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## PhD Project

# Impacts of investment barriers on agricultural trade - Effects on Regional trade agreements

## Objective

The role of FDI for international trade in general has long been recognised. "..., approximately two-thirds of global trade is influenced [...] by past FDI decisions" (Sauvant and Roffe, 1999). In the agricultural and food industry FDI is a very important activity as well: In 2003 the overall amount of EU15 investments in these sectors was 4.2 Bn € (EUROSTAT, 2006). Significant shares of these investments go to Mediterranean countries and EU-based Multinational Enterprises (MNE) are the major foreign investors in this region. In 2000 the EU15 FDI stock for all Mediterranean Countries amounted up to 23 Bn € which is twice as much as the one by the United States (10 Bn €) (Quefelec, 2003). But still the FDI flows into the Mediterranean Countries from the EU15 are comparably low even though the trade and investment barriers are reduced through the Euro-Mediterranean Partnership

The first objective of this study is an analysis of the determinants relevant for EU FDI into the Mediterranean Countries. In a second step the characteristics of European MNEs that invest in the Mediterranean Countries are to be identified. In conclusion, the existing linkage between trade and FDI movements shall be quantified and the interaction between the two in the context of regional trade agreements shall be analysed.

## Theoretical Background and Methodology

FDI with its own theory which encompasses three main economic theory fields (trade theory, theory of the firm and theory of international capital markets). Therefore an understanding of the determinants that affect the FDI outflows of the EU15 is important. This will be conducted through an estimation of the defined determinants.

The second part of the study will focus on the development of a model that reproduces the behaviour of factor movements when introducing not only a tariff barrier index but also an investment barrier index.

In a third step European MNEs are clustered through various financial ratios. The impact of the different ratios on the decision to invest abroad or not is quantified through a multi-linear regression analysis.

Finally, the results of the first two steps will be brought together when analysing the impact of regional trade agreements on FDI and trade.

## Preliminary Results

First results show that the defined determinants in previous studies can be identified as important determinants for FDI from Europe into the Mediterranean Countries. For



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a better clarification of the results the analysis has also been done for the Mercosur countries as a reference group.

Model	Predicted Sign	Mediterranean countries	Mercosur countries
GDP <sub>j,k</sub>	+	0.589 *** horizontal 0.101	0.771 *** horizontal 0.114
SUMGDP_AGR <sub>i,j,k</sub>	+	-0.468 *** vertical 0.118	-0.395 *** vertical 0.147
DISGDP <sub>i,j,k</sub>	+	0.152 horizontal 0.127	-0.139 vertical 0.101
TCost <sub>j,k</sub>	+	-0.031 vertical 0.021	~ ~ ~
CONPRI <sub>i,k</sub>	-	0.029 ** vertical 0.014	-0.018 horizontal 0.041
SKILLDIFF <sub>i,j</sub>	+/-	0.023 vertical 0.026	-0.006 * horizontal 0.031
DISGDP <sub>i,j,k</sub> *SKILLDIFF <sub>i,j</sub>	-	0.003 vertical 0.095	~ ~ ~
ER <sub>j,k</sub>	+	~ ~ ~	0.095 ** 0.048
InvestCost <sub>j,k</sub>	-	-0.159 *** 0.031	~ ~ ~
Tcost <sub>j,k-1</sub>	+/-	~ ~ ~	-0.107 *** vertical 0.022
FDL <sub>i,j,k-1</sub>	+	0.216 *** 0.026	0.411 *** 0.061

Significance level: \* 10%, \*\* 5%, \*\*\* 1%

~ Variable not included in the estimation

Observations	179	187
R <sup>2</sup>	0.617	0.691
Adjusted R <sup>2</sup>	0.596	0.676

Whether vertical or horizontal FDI appears is not yet a hundred percent clarified.