# *The role of indirect foreign investment in revitalization emerging stock markets - Study of Egyptian market 2004 to 2017*

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*Received: 07/10/2018* *Published: 12/09/2019*

**Abstract:**

As a result of the efforts of developing countries to develop their economy and the lack of local sources of funding to support their development projects, the search for alternative external sources to improve the levels of development has started. which contributes with several forms, including external loans, but due to the danger of relying on this type in financing economic development, the focus has shifted towards the use of foreign investment, both direct and indirect to increasing the productive capacities of the local economy.

Given the wide scope of foreign investment and its relationship with the local securities markets, it’s important to recognize the role of foreign investment in the Egyptian securities market as an example of emerging markets. The study shows us that the foreign portfolio investment is one of the best finance resources for companies seek to start a new project or expending their existing projects especially for emerging markets and has a positive impact on global economy.

**Keywords:** Foreign Indirect Investment, Portfolio Investment, Foreign Capital Flows, Stock Markets, Emerging Markets, Developing Markets

## Introduction:

Developing countries, like the rest of the world, are seeking for many economic reforms and implementing a number of measures to adapt to various global challenges, among them was the establishment of their stock markets.

In order to keep abreast of the developments in the global economic arena, the governments of these countries have proceeded hard to link their stock markets to global markets, and that after the adoption of financial globalization policy to develop and activate the stock markets, after playing an important role in the global arena as a center for attracting an important aspect of international capital flows, namely, indirect foreign investment in these markets, which had a significant impact on the prosperity of many world's stock exchanges, while having a significant impact in the collapse of a number of them.

In this context, we will study an Arab country, Egypt, with regard to the reality of indirect foreign investment and its impact on the performance of its stock markets. Hence, the following problem can be posed:

**How important is the indirect foreign investment flows in improving the performance of the Egyptian stock market?**

In order to understand the aspects of the topic, it was divided into four consecutive chapters as follows:

1. Development Measures of the stock market performance.
2. Indirect foreign investment in the stock market.
3. Evolution of Egyptian stock market performance.
4. The impact of indirect investment on the of the Egyptian stock market activity.

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## Chapter I: Development Measures of the stock market performance

The development of capital markets has been linked to the development of the economy as a whole, at one of the stages of economic development; commercial banks dominated the financial sector and with economic development, the specialization of financial intermediaries increased and stock and bond markets have grown. In order to determine the extent of capital markets development and linking it to various indicators of the economy, economists relied on a set of indicators, the most important which is the size of the stock market (The capitalization of the stock exchange or the market value of shares and the number of companies listed in the stock market) And the the stock market liquidity (Trading value as a percentage of GDP (Gross Domestic Product), turnover rate and variations rate of stock returns). These indicators would allow economists and political decision makers to classify their countries and make comparisons between them according to the development level of their stock exchanges[(1)]. Because of the importance of secondary market activity to ensure the continuity of the primary market, the follow-up of the development of these indicators helps to correct the imbalances that may be included in the secondary market. The following is the presentation of the most important of these indicators:

### 1. Volume Indicators:

The size of the market is considered as one of the most important indicators of stock market development, this indicator can be determined by either the market value ratio relative to the GDP or the number of companies listed in the stock market. As for the size of the market compared to the capitalization rate of the stock market, it is calculated by comparing the market value of the shares listed on the stock exchange relative to the GDP. This indicator allows determining the extent to which the economy is affected by financing through capital markets. This percentage did not exceed one percent at the end of the seventies 1970s in many countries; however, this indicator saw a divergence between countries at the end of the 20th century, which exceeded twice the GDP of some countries such as Hong Kong, Singapore and Malaysia, while this ratio approached one in the United States and Japan[(2)]. This difference is explained by the extent of dependence of the financial sector on banks or on stock markets in financing economic operations [(3)]. One of the shortcomings of this standard is that it does not take into consideration some of the unlisted shares which are traded outside the official stock exchanges despite the role it plays in the economy [(4)].

The second indicator of measuring the size of the capital market is the number of companies listed on the stock market, and by shedding light on this indicator, the number of companies listed on the stock market during the nineties 1990s of the twentieth century turn up in general, according to the Global Development Index for the year 2001, the number of local companies listed on the stock exchanges was 25121company in 1990, This number jumped ten years later to nearly double by 49612 company. The rise in the number of companies listed on the stock exchanges is attributed to several factors, most notably the privatization of public companies, And to facilitate the procedures of listing in stock exchanges in many countries. In addition, the number of foreign companies has steadily increased in local stock exchanges as a result of the investment environment improvement of the receiving countries and the rise of the profit opportunities. When relying on this indicator to determine the size of the market, it is necessary taking into account the contribution degree of the listed companies in terms of capital traded on the stock exchange.

The division of the stock market capitalization on a variety of companies is an important indicator for the portfolio holders because of the diversification of risk given to them, which is the situation prevailing in the stock exchanges of the United States, Japan, Canada and Britain, Where the degree of concentration of market value of the exchange on a large number of companies. On the contrary, some multinational companies dominate the Swiss and Dutch stock exchanges, which mean the concentration of stock market activity in a limited number of companies. The concentration of the of the stock exchange market value is determined by calculating this value of the shares of the ten most active companies in the stock exchange and comparing it to the total market value of the stock exchange[(5)].

**2. Liquidity Indicators:**

The liquidity of the Stock Exchange reflects the ease of stock exchange dealings selling or buying, and it is considered as an important indicator to entice investors to deal in the stock market. The liquidity of the stock exchange allows reducing risk and achieves more appeal for funds as it gives savers the opportunity to collect their assets from stocks and sell them quickly and at appropriate prices whenever necessary, as if they have a desire to retrieve their savings or change their portfolio components.

Companies in the case of the stock market liquidity can raise their capital through new issuances to exceed the long time required by productive investments, which is reflected positively on the optimal allocation of resources. The provision of information and the spread of savings awareness in advanced and emerging financial markets have contributed in the rising of the value of stock trading in the world. The increase in the number of listed companies in the stock market and diversification of investment instruments has also contributed in the achievement of high trading values.

Among the indicators that help to calculate the degree of liquidity can be focus on the index of the trading rate, which determines the role of the stock market in the economy as a whole, and the rate of turnover, which determines the degree of trading activity on the stock exchange.

For the Value Traded Ratio, it reflects the value of traded stock exchange (trading volume) during a certain period as a percentage of GDP; it means the share of listed companies from the country's output that is market liquidity in the economy. The indicator of the trading rate complements the market value Indicator. It is necessary to take the results of both Indicators to make the analysis more accurate[(6)], the size of the stock exchange may be large as a result of the listed companies number or because of the market value rise of the stock exchange, the initial impression if the volume indicator is taken individually in this case is that the stock exchange concerned is active, However, a deeper analysis by taking into consideration the trading indicator may lead to the conclusion that this indicator is low, which means that the weight of the stock market in the economy of the country concerned is low, and therefore the lack of activity of the stock exchange, which contradicts the first result.

The turnover rate measures the value of traded stock as a percentage of the market value of the stock exchange; and the high rate indicates lower transaction costs. This indicator in turn complements the market value; the big stock market which is characterized by stagnation indicates that despite the high market value, the turnover rate is low. This indicator also completes the trading rate relatively to GDP, because the turnover rate is related to the size of the stock market while the trading rate is related to the size of the economy as a whole; the stock exchange, which is small in size with high liquidity, expresses its high turnaround rate despite a low trading rate[(7)].

The indicators of the capital markets evolution are very important, especially if they are linked to development indicators of the banking sector.

Therefore, it is possible to determine the extent to which the economy of the country is affected by different financing methods and the extent to which each method affects economic growth.

**Chapter II: Foreign direct investment in the stock market**

**1. The concept of indirect foreign investment:**

It is defined as an investment that includes all financial investments in government and institutional bonds and all types of shares owned by foreigners aiming to achieve profits and employing capital[(8)].

It is also defined as the ownership of private and government shares and bonds and other financial assets in the host country for the purpose of speculating and benefiting from price differentials or obtaining profits generated by bonds or shares provided that foreigners do not have the right to manage the project[9].

Indirect foreign investment is the investment in stocks of non-residents in a country in the local stock market by buying and keeping them to take advantage of the proceeds of financial assets, Or sell them to take advantage of fluctuations in prices and gain profits, provided that the investor does not have the right to manage or participate in the decision-making or control of the issuer of these stocks[10].

**2. Importance of indirect foreign investment:**

Indirect foreign investment has continued to grow where it reflects the globalization of financial markets, as the trend towards globalization is linked to the increase in the movement of international capital, which has affected the economies of different countries and the ability of both projects and constructions in obtaining the necessary funding from the global financial markets[11].

Indirect foreign investment is of great importance, especially for the host country because of its positive effects, including:

-Foreign investment in securities increases market liquidity and helps to develop market efficiency also, it also makes it wider and deeper, because in the stock market, the presence of a large number of sellers and buyers ensure the availability of the necessary liquidity[12].

-Indirect foreign investment is beneficial to the real sector of the economy, as indirect foreign investment can provide a source of foreign investment, especially to developing countries that are low capital, The advent of foreign direct investment improves the rate of investment by providing foreign exchange to developing countries, It also reduces the pressure of the foreign exchange gap of the least developed countries, which makes imports of investment goods easy for them, so these flows may lead to higher rates of economic growth[13].

-For developing countries, access to global capital in the form of direct and indirect investment flows leads to a significant reduction in the cost of project financing, This allows local people and companies to implement more investment projects, which in turn contribute to the development of real resources, In the long term, this is translated into higher living standards and higher rates of economic growth[14].

-Urged foreign participation in the local capital market to develop accounting rules and reporting systems and to raise the level of information disclosure for the company's performance, this is due to the request of the foreign investor (especially the institutional investor) for an advanced level of rules and regulatory procedures for dealing with information systems and good disclosure, as well as requesting an advanced level of services that help trading such as brokering, preservation, filing, settlement and clearing companies, which leads to increased growth rate and efficiency of Emerging Markets[15].

-Indirect foreign investment can achieve discipline and experience in local capital markets; in a deeper and broader market, investors have more incentives to allocate and spend resources in the search for new investment opportunities, in contrast, encouraging competition between companies in obtaining funding in turn help raise and develop the local economy.

-Leads to find installment that increases the efficiency of the local market by contacting foreign financial institutions that have advanced financial technology that will have the effect of attracting more flows and increasing knowledge of those markets, which in turn encourages foreign investment[16].

-Directing foreign investments to local stock markets means the movement of capital to that country, and this is one of the advantages that it increases the demand for the currency to which the currencies moving towards the markets, And lead to an increase in the supply of the currencies from which the capital is exported and thus the fall in their prices[17], This means a rise in the local currency when compared to its value in foreign currencies.

**3. Channels of foreign direct investment:** Indirect foreign investment channels mean different ways that enables a local investor access to the global stock markets or enable foreign investors to invest in the local stock market.

**3.1. Direct investment of stocks:** Direct investment of stocks means that foreign investors buy and sell stocks issued in a country directly in the local market and with local currency[(18)].

**3.2. International Investment Funds:** International Investment Funds collects money from investors to invest in many markets outside the mother country. Hence, we find what is international and what is regional, this type of investment has many advantages for the foreign investor or local companies in the local market of the mother country, it offers the investor the opportunity to diversify in international shares at low cost, thereby reducing the degree of risk to which they are exposed. For local companies, they offer the opportunity to access to global markets and reduced the cost of access to capital[(19)].

**3.3. Global issuances of stocks:** Global or international issuances of stocks are defined as stocks that are registered in the international financial markets, which allows them to be traded in many countries, these issuances usually require the availability of certain conditions for registration in global markets such as production and sales volume, ratios of production capacity utilization, the extent to which international accounting standards are followed and the extent to which the policies and principles of openness, transparency and other factors related to bonds, such as creditworthiness and the economic situation of the exporting country[(20)].

**3.4. Common Portfolios:** The joint portfolio is an independent investment company, It is established by commercial banks and other financial institutions such as pension funds, insurance funds and insurance companies, in which funds it has are invested rather than by direct expenditure to ensure regular and continuous flows in a manner that ensures a dynamic balance between their needs for current incomes to face the demands of customers and their constant desire to create new income[(21)].

**3.5. Risk Capital Funds:** Means these funds which provides through which foreign investors finance, technical expertise and management for companies not restricted in the local stock market or for high-risk projects aimed at achieving high growth and increasing future profits, the purpose of this financing is to participate in future potential pivotal profits[(22)].

## Chapter III: The evolution the Egyptian stock market performance

Measuring the evolution of financial market performance depends on many indicators, as we have seen above, and can be summarized in Table (1).

**Table (1): Evolution indicators of Egypt Stock Exchang performance (2004-2017)**

| | Issuance Market | | | Trading Market | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of new issuances | new issuances value Shares (billion dollar) | New issuances value bonds (billion dollar) | Trading volume (billion) | Trading value (Billion egy pounds) | Restricted companies Number | Companies traded number | Market capitalization (egy ponds) | Capitalization value / GDP | Turnover rate (%) | EGx 30(%) |
| 2004 | – | – | – | 2.4 | 42.3 | 795 | 503 | 234 | 43 | 14.2 | 122.2 |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| – | – | 2 | 4 | 0 | 3 | 0 | 0 | 0 | 5 | 4 | 2 | 6 |
| – | – | 4.9 | 4.2 | 0 | 2.2 | 0 | 0 | 0 | 0.9 | 6.2 | 2.4 | 4 |
| – | – | – | – | – | 16.9 | 5.99 | 11.87 | 17.46 | 17 | 19 | 17 | 20 |
| 5.3 | 9.1 | 15.1 | 25.5 | 36.6 | 33 | 18.5 | 34 | 29 | 57 | 45 | 59 | 78 |
| 160.6 | 287 | 363 | 529.6 | 448.2 | 321 | 148 | 185 | 162 | 291 | 248 | 285 | 332 |
| 744 | 595 | 435 | 373 | 306 | 212 | 213 | 213 | 212 | 214 | 221 | 222 | 222 |
| 441 | 407 | 337 | 322 | 289 | 211 | 204 | 204 | 206 | 206 | 217 | 213 | 213 |
| 456 | 534 | 768 | 474 | 500 | 488 | 294 | 376 | 427 | 500 | 430 | 602 | 825 |
| 74 | 72 | 86 | 46 | 41 | 40 | 19 | 24 | 21 | 25 | 22 | 25 | 30 |
| 31.1 | 48.7 | 38.7 | 70.3 | 50 | 41 | 32 | 29 | 21 | 38 | 27 | 30 | 31 |
| 146.2 | 10.2 | 51.2 | –56.4 | 35 | 15.03 | –49.3 | 51 | 24.2 | 32 | 21.5 | 14 | 22 |

**Source: -Annual Reports of the Egyptian Stock Exchange 2004-2017.**

**- Statistical Bulletin of the Arab Monetary Fund 2010-2016.**

## 1. Issuances Market activity:

The volume of new issuances of shares and bonds are the most important indicators so that the performance of primary markets can be measured, and from table (1) we note that the performance of the Egyptian primary market is fairly good, Where it was with total number of 21 issuances from the year 2007 to 2017, recorded a value of 6.1 billion pounds of shares in 2015 and it is considered as the highest value of its record during the same period, the issuances were not in 2009 and this is due to the effects of the global crisis in 2008, so that the issuances market returns to Its activity in the year 2010 with 3 billion, with 2.2 billion pounds. So that stagnation during the next three years because of the political crisis has experienced by Egypt in this period, to see the year 2014 recovery from the crisis to continue issuances until 2017 where it achieved 6 issuances worth 4 billion pounds.

## 2. According to the indices of size of the trading market:

We note from the previous table that the Egyptian Stock Exchange was the majority of listed companies do not trade their stocks in a year 2004 and 2005, But after this year until 1022, the restricted companies are almost equal to the trading ones, We also note the decrease in the number of these companies during the years under study that leads to the continued application of the rules of registration and disclosure to increase efficiency of the Egyptian Stock Exchange.

We also note the continuous rise in the market value from the year 2004, Reaching 234 billion pounds, and reached the highest value in 2007 to reach the value of 768 billion pounds, But experienced a fluctuation in value due to the financial crisis and the recent political and economic events, where it reached its lowest level in 2011 during all years worth 294 billion pounds, to rise again in the following years to experienced the year 2017 record high reaching 825 billion pounds.

As for the ratio of market value to GDP did not reach 100%, i.e., the market value is greater than GDP, reached a peak of 86% in 2007, But then did not reach the required level, but continued to decline to record in the year 2014 the ratio 25%, and then returned to rise in 2017, representing about 30% of GDP(23).

**3. According to liquidity indicators:**

From table (2) it is clear that the value of trading witnessed a continuous increase from 2004 to 2008 where it reached 529 billion pounds, this is due to the announcement of the reduction of the transaction settlement period of all stocks restricted to two days in addition to the price limits of most companies, that increased the liquidity of the market, which reflected on the value of trading. And then until 2011, this value was significantly reduced to 148 billion pounds in 2011; to rise gradually in recent years reached 332 billion pounds in 2017, which is the best performance since 2010.

As for the rate of rotation saw a continuous increase from 2004 to 2008, where he reached in the last one rate 70.3% Coinciding with the rise in the value of trading to return to the decline, as we said earlier because of global financial crises and the political and economic crisis that prevailed in Egypt in 2011 and 2012 to reach the year 2013 to the lowest level of 12% and rising again at an average rate in 2017 recorded a rate of 30%.

**4. According to the pricing indicator:**

Through the table we note the great development in the Egyptian Stock Exchange indicator in the period between 2004 to 2007, so the change in year 2005 arrived to more than 146%, the most important year in terms of performance, Later; there was a major collapse of the indicator, especially in 2012, a decline of more than 49%, Despite its recovery in the years 2009 and 2010, and then positive change in this indicator in the next three years recorded the year 2012 the highest increase since the collapse was estimated by 51% compared to the year 2011. Rising at an increasing pace in recent years, where it reached a 22% increase in 2017 compared to a year 2016.

## Chapter IV: The impact of indirect foreign investment on the revitalization of the Egyptian stock market

After the legislative and regulatory reforms, the Arab financial markets have seen an opening to the foreign investment movement. Openness was more pronounced by some Arab countries signing the General Agreement on Trade in Services in 1997, though in varying degrees ranging from absolute openness and conditional openness.

Since the 1990s, the Egyptian Stock Exchange has been interested in attracting foreigners to invest in its stocks markets; in this regard, we will discuss all aspects related to this type of investment, starting from the most important legislation and the contribution of foreigners in the value of trading to the reality of financial flows.

**1.Organization of foreingn indirect investment in Egypt:**

The law 95 in 1992 allowed the foreign investor to invest in the Egyptian stock exchange without restrictions; there are no ceilings for the foreign ownership of corporate shares or restrictions on an interested member in the board of directors. All capital gains and benefits were exempted from any tax. As a result of which the actual trading of foreigners began on the stock exchange since 1996(24).

In 1992, Egypt signed the Financial Services Liberalization Agreement, and it is committed to removing all restrictions on the participation of foreigners in the money market, whether in the process of subscription, brokering, trading in stocks, clearing or settlement, marketing and activating the market or management of stocks portfolios, Or the establishment of collective investment funds and risk capital[25].

**2. The contribution of foreigners in the Egyptian stock market:**

Organizers of The Egyptian Stock Exchange have been interested in developing the market and releasing it to the outside world, especially with international markets. This has been reflected in increasing the degree of mutual influence and interdependence with these markets, the privatization program has also helped to give the Egyptian market an increasing appeal among emerging markets, Then the increase in foreign flows to the Egyptian market, and the following table shows the development of the number of foreign investors in the Egyptian Stock Exchange.

**Table (2): Growth of number of new foreign investors on the Egyptian Stock Exchange (2007-2017)**

| Statment | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Egyptian | – | – | – | 89636 | 61348 | 35932 | 29187 | 33569 | 20082 | 14693 | 19526 | 15219 | 14884 | 19149 |
| Arab Non– | – | – | – | 1099 | 1204 | 1006 | 1667 | 886 | 742 | 534 | 570 | 733 | 692 | 760 |
| Arab | – | – | – | 1177 | 1273 | 1392 | 3903 | 1097 | 1398 | 1076 | 1578 | 2046 | 1684 | 2392 |
| Total foreigners | – | – | – | 2276 | 2477 | 2398 | 5576 | 1983 | 2140 | 1610 | 2148 | 2779 | 2376 | 3152 |
| Total New Investors | – | – | – | 91912 | 63825 | 38330 | 34765 | 35552 | 22222 | 16303 | 21574 | 17998 | 17260 | 22301 |
| foreigners from total investors (%) | – | – | – | 2.76 | 3.88 | 6.25 | 16 | 5.5 | 9.63 | 9.87 | 10 | 13.7 | 14 | 15 |

**Source: Annual reports of the Egyptian Stock Exchange from 2007-2017**.

We note from Table (2) that the majority of investors are Egyptians, evidenced by the high numbers of them in the period under study, as for the new foreign investors, mostly non-Arab. For the new Arab investors, their numbers increased by three stages, the first four years have seen an increase of 51%, in the last four years, the first phase was reduced by approximately 65%, and the last three years were slightly increased to 760 investors in 2017.

Non-Arab foreign investors recorded their biggest entry in 2010, after their numbers had risen steadily in previous years; in subsequent periods until 2014 we find a fluctuation in this number, In the last year, there were 1578 non-Arab foreign investors, but in the next three years it continued to rise, reaching 22301 in 2017. This indicates the return of the confidence of foreign investors in the Egyptian stocks market after the stability of the situation inside the country.

With regard to the proportion of Arab and non-Arab foreigners out of the total new investors, we see a rise in this percentage of 2.76% in 2007 to 16% in 2010Which is the largest percentage during the period studied, whereas the year 2011 The number of foreign investors decreased by 5.5%, due to the political and economic crisis that prevailed in Egypt, which increased in the following years by increasing rates, reaching 15% in 2017.

Foreigners in the Egyptian stock market contribute to the activity and liquidity of the latter by contributing to the volume and value of trading, as shown in the following table:

**Table (3): The contribution of foreigners in the value of the Egyptian market during the period (2007-2017)**

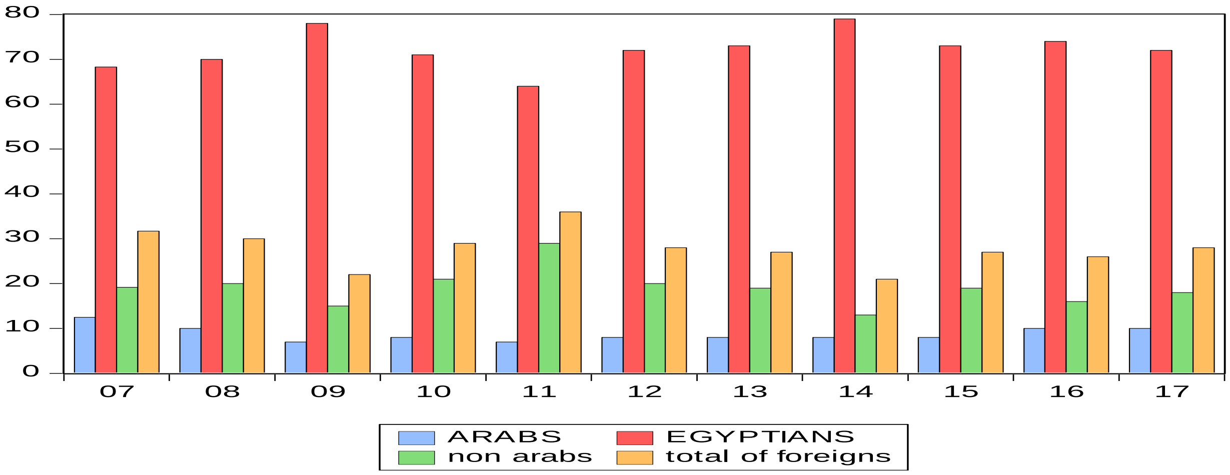
| Statment | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Trading value(Billion pounds) | – | – | – | 363 | 529 | 448.2 | 321 | 148 | 185 | 162 | 291 | 248 | 285 | 332 |
| Share of non–Arab foreign investors of trading value (%) | – | – | – | 19.2 | 20 | 15 | 21 | 29 | 20 | 19 | 13 | 19 | 16 | 18 |
| Share of Arab foreign investors of trading value (%) | – | – | – | 12.5 | 10 | 7 | 8 | 7 | 8 | 8 | 8 | 8 | 10 | 10 |
| Total share of foreigners of trading value (%) | – | – | – | 31.7 | 30 | 22 | 29 | 36 | 28 | 27 | 21 | 27 | 26 | 28 |
| Share of Egyptians of trading value (%) | – | – | – | 86.3 | 70 | 78 | 71 | 64 | 72 | 73 | 79 | 73 | 74 | 72 |

**Source: Annual reports of the Egyptian Stock Exchange from 2007-2017**.

The above table shows that the majority of the value of trading was possessed by Egyptians during the period under study. Non-Arab foreigners also possessed the total value of trading of foreigners compared to the share of Arab foreigners from the last one.

We also note that the total share of foreigners in the trading value amounted to 31.7% in year 2007, and then declined in the next two years where the year reached in 2009 to 22%, this is due to the exit of foreigners from the Egyptian market because of the financial crisis, and then returned to rise again in 2010 and 2011 years and reached the last one 36%, the highest rate reached by this category during all years, And then begin to decline in subsequent years, to reach in 2014 the lowest rate estimated at about 21% and this is due to the turbulent conditions suffered by Egypt in these years, However, in the last three years, the rise was due to the return of investor confidence in the Egyptian market and the following figure illustrates the evolution of the contribution ratio of foreign investors in the value of trading in the Egyptian stock market:

**Figure (1): Evolution of the percentage of foreign participation in the Egyptian market during the period (2004-2014).**

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**Source: Prepared by the researcher based on the data of Table (3)**

## 3. The reality of foreign direct investment in Egypt:

After reviewing the percentage of foreigners' contribution in the total value of trading, we will discuss the net foreign inflows in the Egyptian stock market. The table below shows the evolution of net transactions:

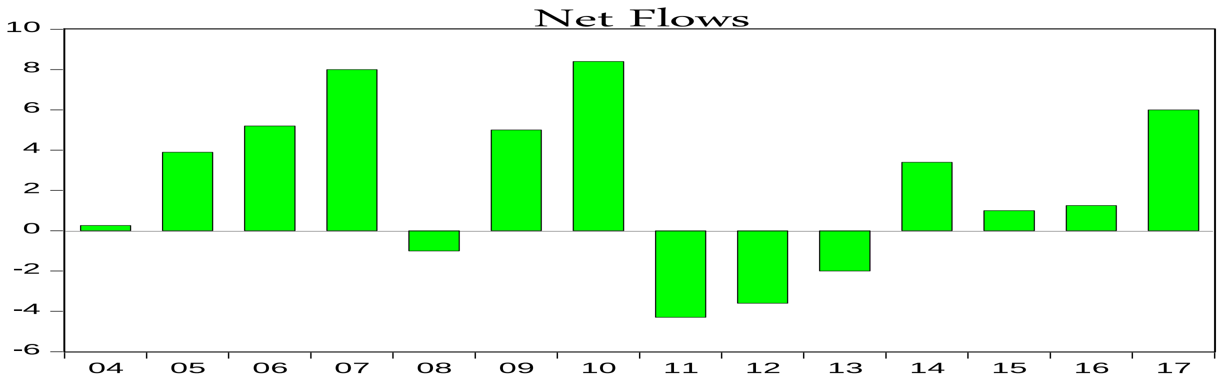
**Table (4): Development of net indirect foreign investment flows to Egypt (2004-2017)**

| Statment | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Net indirect foreign investment flows | 0.26 | 3.9 | 5.2 | 8 | (1) | 5 | 8.4 | (4.3) | (3.6) | (2) | 3.4 | 1 | 1.5 | 7 |

**Source: Egyptian Bank, Annual Reports Numbers: 2004/2005 to 2016/2017**

From the previous table we note that the Egyptian market achieved inflows within the first four years, as this value improves from year to year, in 2004 did not exceed 0.26 billion pounds to exceed in 2007 the value of 8 billion pounds, But in the year 2008 experienced a negative flow abroad by about one billion pounds, and this is in my opinion, referring to the financial crisis that the world experienced that year, which led to the sale of foreign stocks that were in their possession, to return to positive performance in the years 2009 and 2010 to achieve in the last one net inflow within the value of 8.4 billion pounds, which is the highest inflows value during all years of study, Then experienced in 2011, 2012, 2013 net outflow, the largest one was in 2011 worth 4.3 billion pounds because of the Egyptian political crisis in those years, to recover then in recent years to achieve positive inflows worth 6 billion pounds in 2017 and this is due to the promotion campaigns carried out by the Egyptian market to restore the confidence of foreign investors, where it carried out intensive promotion campaigns in a number of international financial centers such as London and New York to meet with a number of financial companies and investment funds, which manages assets worth about 5 trillion dollars, and the following figure illustrates this development:

**Figure 2: Evolution of net indirect foreign investment flows in Egypt (2004-2017)**

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**sourcee: By the researcher based on the data of table (4).**

## Conclusion:

Through what has been addressed in the previous themes of the research topic: The role of indirect foreign investment in the revitalization of emerging stock markets With the study of the Egyptian market, a series of results can be listed, most notably the following:

-Foreign Idirect Investment is among the first solutions for developing and emerging markets to get extend their current projects or to finance new projects without foreigns' interference in roling these projects. It's a win-win deal for foreign investors and the local companies, the investors gain profits, the companies finance and role their projects.

- Indirect foreign investment is one of the most important and modern financial resources for the establishment of new projects or the expansion of existing projects without resorting to the involvement of the foreign investor in the management of the project, moreover Its concept at the Total level is not confined to the stocks portfolio but has several channels through which foreign capital can flow.

- Highlight the importance of indirect foreign investment through its positive impact on economic growth, moreover it increases the liquidity of emerging stock markets and helps to develop their efficiency, and makes them wider and deeper.
- Indirect foreign investment has a direct impact on the revitalization of the Egyptian stock market; this effect appears by a result of the efforts of market players to attract as many foreign investors as possible, however, through our study it was found that it is not only important to attract a large volume of these flows, but it is also important to take advantage of these flows, which are the most volatile investments, while avoiding the risk of such investments as much as possible as a result of financial and political crises.

Finally, it is possible to propose some recommendations that would activate mechanisms aimed at benefiting from indirect foreign investment:

- carry out structural reforms to reduce the risk of changes that undermine investors confidence when there are economic or financial problems.
- Developing the disclosure system and transparency and this is what most Arab countries are working on by observing the decline of companies listed in their markets as a result of the non compliance of these companies with disclosure standards.
- The establishment of constraints and policies to control the demand for short-term foreign capital to reduce their flows in a manner that is detrimental to the economy of the host country.

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