting health and safety across all facilities. To achieve the social goals, the legislator has set a number of rules, including:

a. Reducing unemployment rates in Egypt: article 38 of the SZ law amended gave the authority board of directors the right to grant projects with operating heavy labor concessions and non-tax incentives.
b. Reviewing the percentage of foreigners to Egyptian workers: article 34 of the SZ law amended gave the authority board of directors the ability to set the regulations for

[6] This includes also the systems and procedures of imports and exports from and to the Zone.

obtaining work permits for foreigners in the region taking into consideration the percentage of foreigners to the Egyptians provided in governing laws unless the authority board of directors issues a reasoned decision to amend this percentage for a project in light of the availability of the required competencies locally.

c. Ensure labor rights and set minimum standards for labor rights: article 13 of the SZ law stated that the Board of Directors is responsible for taking all the decisions and measures including the approval of the rules regulating labor and social insurance systems within the Zone. Article 35 of the SZ law stated that the special insurance system issues inside the Zone should grant privileged not less than those stipulated in social insurance legislation. Moreover, article 28 of the SZ law identifies the minimum levels of labor rights to be the provisions of the labor law.
d. Regulate terminate labor contracts to ensure the interests of workers: articles 30 and 32 of the SZ law regulate terminating employment contracts and defines the minimum duration needed to notify the worker with the employer's intention to terminate the employment contract before doing so. Otherwise, the employer shall pay the employee's full period wage, and without prejudice to other worker rights.
e. Support human capital capabilities: article 4 of the SZ law gave the authority the right to provide training programs to assure providing skilled labor. Moreover, article 13 of the SZ law stated that the Board of Directors is responsible for approving systems and plans required for training in different fields and implement them directly or by agreement and cooperation with third parties.

4. METHODOLOGY

Even though incentives do exist to encourage foreign investment in SCCP, there is no guarantee that the country will take the advantages of the potential benefits of investments. This requires matching the grants given by the government to investors with what are awaited by them on one hand; and the requirements of ensuring the sustainability of returns on the other hand.

4.1 Survey Questionnaire

A survey methodology is used to know the effective incentives to attract foreign investment from the investor's perspective in addition to regulations that ensure the sustainability of returns from these investments. The first draft of the survey was designed after reviewing the literature in the second section. Then the first draft was revised according to academics and experts' suggestions. At last final questionnaire is structured. The length of the survey is limited to four pages to enhance the response rate. Tests showed that it takes approximately twenty minutes to be filled in.

4.2 Sample and summary statistics

The sample chosen in the survey included academic experts, decision makers from the Authority and international companies those operate in the fields contained within the Zone activities. The survey was mailed to 45 academic experts, between domestic and foreigners, in addition to investor relations and international relations in 116 international and multinational corporations in the fields of food & agribusiness, textiles & closing, light engineering, automotive, communication & information technology, packaging, machinery, building supplies, petrochemicals and ship maintenance whose e-mail addresses were obtained from the internet as responsible in the General Authority for the Suez Canal Economic Zone did not help in providing the authors by a list of the targeted foreign investors. Table 1 in the appendix presents the sample firms chosen in the sample. The researcher also promised to send a copy of the findings to those who wished to receive it.

Most of the respondents are experts; 90 percent of total experts mailed gave responses. The proportion of respondent companies did not exceed 10%.

5. RESULTS

The final questionnaire includes two main parts preceded by inquiring about the knowledge of the existence of The SCCP and its components. The first part targets identifying the main determinants of foreign investment in general and particularly in SCCP. The second part aimed at determining the most efficient ways of government intervention in addition to the most effective incentives needed for the sustainability of benefits those are acceptable from the investor's perspective.

5.1 Determinants of foreign investment

Participants were asked nine questions to set and arrange the factors affecting the decision of companies to invest abroad divided between two categories. The first category aimed at determining and arranging the factors attracting FDI in general. Three sets of factors were selected based on a review of literature (resource incentives, market incentives and assets incentives). Additionally, participants were asked to arrange the factors affecting the company's decision to invest abroad regarding the resource incentives, market incentives, assets incentives, business environment and governmental institutions factors. In each question, participants were asked to rank the importance of each factor on a scale starting from 1 for the most important.

The second category targets determining and arranging the factors attracting FDI to the SCCP in particular. Questions were asked related to the main factors that can attract or discourage FDI to be located in SCCP.

The results shown support the literature listed in section 2.1. About 68 percent of respondents rank the market incentives as very important and 60 percent rank the resource incentives as important in affecting company's decision to invest abroad. The assets incentives are ranked as the less important in affecting company's decision to invest abroad as shown in figure 3.

The most influencing factor in affecting the company's decision to invest abroad regarding the market incentives in responses is business environment in the host country

with 52 percent of respondents. The market size and the potential growth of the market are ranked as important with 40 percent of responses. Liberalizing the economy of the host country is ranked as the less important as shown in figure 4.

Responses explain that the most influencing factor in affecting the company's decision to invest abroad regarding the resource incentives is human capital abundance and lower wages with 60 percent of respondents. The labor market flexibility is ranked as the less important as shown in figure 5.

The most influencing factor in affecting the company's decision to invest abroad regarding the assets incentives in responses is good transport infrastructure with 72 percent of respondents. A managerial capability is ranked as the less important as shown in figure 6.

As business environment is ranked the most influencing factor of the market incentives category, respondents are asked about the most important factors affecting the business environment in the host country. Responses explain the most influencing factors in affecting business environment as government incentives, guarantees for the transfer of profits abroad and economic and exchange rate stability. The less important are the ability to discriminate prices and the bargaining situations.

Responses record the most important governmental institutions' factors in the host country that can affect the investor's' decisions as fiscal and financial incentives, securing retrieve the capital and the levels of corruption.

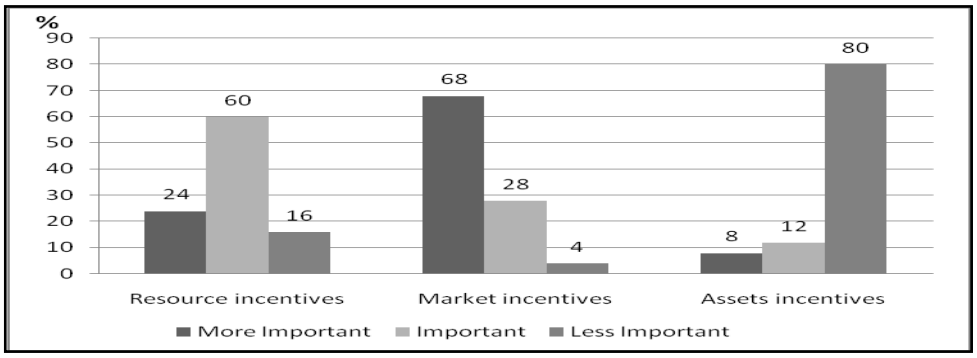

Figure 3. The factors company's decision to invest abroad

Source: Calculated from the questionnaire results.

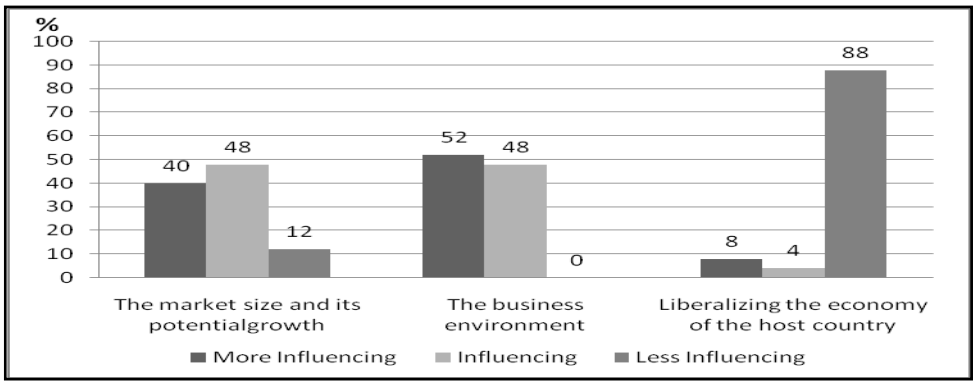

Figure 4. The market incentives factors affect company's decision to invest abroad
Source: Calculated from the questionnaire results.

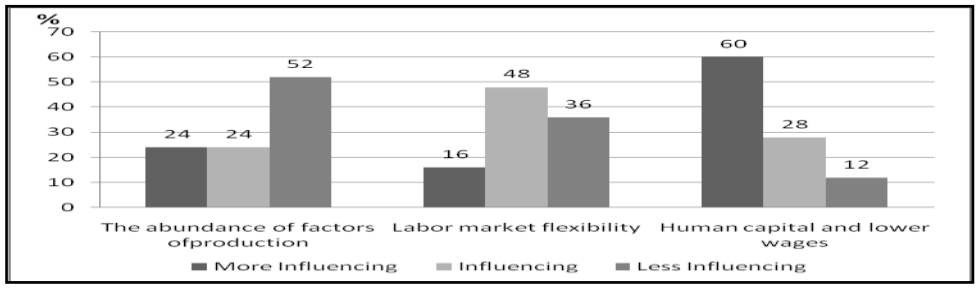

Figure 5. The resource incentives factors affect company's decision to invest abroad
Source: Calculated from the questionnaire results.

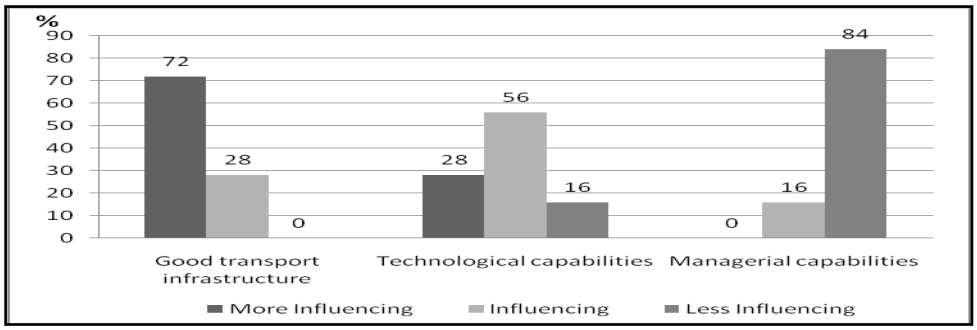

Figure 6. The assets incentives factors affect company's decision to invest abroad
Source: Calculated from the questionnaire results.

5.2 Determinants of Foreign Direct Investment in the Suez Canal Corridor Project

Participants were asked four questions to set and arrange the factors affecting the decision of companies to invest in the SCCP. The results shown highlight the importance of incentives to investment (83.3% of participants), location advantages (60% of participants), full foreign ownership of companies (46.7% of participants) and full foreign

control of import/export activities (43.3% of participants) as motivations of foreign investments to the SCCP as shown in figure 7.

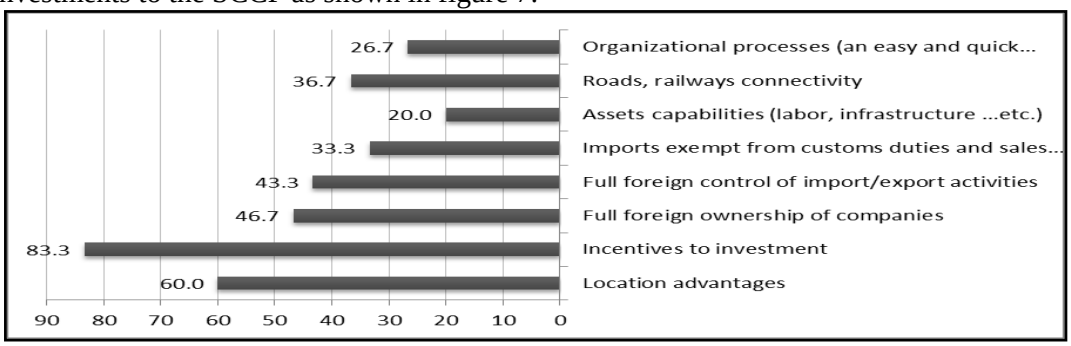

Figure 7. The main motivations of foreign investments to the SCCP
Source: Calculated from the questionnaire results.

On the other hand, the main obstacles and constraints according to participants are government bureaucracy (90% of participants), economic instability (86.7% of participants) and restrictions on the transfer of capital (66.7% of participants) as shown in figure 8.

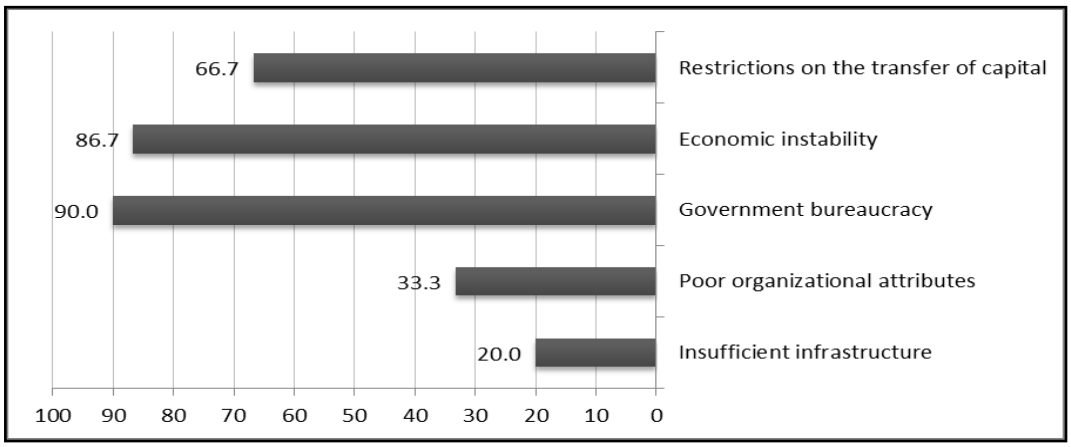

Figure 8. The main obstacles of foreign investments to the SCCP
Source: Calculated from the questionnaire results.

5.3 The most efficient ways of government intervention to support sustainability in the SCCP

Four questions were asked to determine the most efficient way of government intervention to support sustainability in the SCCP in addition to arranging the effective factors support the sustainability of benefits. In each question, participants were asked to rank the importance of each factor on a scale starting from 1 for the most important.

Responses record that 67.7 percent of participants agreed that setting up more obstacles on foreign investments to ensure sustainability in the project would restrict FDI. The wondering result was the rejection of 29 percent of participants to the previous

hypothesis. Their reason was that the sustainability of development became a global target. Accordingly, companies started in response taking it into account, either as a marketing tool for their products or as a part of its societal responsibility.

Regarding the best tools to support the sustainability of FDI to the SCCP, responses record that 87.1 percent of participants agreed about the effectiveness of government incentives. Moreover, the results shown highlight the importance of laws and regulations in supporting the sustainability. In contrast participants rejected restrictions to be used as an effective tool to enhance sustainability as shown in figure 9.

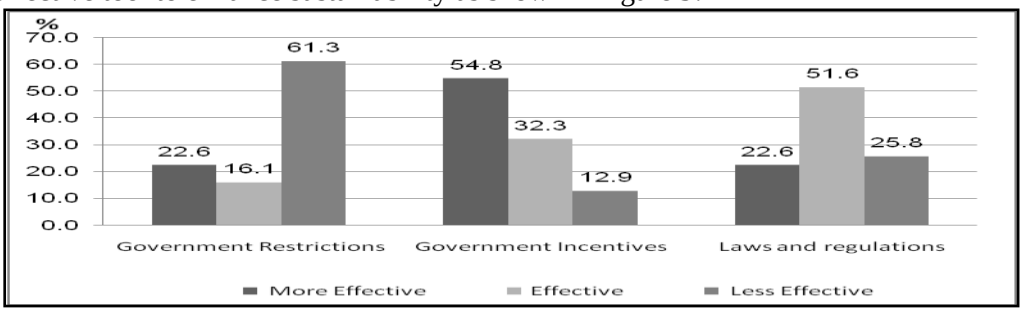

Figure 9. The best tools to support sustainability of benefits from FDI to the SCCP
Source: Calculated from the questionnaire results.

The results shown highlight the importance of adopting supportive of sustainability policies by both the government and the projects. Governments need to review related legislations, find a way to include both positive and negative environmental externalities into prices and focus on cultural issues to improve the quality of life. Projects are required to focus on the reuse of waste and use renewable sources of energy.

6. CONCLUSIONS

The study highlights several important conclusions. First, the market incentives and resource incentives are critical in affecting company's decision to invest abroad. Second, the most influencing factors of business environment that affect the company's decision to invest abroad are market incentives and market size and its potential growth. Third, the most influencing factors in affecting business environment are government incentives, guarantees for the transfer of profits abroad and economic and exchange rate stability. Fourth, the most important governmental institutions' factors in the host country that can affect the investor's' decisions are fiscal and financial incentives, securing retrieve the capital and the levels of corruption. Fifth, the results highlight the importance of incentives to investment, location and full foreign ownership of companies in affecting the decision of companies to invest in the SCCP. Sixth, the main obstacles of investing in the SCCP are government bureaucracy, economic instability and restrictions on the transfer of capital. Seventh, the best tools to support the sustainability of FDI to the SCCP are government incentives and laws and regulations in supporting the sustainability.

7. RECOMMENDATIONS

Recommendations include suggestions handled at the state level as a whole and at the level of institutions.

First: At the state level:

a. The legislature is required to review the laws and regulations to focus on supporting the sustainability especially from the environmental perspective.
b. More of efforts are needed to apply both fiscal and financial incentives to attract investments included in the law, basically ease of retrieving capital back, combined with further efforts towards the fight against corruption.
c. Minimizing government bureaucracy through speeding the activation of the one-stop-shop described in article 13 of the SZ law.

Second: At the institutions level:

d. The Ministry of Environment is required to activate its membership in the board of directors of the authority to emphasize the commitment to protect the environment including managing infrastructure and licensing projects.
e. The General Authority for the Suez Canal economic Zone needs to focus on the business environment especially government incentives, guarantees for the transfer of profits abroad and economic stability.
f. The General Authority should focus in its marketing for the investment in the zone on incentives to foreign investment, full foreign ownership of companies, full foreign control of import/export activities and imports exempt from customs duties and sales tax.
g. The General Authority should focus on taking advantage of legal provisions that grant the right to intervene to protect the environmental and social aspects, including ministries, authorities and the right to grant additional benefits to projects that take into account the environmental dimension.
h. The General Authority should focus on giving incentives to using renewable sources of energy, the reuse of waste and reregulating production structures to include environmental externalities into prices as the effective factors to support the sustainability of foreign direct investment to Suez Canal Corridor Project.

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Appendix
Table 1: the sample firms

Food & agribusiness (10)		
Agri-Vie Investment Advisors	Archer Daniels Midland Company	Adler Seeds, Inc.
AfricaJUICE	Adecoagro	Agria Corporation
Cargill	Nestlé	Monsanto
Light engineering (23)		
JACOBS ENGINEERING GROUP, INC.	HALLIBURTON	URS CORP.
WASHINGTON GROUP INTERNATIONAL, INC.	BECHTEL CORP.	CH2M HILL - Dubai
FLUOR CORP.	Foster Wheeler Arabia Limited	Kvaerner
Day & Zimmermann	Electrical Construction & Maintenance	Aker Solutions
Parsons Brinckerhoff	STONE AND WEBSTER, A SHAW GROUP COMPANY	HDR
CB&I	Construction Market Data Group	ARCADIS
Burns & McDonnell	Visayan Electric Company	Mustang
AECOM		
Automotive (22)		
Citroën Egypt	Brilliance Auto	Ferrari
Peugeot	BYD	Fiat
Renault	Chery	Daihatsu Misr Co.
Audi	Opel	Datsun
BMW Group	Volkswagen	Honda
Mercedes-Benz	Alfa Romeo	Isuzu Truck
Mitsubishi Motors	Nissan	Subaru
Toyota		
Communication & information technology (9)		
Huawei	*Apple Inc.*	*IBM*
Intel	*Samsung Electronics*	*Panasonic*
LG Electronics	HP *Inc.*	*Foxconn*