









“The impact of colonial legacy, cultural proximity, and host-country market size on outward foreign direct investment from the Arab Maghreb Union: A generalized method of moments analysis (2004–2022)”

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ARTICLE INFO	Mohammed Amine, Jalal Eddine Liassini, Aymane Chemmaa, Mohamed Flah and Mohammed Ibrahimi (2026). The impact of colonial legacy, cultural proximity, and host-country market size on outward foreign direct investment from the Arab Maghreb Union: A generalized method of moments analysis (2004–2022). <i>Investment Management and Financial Innovations</i> , 23(2), 24-37. doi: 10.21511/imfi.23(2).2026.03
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DOI	http://dx.doi.org/10.21511/imfi.23(2).2026.03
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RELEASED ON	Thursday, 02 April 2026
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RECEIVED ON	Saturday, 09 August 2025
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ACCEPTED ON	Tuesday, 03 March 2026
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JOURNAL	"Investment Management and Financial Innovations"
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ISSN PRINT	1810-4967
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ISSN ONLINE	1812-9358
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PUBLISHER	LLC “Consulting Publishing Company “Business Perspectives”
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FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”
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NUMBER OF REFERENCES
52


NUMBER OF FIGURES
0


NUMBER OF TABLES
4

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BUSINESS PERSPECTIVES



LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sумы, 40022, Ukraine
www.businessperspectives.org

Type of the article: Research Article

Received on: 9th of August, 2025

Accepted on: 3rd of March, 2026

Published on: 2nd of April, 2026

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THE IMPACT OF COLONIAL LEGACY, CULTURAL PROXIMITY, AND HOST-COUNTRY MARKET SIZE ON OUTWARD FOREIGN DIRECT INVESTMENT FROM THE ARAB MAGHREB UNION: A GENERALIZED METHOD OF MOMENTS ANALYSIS (2004–2022)

Abstract

This paper investigates the impact of colonial ties, cultural proximity, and host-country market size on outward foreign direct investment from Arab Maghreb Union countries, focusing on both greenfield investments and cross-border mergers and acquisitions. Using the Generalized Method of Moments on a panel dataset of 556 transactions over the period 2004 to 2022, captured by the number of deals, we find that colonial ties and African cultural proximity positively influence both greenfield investments and cross-border mergers and acquisitions. However, Arab cultural proximity and host-country market size influence only greenfield investments. Among the variables studied, colonial ties have the greatest impact, followed by African cultural proximity. The estimated coefficients indicate that the magnitude of these effects is substantially larger for greenfield investments than for cross-border mergers and acquisitions, highlighting important differences in how firms respond to host-country characteristics across entry modes. This pattern is consistently observed across baseline estimations and robustness checks, reinforcing the presence of a clear entry-mode asymmetry in the determinants of outward foreign direct investment from Arab Maghreb Union countries. Taken together, the results integrate cultural proximity and historical ties into international business theories and provide new insights into the outward investment behaviors of emerging-market multinationals. Moreover, the findings reveal the relevance of leveraging shared history and cultural ties as instruments for attracting investment from Arab Maghreb Union countries, while adopting differentiated strategies for greenfield investments and cross-border mergers and acquisitions.

Keywords

Arab Maghreb Union, foreign direct investment, mergers and acquisitions, institutions, culture, colonialism

JEL Classification

G34, F23, F54, N17

INTRODUCTION

Africa represents a critical, yet underexamined, context within the framework of emerging-market foreign direct investment outflows (Abdi et al., 2024; Ibrahim et al., 2025; Ibrahim & Amine, 2020; Sodokin et al., 2024). Between 2021 and 2022, African nations' foreign direct investment outflows showed a substantial increase, rising from USD 5,144 million to USD 9,232 million (UNCTAD, 2024). Within this broader trend, the Arab Maghreb Union, consisting of Algeria, Libya, Mauritania, Morocco, and Tunisia, also experienced a notable increase in foreign direct investment outflows, from USD 786 million



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Conflict of interest statement:

Author(s) reported no conflict of interest

to USD 829 million (UNCTAD, 2024). This evolution reflects a significant transformation in the international orientation of enterprises in the Maghreb region, as they increasingly aspire to expand globally beyond traditional geographical constraints. Despite the steady increase in foreign direct investment outflows from the Arab Maghreb Union, academia has largely overlooked this phenomenon, focusing mainly on African nations as foreign direct investment destinations rather than sources (Abdi et al., 2024; Adelakun & Oguiuba, 2023; Amine et al., 2025; Danquah & Mohammed, 2024).

Beyond the limited literature on the Arab Maghreb Union, the region constitutes a distinctive empirical setting for international business research, as most established theories, such as the eclectic paradigm proposed by Dunning (1988) and institutional theory (North, 1990), have been predominantly developed and tested in the context of developed economies and, to a lesser extent, emerging markets. Consequently, the key drivers underlying foreign direct investment from the Arab Maghreb Union may not be fully captured by existing theoretical frameworks, given the region's specific historical, institutional, and sociocultural characteristics. These characteristics include (1) colonial heritage (Massidda & Piras, 2024), (2) geographical proximity to Europe, (3) economic dualism (Amzil et al., 2024), (4) religious beliefs, (5) African and Arab cultural ties, (6) political conflicts (Ben Jelili, 2023), (7) low levels of regional integration (Fakid et al., 2025), and (8) ongoing efforts to modernize institutional and financial systems (Chemmaa et al., 2025; Ibrahim et al., 2025).

The combination of these features makes the Arab Maghreb Union a distinctive context, setting it apart from both developed economies and other emerging markets. Beyond serving as a site for testing pre-existing theories, the region provides a fertile environment for theory development, allowing for a deeper understanding of how institutional complexity shapes the geographical diversification strategies of emerging-market multinational enterprises. This perspective aligns with recent calls for a more pluralistic approach to international business research, which emphasizes the importance of accounting for the heterogeneity and complexity of regional institutional contexts (Gammeltoft & Panibratov, 2024; Ibrahim et al., 2021, 2025; Nachum et al., 2023).

Against this backdrop, several unresolved questions emerge. What are the key determinants of outward investment from the Arab Maghreb Union? To what extent do these determinants resemble those identified for developed and other emerging economies, or do they reflect a distinct pattern shaped by the region's historical, institutional, and cultural context? Furthermore, how do different investment modes, specifically greenfield investments and cross-border mergers and acquisitions, interact with these determinants?

1. LITERATURE REVIEW AND HYPOTHESES

International business literature identifies several determinants of foreign direct investment; however, one of the most prominent and extensively discussed determinants is the size of the host-country market. It has been widely recognized as a primary driver of investment flows in emerging economies (Ogbonna et al., 2022; Rahman et al., 2023). The eclectic paradigm describes market-seeking behavior as a core motive for foreign direct investment location, as it reflects local demand potential and thus attracts multinational enterprises seeking market expansion. Empirical studies further show

that market size affects entry modes differently: greenfield investments tend to be more responsive to market conditions and demand, whereas cross-border mergers and acquisitions are often driven by strategic restructuring objectives or the pursuit of rapid market access (Burger & Ianchovichina, 2017; Sandler et al., 2019). Only a limited number of studies have examined foreign direct investment in the Arab Maghreb Union context, and most have focused primarily on Morocco. For instance, Berahab (2017), Ibrahim and Liassini (2021), and the Moroccan Ministry of Economy and Finance (2018) highlight that Moroccan firms pursue a predominantly market-seeking strategy by targeting fast-growing African economies, particularly in

service sectors such as banking, telecommunications, and insurance. Nevertheless, these studies do not distinguish between different entry modes when assessing the role of market size.

Cultural proximity represents another critical factor in international business research. Shared cultural, linguistic, and religious attributes can reduce uncertainty and foster trust, thereby facilitating international business interactions between countries (Izadi et al., 2023). According to institutional theory (North, 1990), culture constitutes an informal institution that mitigates uncertainty and shapes economic behavior. Building on this perspective, social identity theory (Tajfel & Turner, 1979) emphasizes that shared characteristics strengthen group affiliation and cooperation in international business contexts. These theoretical arguments are supported by empirical evidence across various forms of foreign direct investment. For example, Deichmann et al. (2022) demonstrate that cultural similarity increases the likelihood of foreign direct investment, particularly among geographically proximate countries, while Lian et al. (2021) find that it enhances both the frequency and success of mergers and acquisitions.

Although Arab Maghreb Union countries are geographically located in Africa, they are deeply embedded in the Arab world through strong political, religious, and cultural ties (Magu, 2023). These ties stem from a shared history shaped by the spread of Islam, the widespread use of Arabic, and post-independence Arabization policies (Hachimi, 2013). In a business context, Khakhar and Alnajadah (2024) argue that linguistic, religious, and cultural proximity reinforces economic exchanges among Arab countries, particularly emphasizing the role of personal networks, or *wasta* (informal personal networks), in building mutual trust. Politically, events such as the Arab Spring, which originated in North Africa and subsequently spread across the Middle East, reflect a shared political trajectory and collective identity among Arab nations (Wahyudhi et al., 2025).

A growing body of literature highlights the strategic importance of cultural, religious, and historical ties between the Arab Maghreb Union and Sub-Saharan African countries in advancing regional economic integration. These regions are

connected through a common Islamic heritage, the shared use of Arabic and French in administration and business, and similar colonial experiences, predominantly under French influence. Such factors have contributed to comparable institutional trajectories, as discussed by Akisik et al. (2020), Meouloud et al. (2019), and Wüst and Nicolai (2023). As a result, Arab Maghreb Union firms often encounter familiar legal and administrative environments, particularly civil law systems and francophone bureaucracies, which facilitate market entry and operational activities. Beyond formal institutions, cultural proximity fosters trust and reduces perceived risk, thereby facilitating cooperation in regions where formal governance mechanisms may be weak. Informal institutions, including cultural and religious beliefs, thus serve as crucial channels for business engagement. Ait Soussane et al. (2024) provide empirical evidence showing that Moroccan firms are more likely to invest in African countries that are closely aligned in religious and linguistic terms, further underscoring the role of cultural proximity in shaping foreign investment decisions within Africa.

Within the Arab Maghreb Union, the continued use of French as an administrative, educational, and business language underscores the enduring imprint of colonial legacies. This shared linguistic heritage reflects deeper colonial influences that continue to shape economic behavior and cross-border transactions (Wöcke & Barnard, 2022). Formal systems, such as legal frameworks, and informal systems, including social norms and managerial practices, may persist long after colonization, thereby facilitating the implementation of cross-border investments (Ellis et al., 2015; Glaister et al., 2020). Empirical evidence consistently demonstrates that colonial ties exert a significant and positive influence on foreign direct investment decisions (Amine et al., 2025; Glaister et al., 2020; Nguyen & Cieřlik, 2021). Africa, and particularly the Arab Maghreb Union, provides a compelling setting for examining these dynamics due to its relatively recent colonial history and the persistence of institutional legacies associated with France and Spain. The sustained use of French as a second language in the region enhances cultural affinity, thereby facilitating cross-border trade and investment relationships with former colonial powers (Amine et al., 2025).

Overall, existing literature suggests that host-country market size, cultural proximity, and colonial legacies are key drivers of foreign direct investment. Nevertheless, important gaps remain regarding North Africa, as most empirical studies concentrate on Morocco and rarely distinguish between greenfield investments and cross-border mergers and acquisitions. Consequently, limited knowledge exists regarding how these determinants jointly shape outward foreign direct investment patterns from the Arab Maghreb Union. Against this backdrop, this paper investigates the impact of colonial ties, cultural proximity, and host-country market size on outward foreign direct investment from Arab Maghreb Union countries, with explicit attention to both greenfield investments and cross-border mergers and acquisitions.

On this basis, the following hypotheses are developed to formalize the expected relationships between the explanatory variables and outward foreign direct investment from the Arab Maghreb Union:

- H1: Host-country market size has a positive impact on Arab Maghreb Union foreign direct investment outflows, with a stronger effect on greenfield investments than on cross-border mergers and acquisitions.*
- H2a: Arab cultural proximity has a positive impact on Arab Maghreb Union foreign direct investment outflows.*
- H2b: African cultural proximity has a positive impact on Arab Maghreb Union foreign direct investment outflows.*
- H3: Colonial ties between home and host countries have a positive impact on Arab Maghreb Union foreign direct investment outflows.*

2. DATA AND METHODOLOGY

2.1. Sample and variables

This study examines the determinants of outward foreign direct investment from Arab Maghreb Union countries, with a focus on both greenfield investments and cross-border mergers and acquisitions

to account for differences in entry modes. To capture these dynamics, the analysis relies on two dependent variables that track investment activity across countries and years. The first, *GI_number*, is defined as a country-year pair representing the annual number of announced and completed greenfield investment projects originating from a specific Arab Maghreb Union home country to a host country worldwide in a given year, with data drawn from the *fDi Markets* database (Table 1). The second, *CBMA_number*, is also defined as a country-year pair and represents the annual number of announced and completed cross-border mergers and acquisitions originating from a specific home country to a host country worldwide in a particular year, using data sourced from the *Refinitiv* database. Because data for Libya and Mauritania are limited and inconsistent, the analysis focuses on Algeria, Morocco, and Tunisia to ensure reliable and comparable measurements across countries. The dataset spans January 2004 to December 2022 and comprises 396 greenfield investment projects targeting 62 host countries and 160 cross-border mergers and acquisitions across 45 host countries.

To examine the proposed hypotheses, this study incorporates four key independent variables (Table 1). *Market_size2* represents the host country's GDP, expressed in logarithmic form, with data obtained from the World Bank. *Arab* is a binary variable coded as 1 if the host country is a member of the Arab League, and 0 otherwise. *Africa* is a binary variable coded as 1 if the host country is located in Africa, and 0 otherwise. *Colonialism* is a binary variable that takes the value of 1 when the home and host countries share a colonial relationship (colonizer–colony), based on data from the *COLDAT* dataset (Becker, 2019).

To control macroeconomic conditions influencing foreign direct investment outflows, six control variables are included in the main analysis. All variables are expressed in logarithmic form and sourced from the World Bank. *GDP_capita1* and *GDP_capita2* capture the GDP per capita of the home and host countries, respectively. *Inflation1* and *Inflation2* reflect the inflation rates of the home and host countries, respectively. *Trade_openness1* and *Trade_openness2* measure trade openness in the home and host countries, respectively, calculated as the ratio of exports plus imports to GDP.

Table 1. Description of variables

Variable	Description	Source
GI_number	Annual number of greenfield investments from an Arab Maghreb Union home country <i>i</i> to host country <i>j</i> in year <i>t</i> (including intra-Arab Maghreb Union flows).	fDi Markets
CBMA_number	Annual number of cross-border mergers and acquisitions involving an Arab Maghreb Union home country <i>i</i> and host country <i>j</i> in year <i>t</i> (including intra-Arab Maghreb Union flows).	Refinitiv
GDP_capita1	GDP per capita of the home country.	World Bank
GDP_capita2	GDP per capita of the host country.	World Bank
Inflation1	Inflation rate of the home country.	World Bank
Inflation2	Inflation rate of the host country.	World Bank
Trade_openness1	Trade openness of the home country.	World Bank
Trade_openness2	Trade openness of the host country.	World Bank
Exchange_rate1	Exchange rate (local currency units per USD) of the home country.	World Bank
Exchange_rate2	Exchange rate (local currency units per USD) of the host country.	World Bank
Regulatory_quality1	Regulatory quality index of the home country.	World Bank
Regulatory_quality2	Regulatory quality index of the host country.	World Bank
Market_size2	Total GDP of the host country.	World Bank
Arab	Variable equal to 1 if the host country is a member of the Arab League.	World Bank
Africa	Variable equal to 1 if the host country is located in Africa.	World Bank
Colonialism	Variable equal to 1 if the home and host countries share a colonial tie.	COLDAT

For robustness checks, four additional control variables are added, also expressed in logarithmic form and obtained from the World Bank. These include Exchange_rate1 and Exchange_rate2, representing the official exchange rates (local currency units per US dollar) for the home and host countries, respectively, and Regulatory_quality1 and Regulatory_quality2, which capture regulatory quality based on the Worldwide Governance Indicators for the home and host countries.

2.2. Methodology

The analysis models the dependent variables, capturing both the annual number of greenfield investment projects and the annual number of cross-border mergers and acquisitions originating from Arab Maghreb Union countries, within a dynamic panel framework. This approach accounts for the persistent nature of bilateral investment relationships and unobserved heterogeneity across home and host countries, which prior research has identified as critical to understanding outward foreign direct investment patterns (García-Herrero et al., 2009; Saini & Singhania, 2018). To address potential endogeneity, the study employs the two-step Generalized Method of Moments estimator (Arellano & Bond, 1991), which leverages lagged values of regressors as instruments and mitigates bias arising from simultaneity and omitted variable concerns.

To further enhance the robustness of the findings, four additional macroeconomic control variables are incorporated. Since the study's dependent variables are count variables, appropriate count data regression techniques are employed (Cameron & Trivedi, 2013). A likelihood ratio test is conducted to assess overdispersion; the results support the negative binomial specification over the Poisson model. Furthermore, to include time-invariant regressors such as Arab, Africa, and Colonialism, while accounting for unobserved heterogeneity, the random-effects estimator is employed.

We consider the following regression equations:

- Main analysis

$$\begin{aligned}
 & GI_number_{ijt} / CBMA_number_{ijt} \\
 & = \alpha + \beta_1 GDP_capital1_{it} \\
 & + \beta_2 GDP_capital2_{jt} \\
 & + \beta_3 Inflation1_{it} + \beta_4 Inflation2_{jt} \\
 & + \beta_5 Trade_openness1_{it} \\
 & + \beta_6 Trade_openness2_{jt} \\
 & + \beta_7 Market_size2_{jt} + \beta_8 Arab_j \\
 & + \beta_9 Africa_j + \beta_{10} Colonialism_j + \varepsilon_{ijt}.
 \end{aligned} \tag{1}$$

- Robustness check

$$\begin{aligned}
 & GI_number_{ijt} / CBMA_number_{ijt} \\
 & = \alpha + \beta_1 GDP_capital1_{it} \\
 & + \beta_2 GDP_capital2_{jt} \\
 & + \beta_3 Inflation1_{it} + \beta_4 Inflation2_{jt} \\
 & + \beta_5 Trade_openness1_{it} \\
 & + \beta_6 Trade_openness2_{jt} \\
 & + \beta_7 Exchange_rate1_{it} \\
 & + \beta_8 Exchange_rate2_{jt} \\
 & + \beta_9 Regulatory_quality1_{it} \\
 & + \beta_{10} Regulatory_quality2_{jt} \\
 & + \beta_{11} Market_size2_{jt} + \beta_{12} Arab_j \\
 & + \beta_{13} Africa_j + \beta_{14} Colonialism_j + \varepsilon_{ijt}.
 \end{aligned} \tag{2}$$

In the above models, i (ranging from 1 to 3) represents the Arab Maghreb Union source countries, and j (ranging from 1 to 62 for greenfield investments and from 1 to 45 for cross-border mergers and acquisitions) refers to target countries. Years from 2004 to 2022 are represented by t . The parameter α is the intercept, while β_k represents the coefficients of variables to be estimated. Furthermore, ε_{ijt} is the error term. Diagnostic checks using a correlation matrix and variance inflation factor analysis were performed before estimating the models and indicate that there are no multicollinearity concerns in the dataset.

3. EMPIRICAL FINDINGS

3.1. Descriptive analysis

Table 2 reports the distribution of outward greenfield investment projects and cross-border mergers and acquisitions by home and host country in the Arab Maghreb Union. For Algeria, greenfield investment outflows are concentrated in a relatively limited number of destinations, with France accounting for 21.74%, Tunisia for 17.39%, and Spain for 13.04% of total projects, while each remaining host country accounts for 4.35%. Algerian cross-border mergers and acquisitions are even more concentrated, with France representing 29.41%, Italy and Spain each accounting for 23.53%, and

the remaining destinations individually accounting for 5.88%.

For Morocco, greenfield investment projects are more geographically dispersed across host countries. France accounts for 16.10% of projects, followed by the Ivory Coast (12.29%), Spain (7.20%), and Egypt (5.51%), while host countries with four or fewer projects collectively account for 31.78% of total greenfield investment outflows. Moroccan cross-border mergers and acquisitions exhibit a higher degree of concentration, with France accounting for 21.15%, the Ivory Coast for 11.54%, and all remaining destinations individually accounting for less than 7%, with 27.88% grouped under other host countries.

For Tunisia, greenfield investment outflows are primarily directed toward Algeria and France, each representing 16.06% of total projects, followed by Libya (8.76%) and Morocco (8.03%), while host countries with fewer than two projects account for 24.09%. Tunisian cross-border mergers and acquisitions are more concentrated, with Morocco accounting for 17.95%, France for 12.82%, and Turkey for 10.26%, whereas host countries with only one deal account for 25.64% of total cross-border merger and acquisition outflows.

Overall, the descriptive evidence indicates that Morocco is the leading outward investor among Arab Maghreb Union countries in both greenfield investments and cross-border mergers and acquisitions, followed by Tunisia, while Algeria accounts for a comparatively smaller share of outward investment activity across both entry modes. In addition, across all Arab Maghreb Union home countries, cross-border mergers and acquisitions are more concentrated across a smaller number of host countries than greenfield investments, whereas greenfield investment projects exhibit a broader and more diversified geographic distribution.

3.2. Regression analysis

The regression results in Table 3 reveal distinct effects of key variables on Arab Maghreb Union greenfield investment and cross-border merger and acquisition outflows. For greenfield investments, *Market_size2* is positive and significant in Models 2 and 5, with coefficients of 0.042 and

Table 2. Distribution of foreign direct investment outflows from the Arab Maghreb Union

Source: Authors' compilation based on data from Refinitiv and fDi Markets databases.

Home country	Greenfield investments			Cross-border mergers and acquisitions		
	Host country	Nb. of projects	%	Host country	Nb. of deals	%
Algeria	France	5	21.74%	France	5	29.41%
	Tunisia	4	17.39%	Italy	4	23.53%
	Spain	3	13.04%	Spain	4	23.53%
	Brazil	1	4.35%	Portugal	2	11.76%
	Dominican Republic	1	4.35%	Mauritania	1	5.88%
	Germany	1	4.35%	Tunisia	1	5.88%
	Iraq	1	4.35%	–	–	–
	Italy	1	4.35%	–	–	–
	Ivory Coast	1	4.35%	–	–	–
	Senegal	1	4.35%	–	–	–
	Turkey	1	4.35%	–	–	–
	UAE	1	4.35%	–	–	–
	United Kingdom	1	4.35%	–	–	–
	United States	1	4.35%	–	–	–
	Others	–	–	Others	–	–
Total	23	100.00%	Total	17	100.00%	
Morocco	France	38	16.10%	France	22	21.15%
	Ivory Coast	29	12.29%	Ivory Coast	12	11.54%
	Spain	17	7.20%	Senegal	7	6.73%
	Egypt	13	5.51%	Mali	4	3.85%
	Senegal	10	4.24%	Nigeria	4	3.85%
	Cameroon	7	2.97%	Spain	4	3.85%
	Italy	7	2.97%	Tunisia	4	3.85%
	Nigeria	7	2.97%	Egypt	3	2.88%
	Brazil	6	2.54%	Gabon	3	2.88%
	Ghana	6	2.54%	Israel	3	2.88%
	UAE	6	2.54%	Kenya	3	2.88%
	Algeria	5	2.12%	Benin	2	1.92%
	Burkina Faso	5	2.12%	Brazil	2	1.92%
	Ethiopia	5	2.12%	Burkina Faso	2	1.92%
	Others (equal to or less than 4 deals)	75	31.78%	Others (less than 2 deals)	29	27.88%
Total	236	100.00%	Total	104	100.00%	
Tunisia	Algeria	22	16.06%	Morocco	7	17.95%
	France	22	16.06%	France	5	12.82%
	Libya	12	8.76%	Turkey	4	10.26%
	Morocco	11	8.03%	Spain	3	7.69%
	Ivory Coast	8	5.84%	Cameroon	2	5.13%
	Germany	5	3.65%	Egypt	2	5.13%
	Nigeria	4	2.92%	Italy	2	5.13%
	UAE	4	2.92%	Nigeria	2	5.13%
	Egypt	3	2.19%	Senegal	2	5.13%
	Mauritania	3	2.19%	–	–	–
	Mexico	3	2.19%	–	–	–
	Saudi Arabia	3	2.19%	–	–	–
	Burkina Faso	2	1.46%	–	–	–
	Cameroon	2	1.46%	–	–	–
	Others (less than 2 deals)	33	24.09%	Others (1 deal)	10	25.64%
Total	137	100.00%	Total	39	100.00%	

Table 3. Main regression analysis

Variable	Greenfield investments						Cross-border mergers and acquisitions					
	M1	M2	M3	M4	M5	M6	M1	M2	M3	M4	M5	M6
GDP_capita1	-0.0475 (0.6659)	-0.1857 (0.1668)	-0.0099 (0.9272)	-0.1467 (0.1921)	-0.1500 (0.1778)	-0.5254*** (0.0004)	0.2728** (0.0185)	0.3153** (0.0179)	0.2722** (0.0181)	0.2355** (0.0405)	0.2238* (0.0547)	0.1870 (0.1680)
GDP_capita2	0.0366 (0.1179)	-0.0111 (0.7005)	0.0361 (0.1233)	0.1485*** (0.0000)	-0.0081 (0.6028)	0.0154 (0.5665)	0.0594** (0.0162)	0.0763*** (0.0099)	0.0592** (0.0150)	0.1077*** (0.0002)	0.0254 (0.1615)	0.0758*** (0.0075)
Inflation1	-0.2746 (0.1607)	-0.1936 (0.3291)	-0.3442* (0.0786)	-0.1920 (0.3258)	-0.1918 (0.3082)	0.0146 (0.9388)	-0.1559 (0.2865)	-0.1734 (0.2443)	-0.1549 (0.2914)	-0.1514 (0.3000)	-0.1605 (0.2568)	-0.1611 (0.2721)
Inflation2	-0.1888*** (0.0079)	-0.1800** (0.0132)	-0.1948*** (0.0055)	-0.2162*** (0.0020)	-0.1134 (0.1084)	-0.1266* (0.0759)	-0.1292** (0.0317)	-0.1371** (0.0239)	-0.1290** (0.0337)	-0.1636** (0.0106)	-0.0852 (0.1420)	-0.1215* (0.0529)
Trade_openness1	0.5301*** (0.0014)	0.5138*** (0.0017)	0.5365*** (0.0012)	0.4578*** (0.0048)	0.6317*** (0.0002)	0.5054*** (0.0019)	-0.1850 (0.3315)	-0.1732 (0.3608)	-0.1847 (0.3390)	-0.1897 (0.3198)	-0.1263 (0.5111)	-0.1292 (0.5088)
Trade_openness2	-0.1723*** (0.0011)	-0.0889 (0.1291)	-0.2260*** (0.0001)	-0.2055*** (0.0001)	-0.0933** (0.0456)	0.0119 (0.8272)	-0.2459*** (0.0001)	-0.2795*** (0.0002)	-0.2449*** (0.0001)	-0.2739*** (0.0000)	-0.1761*** (0.0023)	-0.2084*** (0.0050)
Market_size2		0.0421** (0.0228)				0.0897*** (0.0002)		-0.0138 (0.4435)				-0.0002 (0.9927)
Arab			0.1047** (0.0324)			0.0902** (0.0440)			-0.0010 (0.9739)			0.0041 (0.8897)
Africa				0.1893*** (0.0000)		0.2231*** (0.0000)				0.0813** (0.0178)		0.0841** (0.0269)
Colonialism					0.9234*** (0.0000)	0.9757*** (0.0000)					0.2859** (0.0134)	0.2831** (0.0130)
N	1890	1890	1890	1890	1890	1890	1134	1134	1134	1134	1134	1134
VIF	1.28	2.05	1.27	1.76	1.27	2.18	1.34	2.21	1.32	1.81	1.36	2.34
AIC	4,220.45	4,220.042	4,216.5	4,201.695	4,098.637	4,060.562	1,409.419	1,411.261	1,411.364	1,408.792	1,374.59	1,376.277
BIC	4,259.639	4,264.829	4,261.287	4,246.483	4,143.424	4,122.144	1,445.033	1,451.962	1,452.064	1,449.493	1,415.291	1,432.24

Note: Pval in parentheses; *** p < 0.01, ** p < 0.05, * p < 0.01.

Table 4. Robustness check analysis

Variable	Greenfield investments						Cross-border mergers and acquisitions					
	M1	M2	M3	M4	M5	M6	M1	M2	M3	M4	M5	M6
GDP_capita1	3.0511** (0.0236)	2.9026** (0.0316)	3.0454** (0.0237)	2.9012** (0.0310)	3.0103** (0.0233)	2.5271* (0.0560)	1.9521 (0.2890)	1.9160 (0.2984)	1.9611 (0.2868)	1.8058 (0.3279)	1.9542 (0.2844)	1.6817 (0.3592)
GDP_capita2	0.6055** (0.0247)	0.2634 (0.3970)	0.5677** (0.0378)	1.0630*** (0.0004)	0.4791* (0.0532)	0.3940 (0.1677)	0.8213** (0.0262)	0.7296* (0.0804)	0.8251** (0.0255)	1.1385*** (0.0051)	0.6383* (0.0720)	0.8172** (0.0477)
Inflation1	-0.2157 (0.8150)	-0.2619 (0.7756)	-0.2451 (0.7907)	-0.2012 (0.8273)	-0.2152 (0.8125)	-0.3397 (0.7058)	0.1949 (0.8497)	0.1736 (0.8657)	0.2011 (0.8452)	0.2109 (0.8380)	0.0888 (0.9302)	0.0606 (0.9522)
Inflation2	-1.5371** (0.0105)	-1.4661** (0.0189)	-1.4890** (0.0138)	-1.6626*** (0.0062)	-1.3214** (0.0225)	-1.2682* (0.0506)	-0.5504 (0.2265)	-0.5223 (0.2607)	-0.5496 (0.2317)	-0.6870 (0.1223)	-0.4232 (0.3501)	-0.5199 (0.2607)
Trade_openness1	2.7548 (0.2014)	2.5378 (0.2389)	2.7637 (0.1997)	2.6350 (0.2209)	2.5552 (0.2317)	2.0236 (0.3397)	4.7246 (0.1011)	4.6591 (0.1058)	4.6911 (0.1037)	4.6631 (0.1063)	5.2166* (0.0682)	4.9251* (0.0847)
Trade_openness2	-0.4144 (0.3145)	0.3075 (0.5670)	-0.5476 (0.2124)	-0.5844 (0.1492)	-0.1941 (0.6126)	0.7846 (0.1155)	-1.6707*** (0.0042)	-1.4323* (0.0636)	-1.8102*** (0.0037)	-1.8462*** (0.0017)	-1.2646** (0.0310)	-1.0429 (0.1962)
Exchange_rate1	0.6676** (0.0113)	0.6200** (0.0189)	0.6857*** (0.0093)	0.6868*** (0.0086)	0.5994** (0.0163)	0.5587** (0.0224)	1.1424*** (0.0012)	1.1495*** (0.0011)	1.1413*** (0.0011)	1.1417*** (0.0011)	1.1778*** (0.0005)	1.2057*** (0.0004)
Exchange_rate2	0.1667 (0.2215)	0.2174 (0.1151)	0.2016 (0.1578)	0.1086 (0.4194)	0.1576 (0.2066)	0.2401* (0.0564)	0.3111* (0.0651)	0.3326* (0.0578)	0.3496* (0.0512)	0.2668 (0.1129)	0.3128* (0.0528)	0.3822** (0.0353)
Regulatory_quality1	0.8072* (0.0728)	0.8040* (0.0732)	0.8255* (0.0664)	0.8174* (0.0681)	0.8224* (0.0631)	0.8617** (0.0481)	0.5100 (0.4007)	0.5146 (0.3956)	0.5124 (0.3989)	0.5092 (0.4026)	0.5247 (0.3810)	0.5513 (0.3566)
Regulatory_quality2	-0.2011 (0.1605)	-0.2513* (0.0819)	-0.1147 (0.5122)	-0.0480 (0.7477)	-0.3004** (0.0237)	-0.0648 (0.6737)	0.0254 (0.9082)	0.0119 (0.9575)	0.0906 (0.7088)	0.1302 (0.5586)	-0.0747 (0.7255)	0.1208 (0.6127)
Market_size2		0.3865** (0.0372)				0.7270*** (0.0000)		0.1157 (0.6367)				0.3034 (0.2604)
Arab			0.2339 (0.3885)			0.3368 (0.1619)			0.2250 (0.5113)			0.2876 (0.3830)
Africa				1.1700*** (0.0005)		1.5814*** (0.0000)				0.7995* (0.0594)		1.0255** (0.0220)
Colonialism					1.4441*** (0.0000)	1.6283*** (0.0000)					1.2356*** (0.0010)	1.2503*** (0.0008)
N	1995	1995	1995	1995	1995	1995	1197	1197	1197	1197	1197	1197
VIF	3.71	3.93	3.76	3.75	3.48	3.83	3.47	3.76	3.37	3.53	3.28	3.59
AIC	4,213.474	4211.314	4,213.896	4,199.648	4,087.291	4,058.654	1,401.164	1,402.558	1,403.07	1,400.669	1,366.491	1,367.991
BIC	4,275.056	4,278.495	4,281.077	4,266.829	4,154.471	4,142.63	1,457.127	1,463.609	1,464.121	1,461.72	1,427.541	1,444.305

Note: Pval in parentheses; *** p < 0.01, ** p < 0.05, * p < 0.01.

0.090, respectively. The Arab variable is positive and significant in Models 3 and 5 (0.105 and 0.090). Africa has a strong positive effect in Models 4 and 5 (0.189 and 0.223). Most notably, Colonialism shows large positive coefficients in Models 5 and 6 (0.923 and 0.976).

For cross-border merger and acquisition outflows, Market_size2 and Arab are insignificant, indicating no strong influence. However, Africa remains significant in Models 5 and 6 with coefficients of 0.081 and 0.084, and Colonialism also shows positive effects (0.286 and 0.283), though these are smaller than those observed for greenfield investments. Overall, colonial ties are the primary drivers of greenfield investment outflows, followed by positive effects from African and Arab ties and host-country market size. For cross-border mergers and acquisitions, only African and colonial ties have significant effects, though these are moderate relative to their stronger influence on greenfield investments, underscoring the role of historical and regional ties in the Arab Maghreb Union's outward foreign direct investment.

3.3. Robustness check

The robustness check results in Table 4 confirm the baseline findings to a large extent. Specifically, among the greenfield investment models, the Market_size2 variable remains positive and significant in Models 2 and 5, with coefficients of 0.3865 and 0.7270, respectively, but the Arab variable becomes insignificant across all models, suggesting no systematic effect. Meanwhile, Africa has a strong, positive, and significant impact in Models 4 and 5, with coefficients of 1.1700 and 1.5814, respectively. Most importantly, Colonialism remains the leading driver, with very large coefficients in Models 5 and 6 of 1.4441 and 1.6283, respectively.

Turning to the cross-border merger and acquisition models, both Market_size2 and the Arab variables remain insignificant. However, Africa retains its significance in Models 5 and 6, with coefficients of 0.7995 and 1.0255, respectively, although with a somewhat weaker effect than for greenfield investments. Similarly, Colonialism remains significant, with coefficients of 1.2356 and 1.2503, although its effect on cross-border mergers and acquisitions is lower relative to greenfield investment projects. Accordingly, the analysis pro-

vides support for H1, H2b, and H3, while the evidence does not support H2a.

4. DISCUSSION

The analysis reveals that host-country market size significantly influences greenfield investments from Arab Maghreb Union countries, while showing no observable effect on cross-border mergers and acquisitions. This supports the prevailing view that market size is a dominant driver of foreign direct investment flows, particularly in developing countries, as it reflects not only current demand but also the potential to attract market-seeking investment (Ogbonna et al., 2022; Rahman et al., 2023). Consistent with Dunning's eclectic paradigm, our findings confirm that greenfield investments are more sensitive to local market conditions because acquiring access and securing customers require long-term commitments (Cuervo-Cazurra & Ramamurti, 2017; Mueller & Swoboda, 2025). Cross-border mergers and acquisitions, however, may be more motivated by strategic considerations, such as technologies or operational capabilities (Burger & Ianchovichina, 2017; Sandler et al., 2019). In the context of the Arab Maghreb Union, while several studies have identified market-seeking as a dominant motive among Moroccan firms throughout the current decade (Berahab, 2017; Ibrahim & Liassini, 2021; Moroccan Ministry of Economy and Finance, 2018), our study clarifies this impact as mode-specific, reinforcing the importance of distinguishing entry modes.

The findings indicate that Arab cultural proximity positively influences greenfield investments from the Arab Maghreb Union, yet has no significant influence on cross-border mergers and acquisitions. This can be understood from the perspective of social identity theory (Tajfel & Turner, 1979), as shared identity traits promote group belonging and cooperation, which are more fundamental to entry modes requiring intensive local involvement. Strong cultural, religious, and linguistic connections between the Arab Maghreb Union and the Arab world form a trust base that is further strengthened through personal networks such as *wasta* and regional institutional links like the Arab League (Khakhar & Alnajadah, 2024; Wahyudhi et al., 2025). Greenfield investments require greater cultural embedding and ongoing in-

teraction with local stakeholders, thereby making symbolic proximity important for building early-stage trust (Xu et al., 2024). In contrast, cross-border mergers and acquisitions are often dependent on the acquisition of existing assets and structures, which may moderate the need for embeddedness and limit the impact of cultural proximity on these deals (Wei et al., 2020).

The empirical analysis indicates that African cultural proximity significantly enhances both greenfield investments and cross-border mergers and acquisitions from the Arab Maghreb Union, emphasizing intra-African cultural ties as a strategic factor in shaping outward foreign direct investment. This result aligns with social identity theory (Tajfel & Turner, 1979), which views cultural identity as a common heritage that fosters mutual trust and cooperation. In the African context, the Arab Maghreb Union and most Sub-Saharan countries are characterized by a dense web of religious, linguistic, and historical ties, and francophone legal-administrative systems (Akisik et al., 2020; Meouloud et al., 2019; Wüst & Nicolai, 2023). These shared characteristics reduce the liability of foreignness, minimize coordination costs, and legitimize the presence of Arab Maghreb Union firms in host markets. Accordingly, the signifi-

cance of this effect for both greenfield investments and cross-border mergers and acquisitions suggests that within Africa, cultural proximity facilitates not only market entry but also post-entry integration and the management of acquired firms.

Evidence from our study indicates that foreign direct investment outflows from Arab Maghreb Union firms are strongly and significantly shaped by historical colonial ties to host countries. Following institutional theory, this finding supports North's (1990) argument that shared formal institutions, such as legal and administrative systems, and informal institutions, such as social norms, reduce uncertainty in international business. This also corroborates empirical evidence showing that colonial ties positively affect foreign direct investment flows (Amine et al., 2025; Glaister et al., 2020; Nguyen & Cieřlik, 2021). In the case of the Arab Maghreb Union, French colonial legacies have fostered persistent institutional familiarity, principally through the continued use of the French language and francophone legal frameworks, which ease coordination and facilitate market entry. Moreover, Arab Maghreb Union firms often find former colonial powers more accessible because of cultural and administrative familiarity (Boeh & Beamish, 2012).

CONCLUSION

The objective of this study was to examine the impact of colonial ties, cultural proximity, and host-country market size on outward foreign direct investment from Arab Maghreb Union countries, considering both greenfield investments and cross-border mergers and acquisitions over the period 2004 to 2022, while employing the Generalized Method of Moments alongside panel count data regression models. The results indicate that colonial ties and African cultural proximity are consistent and significant drivers of both greenfield investments and cross-border mergers and acquisitions, while Arab cultural proximity and host-country market size influence only greenfield investments. Among these factors, colonial legacy is the most influential, followed by African cultural proximity, which highlights the lasting influence of formal and informal institutions on Arab Maghreb Union international business decisions. From a scholarly perspective, this study contributes new insights by integrating institutional theory and social identity theory and demonstrates empirically how cultural proximity and historical legacies jointly determine foreign direct investment patterns in the Arab Maghreb Union. These findings also emphasize to policymakers the importance of recognizing and leveraging shared history and cultural ties, while tailoring strategies according to investment type to attract capital from the region.

Although this study centers on the Arab Maghreb Union, future research could broaden the scope to include other emerging markets with comparable colonial backgrounds and development stages, such as countries in Asia and Latin America, to gain a deeper understanding of how culture, history, and economic conditions collectively shape international business decisions in emerging economies.

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