

TAX FACTOR AND CAPITAL ATTRACTIVENESS

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Abstract

To determine the weight of the fiscal factor in the investment decisions of multinational companies in Tunisia, we conducted a survey of foreign companies established on Tunisian territory. There are 137 of these companies. They come from various origins, mainly French, Italian, American and German. We used the Multiple Correspondence Analysis (MCA).

Key words: Fiscal Factor, Investment Decision, Multiple Correspondence Analysis (MCA)

JEL classification: C38, H32

1. INTRODUCTION

Nowadays, states' economic problems such as unemployment, poverty, and rising foreign debts have intensified. This leads any State to seek adequate solutions to get out of the mentioned problems. According to some economists such as Moran (1999), the solution lies in attracting foreign capital. These authors see that the establishment of multinational companies is considered as an instrument capable even of breaking the vicious cycle of underdevelopment.

The attractiveness of the territory is a concept which designates its capacity to attract and retain both foreign and national companies. Coeure and Rebaud (2003) consider attractiveness as the ability of a country to attract and retain businesses. Mouriaux (2004) defines attractiveness as the capacity of a country to attract and retain activities with a high content of highly skilled labor.

For Market (2003), he considers attractiveness as the capacity of a country to attract foreign investment. He sees that multinational companies are gaining a prominent place as they decide where to invest. The competitive advantage of multinational enterprises will result from the competitive advantages developed by countries. Therefore, any state tries to prepare an environment favorable to investment to bring in multinational companies. Like all countries in the world, Tunisia is part of this international tax game and is trying to attract these companies.

The objective of this study is to empirically determine the weight of the tax factor in the investment decisions of multinational companies. In this work, we are interested in the investment policy of Tunisia to determine the weight of the fiscal

factor in the investment decisions of multinational companies. For empirical validation, we used the technique of Factor Analysis.

2. LITERATURE REVIEW

Investment is the object of greed in public policies. All states are working to adapt and reinvent incentive tools to be even more attractive to economic activity that generates jobs and wealth for the community.

The recent literature on foreign direct investment develops several considerations in this regard. Moran (1999) observe that the establishment of multinational companies is capable even of breaking the vicious cycle of underdevelopment. For this reason, competition from governments to attract foreign investment is not new.

For almost three decades, countries have offered various advantages to attract multinational companies. If territories need multinational firms, companies in turn need territories (Hatem, 2004). In this context, governments are increasingly improving their image vis-à-vis multinational companies.

These factors are in fact part of the logic of reducing uncertainties that determines the investment decisions of multinational companies. But these factors are far from being sufficient according to Michalet (1999). He sees that companies will only choose a territory after seeing certain location advantages, such as the size of the market, the conditions of the infrastructure, the quality of the industrial fabric, the educational and technological structure. Michalet (1999) concluded that the location decision for multinational companies is taken regardless of the existence of fiscal and financial incentives in cases where the project is profitable. He sees that the investor will come anyway if the location benefits offered match his overall growth strategy.

In this regard, several studies such as those by Young et al. (1994), Tersen and Bricout (1996), Gresik (2001), Beyer (2002), Ajan et al. (2006), Cheriet and Tozanli (2007) and Toumi (2009) argue that the tax factor is not a determining factor in the investment decisions of multinational companies. It should be noted that the previous research, even though it is extensive so far, has not considered the tax factor as an essential determinant in the decisions of multinational companies.

Our study is part of the research framework integrating the tax factor into the investment decisions of multinational companies established in Tunisian territory.

The objective of this study is to determine the weight of the fiscal factor in the investment decisions of multinational companies in Tunisia. To do this, we conducted a survey of foreign companies established on Tunisian territory. There are 137 of these companies. They come from various origins, mainly French, Italian, American and German. We used the Factor Analysis technique.

3. RESEARCH METHODOLOGY

Since independence, Tunisia has been interested in attracting multinational companies by establishing a regulatory framework for FDI. The evolution of the number of foreign companies established in Tunisia evolves with the evolution of the regulatory framework. For example, following the signing of the GATT / WTO agreements in 1994 which allow free trade and the creation of the investment incentive code in 1993, the number of foreign companies entering Tunisia has increased almost twice by 887 to 1520 companies. Similarly, following the creation of FIPA in 1995, the number of companies established in Tunisia also increased twice from 1520 to 3093 companies.

In order to appreciate the importance of the regulatory framework in attracting foreign capital, it is appropriate to observe the average annual flow of FDI in Tunisia. It should be noted that the average annual flow of FDI in Tunisia changes from one period to another even though this increase is slight. The notable evolution between (2002-2006) and (2007-2012), which is more than twice, is mainly due to the privatization operations and the acquisition of 13% of the capital of the Bank of Tunisia (218 million TND) and 15% of Tunisia (636.9 million TND). The privatization and acquisition operations in the period (2007-2012) are worth 854.9 million TND. These operations make the annual flow of investment in the period (2007-2012) worth 1604.9 million TND, which justifies the slight increase in annual flow of investment in Tunisia. FDI has largely benefited the sectors of research and exploitation of natural resources, in particular oil and phosphate - 50% of total FDI over the period 1991-2015 (OECD, 2018). In 2018, FDI inflows in Tunisia increased, by 22% (to USD 989 million), continuing their rising trend observed in 2017 after several years of decline recorded in 2012-2016. In the MENA region, FDI inflows increased by 9% in 2018 after an 18% decline recorded in 2017. (OECD ,2020)

From these data, we can say that the evolution of the regulatory framework necessarily generates the evolution of the foreign presence in Tunisia. As a result, Tunisia from independence undertakes to grant tax advantages to foreign investments which are mainly mentioned in Law 72 (Law n ° 72-38 of April 27, 1972). Concerning a special regime in favor of industries producing for export and the Investment Incentives Code.

3.1. DATA PRESENTATION

To collect the data, we carried out a survey carried out with a representative sample of 137 foreign companies belonging to different sectors, such as industry, mechanics, clothing, agro-food, insurance and banking, etc. The survey questionnaire consists of two parts. A part aimed at identifying the company surveyed (name, origin, date and place of establishment, share capital, turnover) and a part comprising closed questions asked to company managers to find out their suggestions. The description of the variables and their modalities is given in the table below (see table 1).

Table 1. Description of variables and their modalities

Questions	Variables	Modalities
What are the determinants of private investment?	Skilled labor Unemployment Weather Politics Geography Taxation	MOEUVRQUALF CHOMAGE CLIMAT POLITIQUE GEOGRAPHIE FISCALITE
Ranking of factors according to their degree of influence?	Skilled labor Unemployment Weather Politics Geography Taxation	MOEUVRQUALF CHOMAGE CLIMAT POLITIQUE GEOGRAPHIE FISCALITE
Weight of the tax factor in decisions	Totally agree Fully agree Maybe okay Disagree not agree at all	TTAFDAC BIENDACC PETRDACC PASDACC PASDTTDACC
Can corruption influence business investment decisions multinationals ?	Corruption	CORRUPTION

3.2. COMPANY PROFILE

According to the statistics of the FIPA, the number of foreign companies established in Tunisia are 3093 including 2413 the share of European companies which is almost 78%. To represent the sample, we interviewed 78% of companies of European origin (France, Italy, Germany, Spain, Austria and Turkey) established in Tunisian territory (see Table 2)

Table 2. Representativeness of the sample and distribution of companies by origin

	Number of firms	%
Sample size	137	100
Share of European companies according to the sample	106	77.37
French	28	20.43

German	22	16,05
Italian	19	13,86
Spanish	18	13,13
Turkish	12	08,76
Austrian	7	05,1
Total according to representativeness	106	≈ 78

The number of European companies questioned respects the real quota of European companies established in Tunisia, which is 78%. The dominance of the European presence in Tunisia can be justified by the cultural similarity and geographical location of Tunisia. The companies surveyed work mainly in the clothing (30.65%) and plastic (27.73%) sectors. These companies work mainly in exports and benefit from the tax advantages granted by law 72.

In Tunisia, the sectors of activity do not benefit from the same tax advantages. For this reason and to know the weight of the fiscal factor in the investment decisions of multinational companies established in Tunisia, we have chosen companies that work in different sectors, the companies surveyed are spread over all the Tunisian territory. It should be noted that Greater Tunis and the Tunisian Sahel region present the best destination for the companies surveyed, which number 86 companies, the equivalent of 62.76% of the entire sample while the border regions have a low chance to attract foreign companies. This breakdown shows that Tunisia has not succeeded in achieving the objective established in 1993 in the investment incentive code to encourage investment in regional development zones, that is to say it has not successful in achieving balance between different regions.

3.3. EMPIRICAL RESULTS

To study the existing relationships between investment decisions and determining factors, we used Multiple Correspondence Analysis (MCA). We are interested in analyzing the relationship between the investment decision and the factors of attractiveness. The MCA carried out on the 7 variables allows us to interpret 2 factor axes which give 51.62% of the total information. The positive side of the first axis (see Table 3) represents the investment decisions of companies that are influenced by the Geography and Taxation factor. These companies belong to the clothing sector. It should be noted that Tunisia constitutes a crossroads between Europe on the one hand and the Middle East and Africa on the other. Indeed, the geographical location of Tunisia constitutes an asset, since more than 52% of the respondents see that it is rather the geographical and climatic factors which push them to invest in Tunisia.

On the negative side, the first axis represents the investment decisions of companies which are influenced by the factors Politics and Unemployment. These companies mainly belong to the banking, industrial and agro-food sector. Note that 57% of the companies surveyed see that the human capital factor influences their decisions to invest in Tunisia. This is true if we look at the unemployment rate in Tunisia which is too high during the last decade. In addition, it should be noted that the cost of labor in Tunisia is relatively low if we refer to the Guaranteed Minimum

Interprofessional Salary and the Guaranteed Minimum Salary which are instituted by decree no. 73-247 of May 26, 1973.

Table 3. Contributions and help in the interpretation of the 1st factorial axis

Modalities	Coordinates	Contributions	Cos ²
FISCALITE	0.74	14.9	0.51
GEOGRAPHIE	0.55	11.6	0.62
FISCALITE	-0.69	13.9	0.67
CHOMAGE	-1.28	19.7	0.44
POLITIQUE	-2.79	9.7	0.17
NGEOGRAPHIE	-1.13	23.7	0.62

The second axis explains 22.36% of the total information (see table 4). It presents the investment decisions of companies which are based on the political factor and not the skilled labor factor. These companies belong to the banking sector.

Table 4. Contributions and help in the interpretation of the 2nd factorial axis

Modalities	Coordinates	Contributions	Cos ²
NMOEUVREQUALF	-1.95	45.7	0.73
OPOLITIQUE	-4.78	37.3	0.51

Only three companies surveyed, i.e. 2% of the sample (Table 5) see that the political factor is a determinant of their establishment in Tunisia, which is surprising compared to previous literature such as for example labor by SCHERER et al. (2000) who considers the political factor to be an essential determinant of investment. Political stability is in fact part of the logic of reducing uncertainties that determines the investment decisions of multinational companies.

Table 5. Breakdown of investment decisions by political factor

Modalities	Numbers	%
OPOLITIQUE	3	2,19
NPOLITIQUE	134	97,81
Total	137	100

Figure 1 shows the links between the modalities of the variables on the first factorial plane.

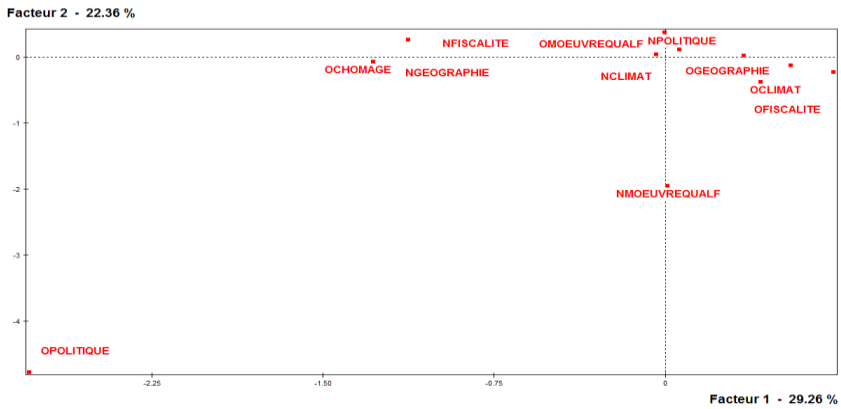


Figure 1. Presentation of the variables on the first factorial plane

From this figure, we notice that the POLITICAL variable is an atypical point. Most respondents (97.81%) consider that the political factor is not a determinant of their establishment in Tunisia. But the response of the said respondents can be explained by the exceptional situation experienced by Tunisia during and following the events of January 14, 2011. Because of the atypical period experienced by Tunisia and to have more effective and more relevant results, we will eliminate the POLITICAL variable from our study (see figure 2).

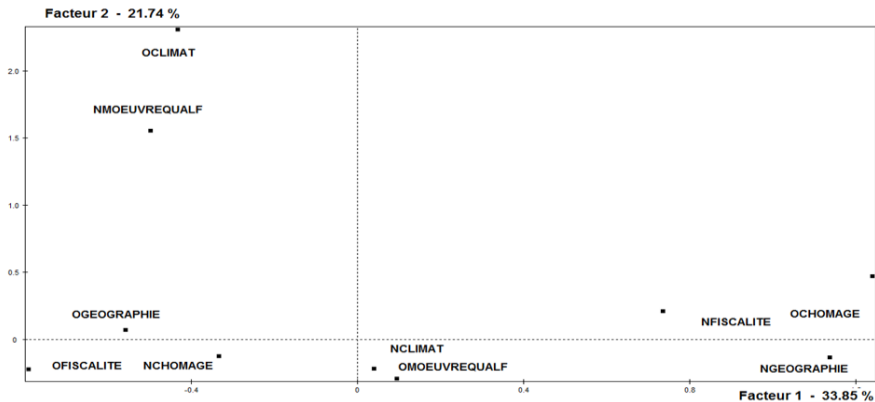


Figure 2. Presentation of the variables on the first factorial plane

We thus notice an increase in the share of information (55.69%) in addition to the factor axes give clearer relationships between the modalities of the variables (see figure 2).

We proposed a question to the respondents to determine the weight of the tax factor in the investment decisions of multinational companies. Thus, we have the fiscal factor and its rank in relation to the other determinants.

The MCA carried out on the 7 variables allows us to interpret 2 factor axes which give 38.97% of the total information (see figure 3). Figure 3 visualizes the links between the modalities of the variables on the first factorial plane.

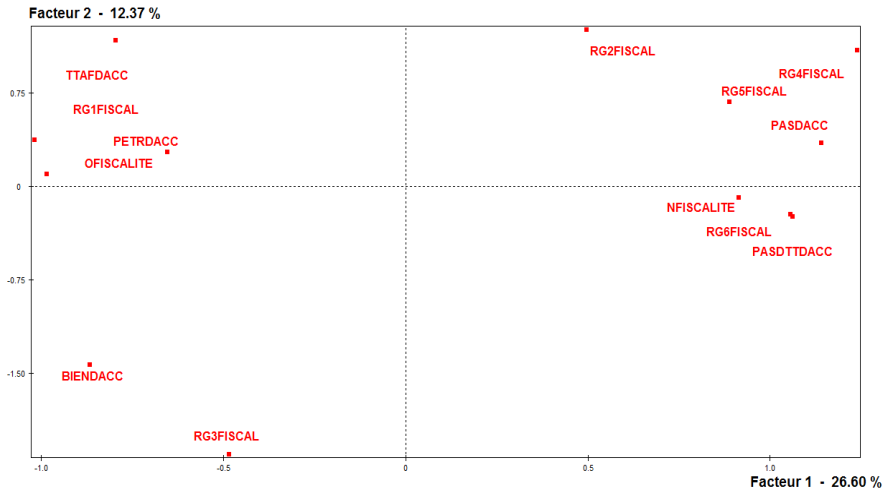


Figure 3 Presentation of the variables on the first factorial plane

The positive side of the first axis (see Table 6) represents companies that do not agree (PASDACC) and not at all agree (PASDTTDACC) that the tax benefits granted by Tunisia are satisfactory. They do not consider the tax factor to be an essential determinant in their investment decisions. These companies mainly belong to the banking, industrial and agro-food sector. The negative side of the first axis represents the companies which agree (BIENDACC) that the tax advantages granted by Tunisia are satisfactory. These firms see that the tax factor is an essential determinant in their investment decisions. They see that this factor has the first rank (RG1) compared to the other determinants. These companies benefit from exceptional taxation thanks to their establishment in the Regional Development Zones.

Table 6. Contributions and help in the interpretation of the 1st factorial axis

Modalities	Coordinates	Contributions	Cos ²
PASDACC	1.14	11.1	0.38
PASDTTDACC	1.06	7.4	0.24
NFISCALITE	0.92	16.3	0.90
RG6FISCAL	1.06	12.9	0.49
BIENDACC	-0.87	4.9	0.16
OFISCALITE	-0.98	17.6	0.90
RG1FISCAL	-1.02	16.3	0.74

The second axis explains 12.37% of the total information (see table 7). The positive side shows companies that strongly agree (TTAFDACC) that the tax benefits granted by Tunisia are satisfactory. These companies see the tax factor as a critical determinant in their investment decisions. These companies belong to the textile sector.

Table 7. Contributions and help in the interpretation of the 2nd factorial axis

Modalities	Coordinates	Contributions	Cos ²
TTAFDACC	1.17	12.1	0.17
BIENDACC	-1.43	29.0	0.44
RG3FISCAL	-2.15	38.3	0.53

The result of the survey indicates that 66 companies surveyed, more than 48%, see that the tax factor is an essential determinant of their establishment in Tunisia (see table 8).

Table 8. Weight of the tax factor in the decisions of multinationals

Modalities	Taxation	
	Numbers	%
Investment decisions of multinationals	66	48.17

The response of these companies is justified by the tax advantages they enjoy. These companies are either exporters or established in regional development zones. As a result, they benefit from the tax advantages cited by Law 72 and the Investment Incentive Code.

The conclusion drawn from the survey statistics is that the tax factor greatly influences the investment decisions of multinational companies. As a result, territories that offer more tax advantages and low taxes become the best destinations for multinational companies.

To highlight groups of companies that come together in terms of their investment decisions in Tunisia, either by sector of activity or by location and particularly the tax advantages granted, we have classified the companies surveyed. using the Ascending Hierarchical Classification.

We carried out a typology of our sample based on the coordinates of the different individuals on the first factorial plane obtained in our ACM. We classified our sample into three groups (see figure n ° 5) by the Ascending Hierarchical Classification (CAH) method and based on the semi-partial R² criterion (Tufery, 2005) for the choice of the number of classes.

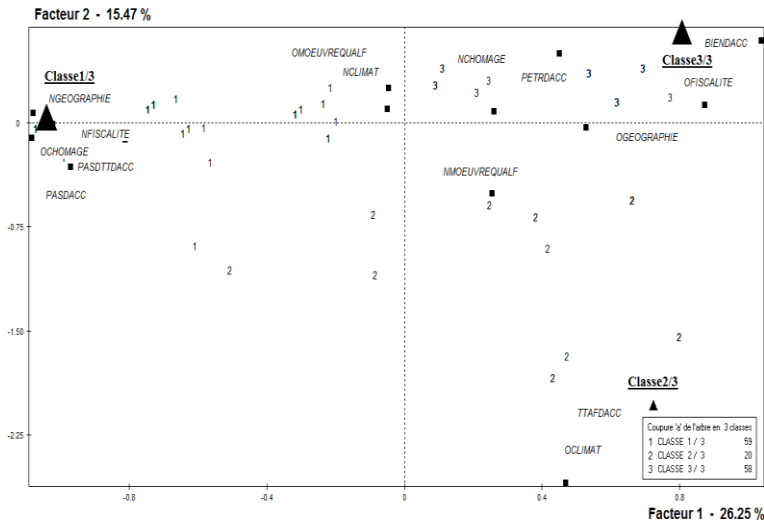


Figure 4. Typology of enterprises in three classes

Class 1: presents companies that do not completely agree that the tax advantages granted by Tunisia are satisfactory. These surveyed companies represent 51.9% of the entire sample. They see that there are no exceptional tax advantages on Tunisian territory. These companies belong to the banking, insurance and public works sector.

Class 2: presents companies that totally agree that the tax advantages granted by Tunisia are satisfactory. These companies represent 14.6% of the entire sample. They see that Taxation is an essential determinant of their establishment in Tunisia. These companies mainly belong to the textile sector. They benefit from the tax advantages granted by Tunisia and particularly Law 72.

Class 3: presents the companies which agree that the tax advantages granted by Tunisia are satisfactory. These companies represent 33.5% of the entire sample. These companies belong to the agro-food, electronics and mechanics sector. These companies are located in the Regional Development Zones which benefit from a preferential tax regime.

This classification shows that the existing relationship between the investment decisions of multinational companies and the tax factor in Tunisia generates two effects. The first is a positive effect, that is, a favorable tax system (more benefits and lower taxes) which increases the inflow of foreign capital. And the second is negative, the absence of advantages and the tax burden generates a weak inflow of foreign capital.

To tell the truth, the fiscal factor plays a preponderant role in the establishment of multinational companies on Tunisian territory, but it should be noted that there are other factors influencing the investment decisions of

multinational companies. The statistics revealed by the survey allow us to discover another factor which may be a little strange is the corruption factor.

Some companies surveyed consider that the corruption factor is a determining factor in their investment decisions. These companies belong to the industrial wiring, electronics, avionics and textiles sector. In fact, almost 40% of the companies surveyed see that the corruption factor is a determinant of their establishment on Tunisian territory (see table 9).

Table 9. *Importance of the corruption factor*

Modalities	Corruption	
	Numbers	%
Investment decisions of multinationals	54	39.41

In countries that are characterized by too much bureaucracy, corruption can act as a catalyst for administrative procedures. Note that in some cases, obtaining an agreement to open a banking business in Tunisia ranging from one year for prior approval up to two years for final approval. This is not the case in Switzerland, for example, where approval lasts almost 15 days.

The result of corruption found in our work is similar to the results found by Shleifer and Vishny (1993), Bardhan (1997), Kaufmann (1997), Rose Ackerman (1999), Wei (2000), Svensson (2005) and Cuervo-Cazurra (2008). In doing so, Tunisia is urged to reduce administrative requirements and avoid too much bureaucracy to minimize corruption.

Tunisia like all countries in the world complains of several economic problems such as unemployment, poverty and external debt. These problems force Tunisia to engage in the global game to attract more foreign capital supposed to be the best solution to the said problems. Everything is therefore possible to resolve these problems, under the strict and unique condition that the host country establishes attractive measures and strategies for multinationals, particularly tax strategy. Tunisia as a host country must take into consideration the importance of the fiscal factor which is considered an essential determinant in the investment decisions of multinational companies. Tunisia started its fiscal strategy as early as 72 years ago, but it has failed to reach satisfactory foreign capital. This insufficiency may be due to the nature of the fiscal advantages which are granted only to the export regime and to regional areas. Tunisia is therefore invited to revise Law 72, reduce customs tariffs, strengthen transparency and equality and reduce tax requirements.

But instead of strengthening the tax advantages granted to foreign companies and resuming the investment tax policy in force, the current Tunisian government has imposed additional tax burdens in the bills promulgating the 2014 Finance Law and the Code. investment. This finance law containing certain provisions goes against the investment and employment objectives set by Tunisia. These provisions are summed up in the level of the taxation of dividends distributed of 10% from 2015, the taxation of 10% of the profit tax of fully exporting companies.

In fact, taxes still remain at the heart of the issue of public development policies now and in the future. In the absence of other resources available to other countries, Tunisia's only source of income is taxation. Tax revenues alone represent more than 50% of total revenues. The tax base is mainly based on the formal sector, made up mainly of companies subject to the real regime. But, note that the tax burden he speaks of Ibn Khaldoun kills the tax "too much tax kills the tax".

4. CONCLUSION

We have devoted this article to the study of Tunisian fiscal policy. We were interested in determining the weight of the tax factor in the investment decisions of multinational companies. To study the existing relationships between investment decisions and determining factors, we used Multiple Correspondence Analysis (MCA). We are interested in analyzing the relationship between the investment decision and the factors of attractiveness.

Most of the companies surveyed express their expectations of the Tunisian public authorities. They hope that the Tunisian State encourages investment in Regional Development Zones, by ensuring the updating of the investment code, the reduction of the tax rate, the exemption of the profits of the first years, the elimination of subsidies, and adding more transparency and equality for all taxpayers, and most importantly to strengthen security against the underground economy.

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