



IMPACT OF FOREIGN DIRECT INVESTMENT OF MULTINATION  
CORPORATION ON MACROECONOMIC VARIABLES ON IRAQ ECONOMY:  
A COMPARISON WITH SELECTED MIDDLE EAST AND NORTH AFRICAN  
(MENA) COUNTRIES

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**I certify that all information and data contained in this thesis were obtained in accordance with academic norms, standards, and ethical behavior. I also certify that I have fully cited and referenced all non-original material and results of this work as required by these Rules, Standards, and Conduct.**

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## **ABSTRACT**

### **IMPACT OF FOREIGN DIRECT INVESTMENT OF MULTINATION CORPORATION ON MACROECONOMIC VARIABLES ON IRAQ ECONOMY: COMPARISON WITH SELECTED MIDDLE EAST AND NORTH AFRICAN (MENA) Countries**

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Interest in foreign direct investment started recently from developed and developing countries alike, and economists became more interested in it and published many studies.

This study deals with the relationship between FDI and GDP, inflation, exports, and imports as determinants for attracting this investment to the MENA region in general and Iraq in particular.

The data source is the World Bank's World Development Indicators, last updated: 01/07/2020, and the United Nations Conference on Trade and Development, last updated: 07/01/2020.

The study covers the years from 1960-2019 .The VAR plate test, the Fisher unit root test and the enhanced Dickey-Fuller tests were used to analyze the study data. Also, use Granger's causal test father, the series has been stable.

The results of the tests were not strong, as the effect of foreign direct investment was absent or weak on the study variables (GDP, inflation, exports, and imports). The null hypothesis  $H_0$  is rejected, as the probability value is zero in more than one condition.

Concerning the causality test, the results showed a weak impact and a one-way causal relationship from FDI to growth, and the relationship between foreign direct investment and inflation was causal in one direction, from inflation to foreign direct investment.

In the same context, the relationship between FDI and exports was a one-way causal relationship from FDI to exports. As for the relationship between foreign direct investment and import, the result was a causal relationship in one direction, from foreign direct investment to import.

Finally, it seems that the results of this study do not contradict the previous literature in most cases, as this literature concluded that there is an effect of foreign direct investment on GDP and economic growth and on exports and imports. While there was no effect of foreign direct investment on inflation, this contrasts with previous studies.

January: 21.01. 2021

**Key Words:-** Foreign Direct Investment (FDI ), Multinational Corporations (MNC's), Middle East and North Africa (MENA), a parent company, host countries, Gross domestic product(GDP), Inflation, Export, and Import.

## ÖZ

### **ÇOKULUSLU İŞLETMELERİN DOĞRUDAN YABANCI SERMAYE YATIRIMLARININ IRAK EKONOMİSİNİN MAKRO EKONOMİK DEĞİŞKENLERİ ÜZERİNE ETKİSİ: SEÇİLMİŞ ORTADOĞU VE KUZEY AFRİKA (MENA) ÜLKELERİ ÜZERİNE KARŞILAŞTIRMALI BİR ANALİZ**

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Ocak 2021, 294 s.

Son zamanlarda hem gelişmiş hem de gelişmekte olan ülkelerde gerçekleşen, daha çok da gelişmiş ülkelere doğru akan doğrudan yabancı sermaye yatırımları üzerine iktisatçılar daha fazla ilgi duymaya başladılar ve bu konuda çeşitli çalışmalar yayınladılar.

Bu çalışmada, genel olarak MENA bölgesine ve özelde Irak'a yönelik yabancı sermaye yatırımlarının çekilmesinde kritik belirleyiciler olan GSYİH, enflasyon, ihracat ve ithalat gibi makro ekonomik değişkenler ile doğrudan yabancı sermaye yatırımlarının ilişkisi incelenmektedir.

Çalışmada Dünya Bankası tarafından en son 07/01/2020 tarihinde güncellenmiş olan veriler ile Birleşmiş Milletler Ticaret ve Kalkınma Konferansının 1960-2019 yıllarını kapsayan ve 01/07/2020 tarihinde güncellenmiş olan verileri kullanılmıştır.

Çalışmada verilerin analizinde panel VAR testi, Fisher panel birim kök testi ve geliştirilmiş Dickey-Fuller testleri ile Granger nedensellik testi kullanılmıştır.

Doğrudan yabancı yatırımın çalışma değişkenleri (GSYİH, enflasyon, ihracat, ithalat) üzerindeki etkisi olmadığı veya zayıf olduğu için testlerin sonuçları güçlü değildi. Boş hipotez  $H_0$ , birden fazla durumda olasılık değeri sıfır olduğundan reddedilir.

Nedensellik testi ile ilgili olarak, sonuçlar zayıf bir etki ve DYY'den büyümeye tek yönlü bir nedensel ilişki gösterdi ve DYY ile enflasyon arasındaki ilişki, enflasyondan DYY'ye tek yönde nedenseldi.

Aynı bağlamda, doğrudan yabancı yatırım ile ihracat arasındaki ilişki, doğrudan yabancı yatırımdan ihracata tek yönlü bir nedensel ilişkiydi. Doğrudan yabancı yatırım ve ithalat arasındaki ilişkiye gelince, sonuç, doğrudan yabancı yatırımdan ithalata tek yönde nedensel bir ilişki oldu.

Son olarak, bu çalışmanın sonuçlarının çoğu durumda önceki literatürle çelişmediği görülmektedir, çünkü bu literatür doğrudan yabancı yatırımın GSYİH ve ekonomik büyüme ile ihracat ve ithalat üzerinde bir etkisi olduğu sonucuna varmıştır. Doğrudan yabancı yatırımın enflasyon üzerinde bir etkisi olmazken, bu önceki çalışmalarla çelişiyor.

January, 21 /01/ 2021

**Anahtar Kelimeler:** Doğrudan Yabancı Sermaye Yatırımları, Çokuluslu Şirketler (MNC'ler), Orta Doğu ve Kuzey Afrika (MENA) Ülkeleri, aile şirketleri, yatırım alan ülkeler, Gayri Safi Yurtiçi Hasıla, Enflasyon, İhracat ve İthalat.

## DEDICATION

**I dedicate this work to.....**

**My father's soul ... and my mother's soul ... for their constant love, support, and encouragement for me, which was my source of inspiration all the time ...  
... and raising them and caring for me.... ... and giving them the most cherished things they have over the years to teach me and my intellectual development ...  
They were the source of motivation and strength in moments of despair and frustration.**

**LAWHEDH KHALEEL IBRAHIM**

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## LIST OF ABBREVIATED

### ABBREVIATIONS

ADB	: Asian Development Bank
ADF	: Augmented Dickey-Fuller Test
BOP	: Balance of payments
BOT	: Trade of balance
BTI	: Iraq country report
CPI	: Inflation
E.U.	: European Union
EXP	: Exports
FDI	: Foreign Direct Investment TIONS
FPI	: Indirect Foreign portfolio Investment
GDP	: Gross Domestic Product
GI	: Greenfield Investments
GSDP	: General Secretariat for Development Planning
ICSID	: International Center for Settlement of Investment Disputes
IEPR	: Institute of Economic Polic Research
IFC	: International Finance Corporation
IIP	: International Investment Position
IMF	: International Monetary Fund
IMP	: Imports
IPR	: Intellectual Property Rights
MDPI	: Multidisciplinary Digital Publishing Institute
ME	: Middle East
MENA	: The Middle East and North African
MIGA	: Multilateral Investment Guarantee Agency
MNC's	: Multinational Companies.
MPRA	: Munich Personal RePEc Archive
MSM	: Markov Regime-Switching model
NIC	: Network Interface Card
OIC	: Organization of Islamic Cooperation

OECD	: Organization for Economic Co-operation & Development
OLS	: Ordinary least squares
OPEC	: Organization of the Petroleum
PPP	: Purchasing power parity
QQML	: Qualitative & Quantitative Methods in Libraries
REER	: Real Effective Exchange Rate
R&D	: Research and development
RGDP	: Real Gross Domestic Product
SCMS	: Supplementary cementitious materials
SLS	: Sodium lauryl sulfate
UE	: Unión European
UN	: United Nations
UNCTAD	: United Nations Conference on Trade and Development
UNDP	: United Nations Development Program
USAID	: United States Agency for International Development
VAR	: Value at Risk - Value at risk
WCBEM	: World Conference on Business, Economics & Management
WDI	: World Development Indicators
WTO	: World Trade Organization
XP	: Extreme Programming



## **CHAPTER 1**

### **INTRODUCTION**

The main purpose of our study is to show the extent of the impact of foreign direct investment on some macroeconomic variables [GDP, inflation (CPI) rate, Exports (EXP) and Imports (IMP)] in Iraq and selected countries from the Middle East and North Africa region.

Choose annual data for the period 1960-2019. The plate data analysis method was used. The main variable is foreign direct investment and the dependent variables [GDP, inflation, exports, and imports].

Through this research, we obtained forecasts of changes in macroeconomic variables [foreign direct investment, GDP, inflation rate, exports, and imports], to clarify the positive or negative impact or the absence of an effect between these variables first.

Second: Knowing the impact of foreign direct investment on the countries of the Middle East and North Africa, including Iraq. As attracting foreign direct investment flows requires a stable macroeconomic environment and the presence of determinants for this investment, as the MENA region attracted a small percentage of the global stock of foreign direct investment despite the various advantages it enjoys and which are important determinants for investment.

The reality of the countries of the Middle East and North Africa suffers from many political, economic, and social problems, and the performance of these countries is weak compared to other countries in the world, as many of these investment flows are concentrated in a few countries in the region, and most of them are directed towards investment in operations related to the oil sector.

As for the rest of the sectors, the proportion of this investment is modest, as in the sectors of tourism, telecommunications, and agriculture, but the size of these investments in these sectors is still disappointing and is not commensurate with their size in the rest of the countries in the world.

The research is concerned with clarifying the impact of foreign direct investment for multinational companies in developing and improving the continuous economic growth and economic environment in Iraq and several countries in the Middle East and North Africa region.

As foreign investment has an important impact on foreign trade just as it is possible when the GDP is increased and producer surplus is achieved, this increase can be exported to other countries, thus increasing the ratio of exports to imports, thus achieving a surplus in the trade balance.

It works to reduce the inflation rate by all means, and it is an important measure of the Iraqi economy, and an important factor in attracting foreign direct investment to all countries, transferring capital, technology, and knowledge, and using advanced scientific methods, and helps in training administrative and technical cadres, transferring expertise, and developing them, and provide job opportunities, and reduce unemployment in the host country. The strength of this investment depends on the volume and speed of the flow and its contribution to adding new production capacities, increasing GDP, finding similar products, and importing alternatives at lower prices and higher quality.

The study faced some limitations, as listed below;

- A. The first of these restrictions relate to the variables used in the research, as in fact, the effect of foreign direct investment is not limited to the country's GDP, inflation, exports, and imports, regardless of these variables, there may be various other variables that are affected by these investments, and they can be used in the model.
- B. Countries with different economic, political, and social conditions were formed where comparisons were difficult with these differences.
- C. The study was limited to the period 1960-2019, which is another obstacle to the difficulty of obtaining accurate economic data for a large number of selected countries, because most of these countries entered into this investment in the past few years, so the opportunity for comparisons was difficult and could cause misinterpretation of the results.

Hence, this research is divided into six chapters:

In this context; In the first chapter of the study, it was explained to explain the problem, the purpose of the research and its importance, the importance of the study, the limitations (difficulties in research), the research model, the methodology used in the study, the theory and the conceptual framework for foreign direct investments and the history of the emergence of this investment in the world, then explain each of its general benefits and concept, and its scope, and finally the theories of foreign direct investment.

According to the second semester of the study, we will study reviewing the previous literature related to foreign direct investment, dealing with foreign investment and its stages of development in the countries of the Middle East and North Africa, also the positive and negative effects of foreign direct investment on the country of origin and the host country. And finally, types of foreign direct investment.

Likewise, in the third chapter of the study, a general background study of the Iraqi economy and foreign direct investment in Iraq was also conducted, and we will also discuss the Iraqi investment climate and prospects for that.

The climate, the importance and justifications for Iraq's resort to foreign investment and its objectives in Iraq, and what are the determinants and obstacles to foreign investment in Iraq.

The fourth chapter deals with a study of the economies of the Middle East and North Africa countries, in addition to the general economic situation of these countries, and how these countries attract foreign direct investment and competition with developed countries, as well as how to enter global markets and overcome the problems facing their economies. Giving a brief overview of the economy and the presence of foreign direct investment in the countries of the Middle East and North Africa. In this context, in Chapter Five, we will discuss the components of foreign direct investment, its climate, components, drivers, characteristics, the main features of these multinational companies, and their role.

The positive and negative effects of the activity of multinational companies, and the classification of these companies, and we will also address the determinants of foreign direct investment, economic factors, political factors, technology, political and institutional factors, the effects of these investments on economic structures and financial effects, its effects on non-economic elements, on competition, and its impact on the cost factor and labor wages

In the sixth chapter, the impact of foreign direct investments (the independent variable) of multinational companies on the macroeconomic variables, GDP, inflation, exports, and imports (dependent variables) in Iraq is analyzed in comparison to a selected group from the Middle East.

And the North African region, explaining the purpose of the analysis and the method used in the study and defining the methods of data collection. In this context, an explanation of the variables selected for the analysis was presented in a summary form, a table was drawn up for the selected sample countries, and the period in which the analysis was conducted was determined.

To clarify the impact of foreign direct investment coming to Iraq and the countries of the Middle East and North Africa on GDP, inflation, exports, and imports through the establishment of economic standard models. An experimental search was performed and statistical analysis was applied to the available data using panel data analysis.

Besides, the interpretation and evaluation of the descriptive statistics of the variables and the general trends among the variables are done using standard economic modeling.

In the study, the results obtained from the theoretical and analytical study were evaluated, then conclusions were reached, and then some suggestions and recommendations were made by extracting the results and classifications based on the classifications.

Therefore; Details of all study results and analyzes are presented, and the results are closely related to the design, hypothesis, objectives, conclusion, evaluation and the results are relevant to providing evidence for the questions linking the results of

practical research with the theoretical approach interpretation. Evaluation, display results in tables and uses the correct format of any tables and charts used.

Consequently, this research will be a concern to assess the impact of foreign direct investment by foreign multinational companies on the macroeconomic variables of the economy in the Middle East and North Africa region in general and the Iraqi economy in particular, and to measure and analyze the positive and negative impact of foreign direct investment or not to influence these variables.

This study aims to develop and encourage foreign investment for multinational companies because of the impact of this investment in increasing the gross domestic product, reducing inflation rates, and working to increase exports by attracting foreign direct investment in exchange for reducing imports, and this achieves a surplus or at least it's equivalent in the balance foreign trade.

In the region and inside Iraq. Finally, this study goes through time phases every six months.

### **1.1 The Problem Statement**

- A. The dynamic environment in which we live has imposed many problems, conflicts, and competition, leading to the need for openness to the macroeconomic.
- B. The main tasks of foreign direct investment (FDI) are to create an appropriate working environment and to remove obstacles to efficient cooperation between countries to achieve macroeconomic goals.
- C. This reality has stimulated research and development in Iraq and the countries of the Middle East and North Africa to reveal the effect of foreign direct investment on macroeconomic liberalization, openness, exchange of ideas and knowledge, and the contributions of the mother country to benefit from them in Iraq and these countries. (World Bank, International Finance Corporation, 2013)

D. Furthermore, FDI capabilities are beneficial in positively influencing the macroeconomic components of the host country, and as we know, to stay at the top and develop, multinational corporations must have an appropriate influence on the host country's economy, reach a high level of participation and development of their economy and lack of It stops its activities in the country (world investment report, 2018).

## **1.2 The Purpose of Research**

A. It provides a forecast of change in macroeconomic variables in Iraq and a comparison with each of the Middle East and North Africa regions.

B. The extent of application of foreign direct investment practices, which are represented by multinational companies, on the macroeconomic elements (increasing the rate of GDP, reducing inflation rates, creating a state of surplus or at least equivalent to the balance of trade by increasing exports and reducing the rate of imports) in Iraq and comparison with each of the Middle East and North Africa regions.

C. Measuring and analyzing the impact of (foreign direct investment on the gross domestic product, the rate of inflation, and the trade balance (exports and imports) in Iraq and comparison with each of the Middle East and North Africa regions.

D. The extent of the application of foreign direct investment practices represented by multinational companies in improving the economic environment in Iraq and comparison with each of the Middle East and North Africa regions. (World Investment Report 2018)

## **1.3 Significance of the Research**

A. The importance of foreign direct investment in innovation and development and giving a strong impetus to economic development in Iraq and the countries of the Middle East and North Africa.

- B. Paying attention to infrastructure for the gross domestic product and adding new production capacities that raise productivity to reap profits.
- C. The importance of foreign direct investment in reducing the rate of inflation by reducing the cost of imported goods and services through the production of similar or alternative goods in these host countries, which in turn reduces inflation.
- D. Creating a state of surplus or at least an equilibrium in the trade balance by increasing exports and reducing imports.
- E. The importance of foreign direct investment in developing the skills of local workers and granting high wages. In addition to employing many local workers by creating additional job opportunities for the large size of these companies.
- F. The role of (foreign direct investment) in transferring capital, technology, and expertise to the country

#### **1.4 Limitations (Difficulties in Research)**

Foreign direct investment affects the economic growth of developing countries, especially Iraq and the Middle East, and North Africa countries.

This study has been associated with restrictions to determine the direction of this effect, and among these restrictions are the following:

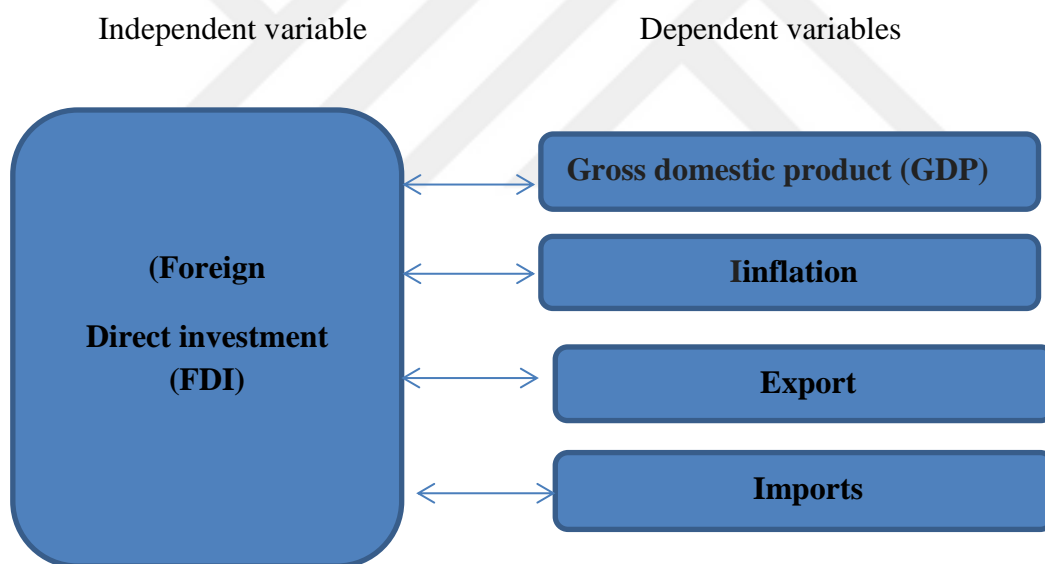
- A. The first of these obstacles that faced the research is that the effect of foreign direct investment is not limited to the country's GDP, inflation, exports, and imports, but the rest of the macroeconomic components.
- B. The second hurdle is the group of countries included in the study. Since countries have different economic conditions, the inclusion of rich and poor countries in the scope of the study eliminates the opportunity to make good comparisons, which leads to incorrect results. It is a fact in the research sample that it can cause interpretation. While countries' similar conditions are an important criterion for making comparisons.

C. Given the difficulty of obtaining accurate economic data on several of the sample countries, and the limited study for the years 1960-2019, these are other limitations.

### 1.5 The Research Models

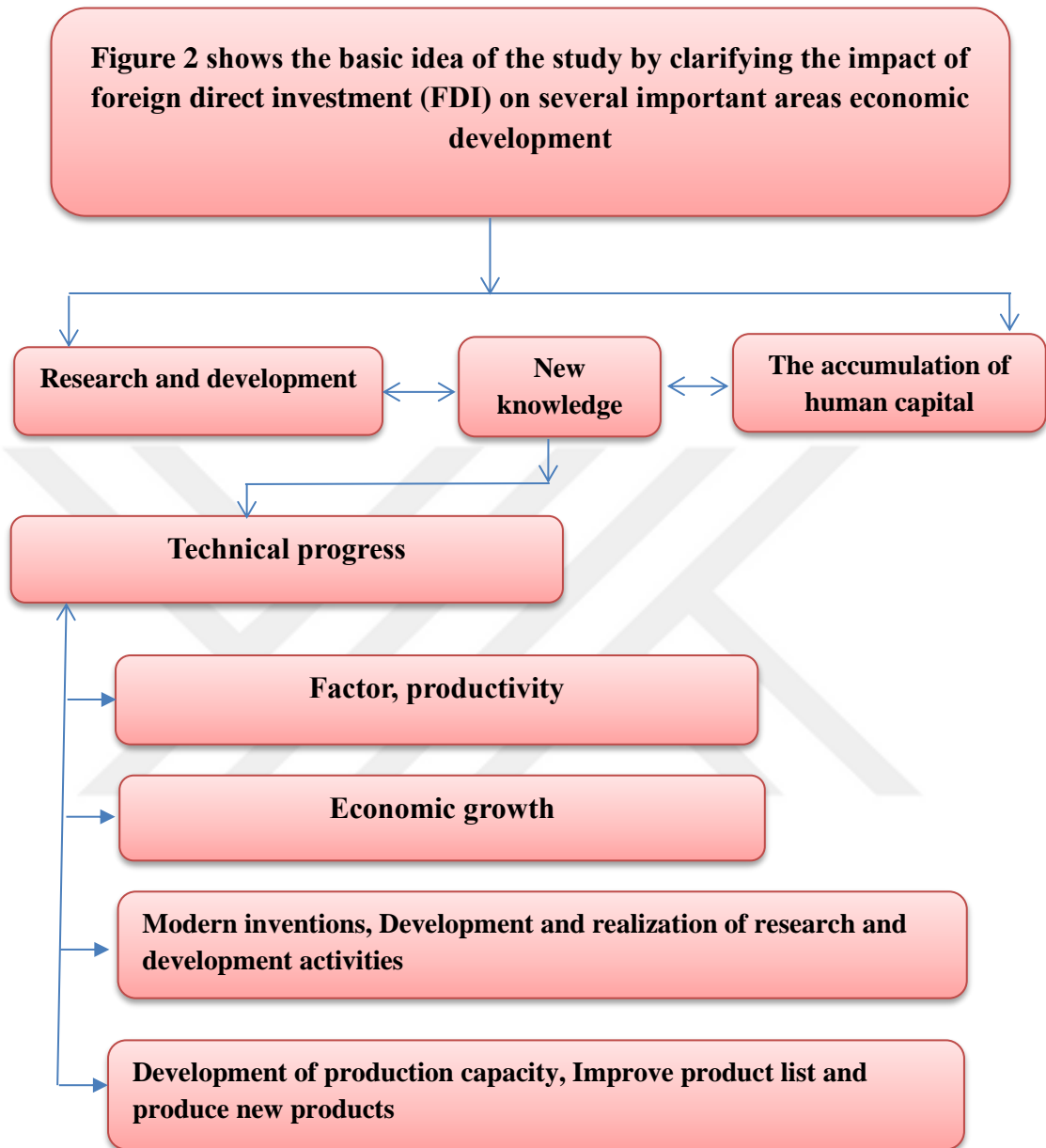
The framework of this research is presented in Figure (38) And Figure (39) which shows the relationship between foreign direct investment (FDI) and Macroeconomic Variables: {Gross domestic product (GDP)/ Inflation rate / Export /Imports }

#### Model. (1)



**Figure 1.1:** Conceptual framework (Source: Researchers Work 2021)

**Model. (2)**



**Figure 1.2:** shows the basic idea of the study by clarifying the impact of foreign direct investment (FDI) on several important areas of economic development (Sours: The work of the: Researcher's 2021)

## **1.6 Methodology Used in the Study**

Research Design and Methodology the researcher adopted two approaches in the analysis: It includes both design and research methodology (method for data processing, a field of study, sample size as below)

### **1.6.1 Method**

- Method for Data Process:-

The study will use the descriptive and analytical approach to examine the relationship between study variables and illustrates the correlation among them

### **1.6.2 Area of the Study**

- Scope and Sample:-

To examine the impact of foreign direct investment for multinational companies (MNCs), we focused on multinational companies operating in Iraq, and several countries in the Middle East and North Africa (MENA) region.

### **1.6.3 Sample Size**

The sample size ranged from multinational companies operating in 18 countries in the MENA region. The period during which the analysis was conducted was from 1960 to 2019.

## **1.7 Introduction Conceptual and Theoretical Framework of Foreign Direct Investments**

Foreign Investment: The material and financial investments made by foreigners (non-residents) within the state, that is, the total investments made by foreigners, whether individuals or institutions, and it is one of the basic components of the total

demand in the host country. It helps in producing goods and services that society needs for consumption, and it is possible to achieve a surplus in this production, and contribute to export and reduce the import of goods and services and thus reduce their prices, and this leads to lowering the rate of inflation to acceptable levels and provides job opportunities (Laura Alfaro, 2016).

An investment may be considered foreign when the foreign investor (a natural or legal person) does not hold the nationality of the host country of the investment in which he invests and works. Investment is the allocation of capital to acquire new means of production, or the development of current means to increase production capacity, or the formation of new in-kind capital, which is to increase production capacity (Singhania M & Gupta A, 2011).

Foreign investment is the resources, financial values, or monetary amounts that are sacrificed at present to obtain greater values in the future, wait for the return on investment and obtain future income, and reduce initial expenditures.

However, these expected returns from profits are uncertain, that is, they are accompanied by a degree of uncertainty and risk, which are the component and basis of investment that differs from saving that has a stable return and no risk (Mihaela Simionescu, 2014).

This investment has important implications for the politics and economy of countries, which requires governments to develop a rational investment policy, provide appropriate conditions for it, remove obstacles that stand in its way, and manage this activity in a way that guarantees economic and social benefits for the host country and the foreign investor as well (Laura Alfaro & Jasmina Chauvin, 2017).

Achieving economic stability or economic development needs to increase and stimulate foreign investment, as most countries are unable to finance their investments with domestic financial sources, which makes them look for external financing sources, which is called foreign investment. Foreign investment is defined as the movement of capital across countries for employment in various economic processes, such as establishing or contributing to productive projects,

subscribing to shares, bonds, or loans, and obtaining remunerative returns, and this is done outside the legal, monetary, financial and economic systems of the investing state (OECD, 2007).

Moreover, foreign investment is intended for investors in a particular country to establish or acquire new economic projects and institutions in another country, or to own an additional part of an existing facility in another country, provided that the proportion of this company/project is large, not less than 10%. This percentage varies from country to country (Ali Accuracy & I Ozturk, 2012).

Foreign investment can be an investment in the form of foreign direct investment (FDI), or an indirect investment called a foreign indirect portfolio investment (FPI), and all types of foreign investment are important to the host country (Olusuyi E A, et.al, 2016).

Therefore, an appropriate economic and social environment must be created, improvement and increase in economic growth, and local economic development. As well as reform and improvement of existing policies, the establishment of new policies, and the development of new foreign investment agreements and procedures in the host country are in line with the national domestic investment policy. (Jesper Karlsson, 2014).

Work to enact laws that support the increasing flows of this investment and set policies to attract them and the agreement between the national legal framework and local and foreign investors is flexible and allows the country to make decisions freely, line with economic development strategies investment, regulation, handling foreign investor issues, and protecting their assets (Holy Pondicherry & Pauline Henriette P Tan, 2017).

The important requirement to attract this investment is to increase the quality of local subsidiary companies and distribute them in important production areas, identify high-productivity projects, introduce change and new products, and stimulate the development of the local market, all of which increases the competitiveness of countries to attract such investments (Sarbjit Chaudhuri & Ujjain Mukhopadhyay, 2017).

And to specify the specifications of the multinational companies, for example, the actual age or the extent of expansion of activity and the development of technical and employment conditions for its activity.

Allowing the foreign investor to own a percentage of the local company's shares while preserving his rights while completely freeing foreign investment in some of the services related to it. It is important for this investment to keep pace with knowledge and the sustainability of the economy and to match the new industrial revolution, to have leadership, innovation, and competitiveness, to build and develop the foundations of local industries, to benefit from them properly and to communicate with local markets in the world. (Ang J, 2008).

Therefore, it is necessary to develop various new strategies for economic development that are in line with the complexity and novelty of the current reality and to deal with new competencies and include goals to raise and integrate modern activities.

Despite all of the above, some economies set policies that restrict foreign ownership or joint investment requirements, protect domestic investment strategy, support production and local technologies, and put tight control over foreign investment, while setting major control conditions for it in their host country (Kariuki C, 2015).

### **1.7.1 Historical Process of Foreign Investment in The World**

Foreign investment is considered old with the emergence of ancient civilizations, as there was an exchange between these civilizations outside their local borders, which means that foreign investment is not the result of the current era. Also, the boom in this investment is the time of the Industrial Revolution in the nineteenth century, and examples of these investments include the establishment of the German Friedrich Bayer factory in 1865 in New York State, USA, the establishment of the Singer Company in the United States of America, and a factory in Scotland in 1867 (Moosa I A, 2002).

However, the twenty-first century is considered the history of the phenomenon of foreign direct investment in its modern form, 1914 there was a great balance for this investment and the United Kingdom was the largest source in that period, followed by the United States, then Germany (Fuad Rashid Bullo, 2013).

Britain was the first global merchant, as it owned a global network of transport and banking, and its industry and monopolies controlled the major financial markets, and the British pound was the global currency. (Hatem Hatef Abdulkadhim Altaee, et.al, 2016).

And its control over investments in India, most of which were in the export sector and the exploitation of the natural resources of the countries that occupied it (Nafeesa Tabassum & Samiul Ahmed, 2014).

With the increase in the industrial revolution in Europe, this activity and exploitation increased, and the colonial countries aimed to plunder the wealth of the countries, by establishing institutions and projects in these countries to exploit the primary resources and meet the needs of their industries in their countries.

In 1938, the rate of this investment increased and British companies dominated a large volume of it, and most of it was directed towards developing countries. The situation changed after World War II and the United States took control, especially the manufacturing industries (oil and gas) (Kyeonghi Baek & Xingwan Qian, 2011).

This investment was initially low to reduce restrictions, implement structural reform programs, adopt a policy that encourages it, liberalize foreign trade, protect investment and foreign investors, and create a suitable economic environment for this investment. This investment flow continued to increase in the 1970s and 1980s, and at present, this investment has grown especially in developing countries and very large quantities (Patricia Lindelwa Makoni, 2015).

As for the countries of the Middle East and North Africa, the activity of foreign direct investment has started recently, and most of these investments are in the field of extraction activities, especially oil and gas, and are concentrated in limited countries and small quantities due to the conditions in the region, and concerning

Iraq, this investment is considered very low due to the political, security, economic and social conditions that Iraq suffers from, which are not attractive to these investments. The global competition for developing countries has become attractive to them, traditionally defined as a share of at least 10% of the capital of a company owned by non-residents or an investment made by an individual or company in another country (Irاندوست, 2016).

### **1.7.2 General Benefits of Foreign Investment**

Foreign investment is closely related to the growth (gross domestic product) of the host country according to intellectual theories, provided that an attractive and appropriate investment climate is provided, in which all elements of foreign investment are available, and in line with the conditions of the host country. It provides credit support from the host country's government to foreign institutions on affordable and reduced terms, reduces the risk of loss for local investors, and reaps profits for local investments. (Sultanuzzaman Md Reza, et.al, 2018)

The foreign investment exercised by multinational corporations in the host country yields material and intangible benefits that encourage economic development. Foreign direct investment provides the transfer of advanced technological technologies not available in the host country. (Sasi Iamsiraroj & Mehmet Ulubasoglu, 2015).

And the use of modern management methods that improve the use of natural resources and increase production processes. Transferring money, contributing to long-term productivity growth, and developing marketing methods (Sharma R & Kaur M, 2013).

This investment increases the competition between it and the local companies because it pushes local companies to imitate foreign companies in using advanced production methods and providing products that compete with the foreign product in terms of quality and prices.

Foreign investment helps reach global markets, as it increases production only in the host country. It will achieve self-sufficiency and may achieve a surplus in domestic production, which will lead to an increase in the host country's domestic exports (Nicholas Turner et.al, 2011).

And it also contributes to the export of financial and material services to the host country, which increases the country's imports and thus raises the level of economic growth. Moreover, it creates new job opportunities, develops already existing skills, recruits skilled workers, and trains them continuously and sustainably, which enhances the human capital of the host country (Marie Freckleton, et.al, 2010).

In recent times, the opportunity of developing host countries to obtain internal and external loans from commercial banks has diminished due to the difficult conditions for these loans and the inability of these countries to meet these conditions. This led to an increase in the influx of foreign investments of all kinds as a source of capital needed to implement economic and development projects for countries (Michel Toudarou, 2006).

### **1.7.3 The Concept and Scope of Foreign Direct Investment**

Foreign direct investment is one of the main areas of interest to many economists, economic schools, and developed and developing countries in the world. Including the countries of the Middle East and North Africa region, as it is one of the basic components affecting the course of economic and political relations between different countries of the world (Singhania M & Gupta A, 2011).

This investment has many concepts that have been covered in many research and studies, part of which I will cover, because of its great importance for developed and developing countries alike, and there are also many terms related to foreign direct investment, found in any economy, this investment plays an important and important role in strengthening the host economies. The world witnessed a clear development in foreign direct investment flows until the year 2000.

However, these investments witnessed a significant decline after that, and after the events of September 11, 2001, doubts increased among investors, and the Gulf War and its impact on the oil, gold, and stock markets, and this decline reached about 41 percent (Jonathan Jones & Colin Wren, 2016).

The reason for this decline is the decline in mergers and acquisitions and the global economy's tendency to slow down and the decline in the value of assets with stock prices in global financial markets.

The decline in FDI continued, reaching its lowest level in 2003. After 2003, foreign direct investment flows began to rise, due to the higher economic performance in most parts of the world and the increase in mergers.

These operations contributed to the parent companies overcoming the problem of lack of funding due to the global financial crisis. In what follows, I will deal with some concepts, terminology related to foreign investment in general, and foreign direct investment in particular, as follows (Geoffrey Jones, 2010).

#### **1.7.3.1 Host countries**

The host country benefits from FDI because this investment enables it to integrate with the global economy; the impact of (FDI) improves the host country's export competitiveness.

The host country should create an appropriate environment for the flow of foreign investment, promote transparency, create quality companies, and provide good services economic liberty is crucial for economic growth (Kariuki C, 2015).

#### **1.7.3.2 Parent company**

Sometimes called the parent company has a complex organizational structure, is involved in foreign production and marketing beyond the borders of the country through its subsidiaries (Mustafa Sakr, 2017).

### **1.7.3.3 A foreign affiliate**

This company is often established according to the industry of the country in which it is located and the characteristics of this industry, and in most cases, the subsidiary company has the same specifications as the parent company's industry or the parent country of the subsidiary is similar to the country of the parent company (UNCTAD N, 2003).

Its establishment in the host country is important for foreign investment, as these companies generate accumulated investments abroad and large revenues, which constitute about 50 % of the foreign investments (World Bank Investment Report, 2018).

The size of the subsidiary is proportional to the size of the parent company to which it belongs, which we measure by its total employment, total sales, and its total output, and the non-subsidiaries, this company is often small compared to the parent company (Natalia Ramondo, et.al, 2014).

Often there is more than one foreign mother company working in the same field, and in some cases, this company is established to provide the foreign market instead of export activity, and the main reason for this is to reduce transportation costs, tariffs and get rid of customs difficulties, a few of these companies ship the product to the parent company, as it often provides goods and services to the local market of the host country (Joanna Tochman Campbell &, Stewart R Miller, 2012).

### **1.7.3.4 Multinational Corporations (MNC's)**

Multinational companies are working to improve the situation of the home country and can obtain tax concessions from the host country, and since these companies are large, have high capital, employ skilled labor, have high productivity, and pay higher wages so that their subsidiaries enjoy the same benefits, compared to companies local in the host country. Multinational corporations are known as giants that have expanded to operate globally across national borders (Shila Mishra1, et.al, 2017).

Although production is global, it is possible to implement different stages in different countries. Direct control is carried out over its policies and business strategies in finance, production, and marketing. Business is carried out in the host country, and it is a company with production capacity in several countries. MNC's main objective is to increase its capital, which is why most foreign direct investment goes to industrialized countries (Ahmed Jafari & Maryam Monfared, 2011).

Multinational companies contribute to 65% of the non-governmental employment opportunities available in any host country, and the presence of these companies is necessary for the entry of foreign investment into the host countries, including Iraq. Multinational companies work to achieve strategic goals, the most important of which is obtaining or owning important strategic assets (Kenneth Katzman, 2015).

There are varieties of factors that attract multinational companies to operate in a specific country. Such as politics, institutions, macroeconomics, and corporate decisions related to their overseas business. These factors are determined by the factors of ownership, advantages of technological knowledge, brand name, economies of scale and management, skills, and reputation (Geoffrey Jones, 2010).

The economic policy does not help in attracting these investments and reduces foreign investment opportunities and returns. Site factors determine companies' decisions to invest or not, and which determines the foreign party in which investment projects are located. Uncertainty in the investment climate in the host country drives multinational companies to cancel or delay the investment decision. Besides, the influence of skills and management systems for local companies and companies, and they have the form of the organization, and they have the goal to achieve this (Muhammad Afaq Haider, et.al, 2016).

Finally, to attract these companies and give them a role in local development, the stability of the economic and political systems in the host country must be ensured, and these companies should not be relied upon excessively, and should not be far from making political, sovereign and economic decisions in the host country (Fuad Rashid Bullo, 2013).

### **1.7.3.5 FDI capital**

It is the capital that a foreign direct investor provides, directly or indirectly (through other related institutions) to the investment institution (Al- Khouri R & Abdul Khalid U A, 2013).

### **1.7.3.6 Indirect foreign portfolio investment (FPI)**

It is a type of foreign investment called foreign portfolio investment, it consists of securities outside the host country, there is no direct contact with management or ownership and no control by foreign companies or investors, whose goal is to achieve short-term benefits, and its index adapts to short-term changes in the environment (Edwin A M, 2014).

To attract this investment, there must be several strong and important determinants and variables related to the state's status on one hand and the foreign investor on the other hand. Such as the presence of advanced financial and monetary sectors, and sophisticated networks that facilitate the operations of this investment between the host country and the original investment countries (National Bank of Romania, 2016).

This investment contributes to the revitalization and development of the stock exchange by financing local companies in the primary market. Participating in the ownership of shares, or lending to finance bonds, and providing a high degree of liquidity for securities.

The investor can buy or sell securities quickly and get his money back whenever he wants in this market. It includes purchasing international bonds, international bank certificates of deposit in foreign currencies, gold and rare metals, and converted values (Imad Mousa, 2011).

Regarding the host country, the most important determinants are political stability, the existence of an appropriate economic structure, which varies from country to country, and the availability of developed financial markets.

As well as the continuous periodic review of financial and economic policies, and work to find appropriate interest rate and exchange rate policies, stimulate this investment, and direct the state to a policy of financial openness to the rest of the world.

The availability of these determinants leads to large, continuous, and easy flows of foreign capital, to the development of financial markets, to facilitate the exchange of international financial instruments, and to contribute to the stability and development of the host country's economy (Esiyok B, 2010).

As for foreign investors, it is important to pay attention to and protect the rights of investors by finding sophisticated and real ways to predict profits scientifically. This encourages foreign and local investors to invest in the host country that uses these methods when the returns will be high (Alessia Azzutti, 2016).

The flow of this investment increases the efficiency of the local financial markets, helps increase knowledge of these markets, and thus encourages foreign investment.

The process of foreign participation in the local capital market helps in developing accounting rules and raising the level of information disclosure in the performance of companies as it facilitates communication with foreign institutions that have modern financial technologies and advanced methods that help attract more flows. (Rachdi Housseem & Hichem Saidi, 2011).

With all these advantages, there are many negative effects of indirect foreign investment on the economy of the host country (Kalman Kalotay, 2012).

As this type of investment is short-term, and if the status of the host country is not stable politically, economically, and socially, then indirect foreign investment will be volatile.

The possibility that the foreign investor owning this investment will make a sudden decision to leave the host country (Syed Tehseen Jawaid & Shaikh Muhammad Saleem, 2017).

Likewise, when the exchange rate of the national currency falls, real estate prices fall, the central price falls, and profitability deteriorates. (Sufian Eltayeb Mohamed & Moise G. Sidiropoulos, 2010).

And the increasing deficit in the balance of payments, as could contribute to the depletion of international reserves and the loss of confidence of foreign investors in the domestic market of the host country, which deprives these countries of benefiting from all indirect foreign benefits (John C Anyanwu, 2011).

Finally, in the event of the sudden entry of foreign direct investment, this increases economic instability, high asset prices, especially land, and high rates of inflation and domestic consumption (Kalotay K, 2010).

## **1.8 Theories of Foreign Direct Investment**

The emergence of foreign direct investment as a global economic phenomenon necessitated theoretical and field studies that explain it and explain the reasons for its occurrence, reach conclusions and work to develop various interpretations of its behavior and motives. The process of clarifying the phenomenon of foreign direct investment was called theories, and it developed and varied, and these theories were classified according to different economic schools (Edwin A M, 2014).

### **1.8.1 Classical Theory**

Many classic economic thinkers argue that foreign direct investment must create full competition and a complete market, that there is no state intervention, and there are no geographical limits against the movement of capital, the elements of production. This theory assumes that foreign direct investment brings many benefits, but most of these benefits accrue to multinationals (the foreign investor) and not to the host country (Harding Torfinn & Beata S Javorcik, 2011).

This theory is based on its view that the small size of foreign capital flowing to the host countries to some extent does not justify opening the door to this type of investment.

Besides, multinationals tend to divert as much of the profits from their operations as possible to the home country rather than reinvesting it in the host country.

All of these companies often transfer less developed technology that does not fit the requirements of economic, social, and cultural development in the host country. One of the criticisms of this theory is that the supplementary capital that is generated through FDI, Solow, does not affect growth at the end (A Vindelyn Smith-Hillman & Maktoba Omar, 2005).

### **1.8.2 Neoclassical Theory**

This theory is based on the premise that financial markets in different countries are often isolated from each other, and given that, capital markets are not sufficiently and highly developed in many countries, especially developing ones.

This theory explains the flow of capital as a response to the difference in interest rates from one country to another, as capital will flow to the regions where it receives the largest return (Vintila Denisia, 2010).

The implicit criticism of this theory is that it fails to explain foreign direct investment, and does not distinguish between foreign direct investment and indirect foreign investment, although there are differences between them. It failed to deal with reality.

Olen's assumptions about capital movements in the past succeeded, but more recently, she has been unable to explain the phenomenon of direct investment.

The inability to explain the investment situation that occurs from the parent country to the host country. The reasons why these companies prefer to do direct investment rather than export are also not explained.

Finally, it failed to deal with the economic reality to do on the assumption of complete competition, the absence of the cost of transportation, and the lack of complete information (Patricia Lindelwa Makoni, 2015).

### **1.8.3 Theory of Market Incompleteness**

The owners of this theory: - Raymond Vernon, Hayman Stephen. Kind Lemberger. This theory is based on several assumptions about the tendency of multinational companies to invest in host countries. Such as the absence of perfect competition in the markets of developing countries and the low supply of goods in those countries, and it assumes that local companies in the country cannot compete with foreign companies (2009).

The major strengths of the multinationals appear to be the fundamental difference in type and production compared to local production in the host country. This gives it a competitive advantage, high-quality management, production and marketing skills, and technological superiority because it uses advanced technologies. SO, these companies use modern production methods that enable them to benefit from the financial facilities granted to foreign companies in the host countries (Gaber H Abugamea, 2015).

Also, it has the capabilities that enable it to achieve a large volume in production and take advantage of economies of scale that make its products less expensive and at lower prices compared to the local institutions that produce at a higher cost and price. There is complete freedom for any investor to enter the market, and the inputs or components of the products used are homogeneous, so there may be no competitive advantages for multinational companies in this type of market model (Douglas P S & Craig S C, 2011).

It considers the owner's point of view and has the advantage of a monopoly on technical expertise, inventions, and innovations that can be used in the host countries.

This theory has been criticized because it assumes that the multinational companies know all the opportunities for foreign investment in the host countries, and this is practically not possible, since it assumes that the best investments are wholly owned by the investor (H K Nath, 2009).

#### **1.8.4 Protection Theory**

The protection of foreign investment is preventive practices of multinational companies, concerning research and development, and new technological innovations that possess their rights. As well as protecting new products, marketing or management, and intangible assets by the institution, and their use within the foreign company and its subsidiaries (A Vindelyn Smith-Hillman & Maktoba Omar, 2005).

These advantages do not go to other projects in other countries and do not leak into the markets of the host countries by indirect means. The aim of these actual or anticipated foreign practices of these foreign firms is to preserve the ethical assets (knowledge, experience, and inventions) that achieve the ultimate advantage while maximizing returns.

As much as possible by protecting its activities and for the longest possible period, to maximize the company's returns from its innovations and research results for a long period (Mohammad Ameen Almfraj & Mahmoud Khalid Almsafir, 2015).

According to this theory, creating a new product does not face difficulties thanks to the effective protection of the patent system. Which generates sufficient income for investment, and the company maintains technical expertise and inventions and ensures that new competitors do not enter in the short term. And internal use only of their experience and knowledge, breaking and overcoming restrictions imposed by some countries on markets such as import quotas and tariffs (Calin-Adrian Comes, et.al, 2018).

Despite all the advantages of this theory, this theory has been subject to many criticisms. Such as ignoring, the importance of the advantages and spatial restrictions imposed on foreign trade and either the economic policies of the host countries, which affect negatively or positively the movement of foreign investment between countries (Hyung-Suk Byun, et.al, 2012).

This theory focuses on the motives for protecting internationally active companies and does not pay proper attention to government policies and controls related to the countries hosting these investments.

While these policies and controls may reduce the importance of the preventive measures practiced by investment companies to achieve their objectives (Anwar S & Nguyen P L, 2010).

According to this theory, foreign direct investment arises because of modern innovations that do not leak out to non-innovators, that is, foreign direct investment does not occur except in modern scientific innovations, and this is not true in reality. There is no clear explanation for the failure of foreign investors to move from developed countries to some developing countries, although the latter welcome foreign direct investment and provide various incentives that allow foreign investors to protect their innovations (Driffield Nigel & Chris Jones, 2013).

### **1.8.5 Product Life Cycle Theory**

Globalization and the intensification of international competition between countries and the development of technology used in manufacturing the product and its spread have led to a decrease in the monopoly advantage of the big companies.

The emergence of many similar producing companies with low-cost products leads to the search for a new product, the development of the current product, and the search for a new alternative strategy for distribution and marketing for the producing companies in different countries (Marie Freckleton, et.al, 2010).

This theory is an extension of the previous theory, as it realizes the monopolistic features that it enjoys in countries, due to their interest in research and development and the allocation of large financial resources, and the access of some foreign companies to the technological advantage that allows them to monopolize the commodity market, which is based on technological difference and the gap in international trade (Sun H, 2011).

It is the beginning of the expansion of investments, and the beginning of the work and activity of multinational companies abroad, providing innovation and technological excellence to the host country (Rui Moura & Rosa Forte, 2013).

According to this theory, R., therefore, determined that the company that owns the new product pays little attention to the cost of production and the effect of this cost on the prices of the new products. Where this new product is distributed and sold locally in the market of the country of origin at the beginning of its production and it is considered an innovative product (Mina N Balamoune Lutz, 2004).

It is characterized by inventing products for the first time and spending huge money on research activity before starting the production process. Then work on developing a new product, choosing the appropriate technology for this production, and choosing the raw materials and intermediate materials that go into production. As well as searching for skilled human resources, that contributes to the production process (Sauwaluck Koojaroenprasit, 2012).

Also, setting up a policy to advertise the product and the company brand that is appropriate and innovative for the final product. This stage is often in the advanced and innovative country that has great potential to conduct scientific research and development to invent new products and an abundance of the skilled workforce (Nafeesa Tabassum & Samiul Ahmed, 2014).

The product is marketed and sold in the country of the producer of the product because many consumers have money and taste similar to that created by the parent company, and to meet the local demand for this product. The second stage: the mature product, which is the stage of growth and expansion in production rapidly and significantly because of the expansion of demand for the new product by consumers in the country of origin and the increase in purchases and competition (Mehdi Behname, 2012).

This stage witnesses product stability, lower R&D costs, increased demand for the product, and, consequently, lower price. This stage is characterized by the emergence of different alternatives to the product of different origins that eliminate the phenomenon of oligopoly.

As the innovation phase of the product begins at the beginning with completion, then the new product is introduced to other countries (Hezron M Osano & Pauline W Koine, 2016).

The third stage: After meeting the local demand for the new product, it will be exported to developed foreign countries, similar to the demand and tastes of the producing country, and work to meet and meet the increasing demand for the product in these foreign countries.

At this stage, the product loses its distinction and innovation, and the price becomes the objective of the producer company, as competition increases and costs are directed to determine where any production is directed. The company invests in a country that provides the lowest costs in terms of raw materials and provides low wages for labor (Carlos & V Z Eddie, 2015).

Finally, competition intensifies between the company that owns the innovative product and other companies that imitate the technology and production methods of the product. The volume of production of this product increases until the supply of the product is greater than the demand for it. This leads to a decrease in its price and loses its regenerative and uniqueness characteristic and turns from an innovative product to a traditional product produced by various large, medium, and small companies (Eduarda Martins Correa da Silveira, et.al, 2017).

This theory faced many criticisms, including that it assumed the creation of a product and then selling it in the local market, i.e. selling it to one market. This is contrary to the current reality where companies search for many markets, target different consumers, meet different consumers, and respond quickly to consumer desires (Samsul Haris & Nevi Danila, 2018).

This theory assumes that foreign direct investment begins in the second or third stage and assumes that this investment depends on the export of the product created by the parent company. The foreign direct investment provides a service to the host country and its domestic market and provides goods and services appropriate to the host country's market, not the home country (Jurcau A S, et.al, 2011).

Three product phases are identified; each independent of the other, assuming the host country market is less developed than the home market. Besides, considering that the foreign direct investment factors are determined by the monopoly advantage, innovation, and costs. Regardless of politics, economics, and social factors, ignoring the degree of economic openness of the state, liberalizing foreign trade (Arbatli E, 2011).

This investment can take place from the beginning of production and not in later stages of production. One of the most important drivers of this investment is exporting to the motherland when costs are low, after providing products to the host country and achieving sufficiency.

This product is not for export because it aims to reduce imports to the host country, but in the event of an increase in the domestic demand of the host country, it can be exported to the original country and the rest of the countries. This theory applies to many commodities, but not all types of commodities (Khachoo a & Khan M, 2012).

### **1.8.6 Theory of Market Incompleteness**

This theory centers on the idea that corporations across continents have special capabilities to assess and operate in the home country, and tend to invest abroad if they enjoy advantages that local firms do not enjoy in their host countries.

The main motive for this investment is the desire of these companies to dominate the foreign market, and he considered that the advantage resulting from innovation is the primary factor for these companies to exploit it (A Vindelyn Smith-Hillman & Maktoba Omar, 2005).

This theory explains foreign direct investment based on market shortages caused by imperfect competition or imperfect information, and this theory focuses on two directions, the first is the motives of industrial enterprises, and the second is the life cycle of the product. (Auzina-Emsina A, et.al, 2018).

As the main industrial enterprise motives that encourage companies to invest abroad are that these companies enjoy monopoly advantages such as technological progress, the ability to diversify products, and the availability of capital compared to the national companies in the host countries (Jurcau A S, et.al, 2011).

### **1.8.7 Intermediate Market Internationalization Theory**

This theory assumes perfect competition and regards foreign direct investment as a movement of capital through the difference in interest rates between countries. The capital transfer is assumed from the low-return country to the high-return country, the investing parent company depends on the marginal returns expected from its investment decision and the marginal cost costs and a comparison between them. If the maximum expected return in the host country is higher than that in the home country and the marginal costs are equal, he tends to invest in the host country (Gedikli A, 2011).

According to this theory, the ability of multinational companies to internationalize their activities is due to a set of elements and capabilities that must be available, Like technology, knowledge, highly skilled human capital, finance, and high capacity, all these special elements and features of multinational corporations make them the internationalization of the international decision-making company. This theory assumes that there is a single rate of return between its various activities within the country, and it does not correspond to the experiences of many countries entering and exiting foreign direct investment simultaneously.

This investment is concerned with many factors such as expanding its business internationally and expanding its international markets, but profit is not the most important factor when deciding to invest in host countries (Hirsch S, 2012).

This theory has faced some criticism:- Among them, it focuses heavily on the knowledge factor, ignoring the importance of the return and the cost of the host country, which may prevent foreign direct investment there. It fails to explain the asymmetry, the unequal distribution of investment between different types of industries (Joanna Tochman Campbell, et.al, 2012).

It also neglected the attractive factors that characterize some host countries for foreign direct investment, such as the extractive industries, the lack of interest in the services sector, and the failure to explain how multinational companies can internationalize the services sector. It was restricted to multinational companies to internationalize economic activity and neglected other international companies (Jones G, 2010).

### **1.8.8 The Selective Theory of John Denning**

This theory is considered comprehensive, as it gave a comprehensive interpretation of foreign direct investment, as it linked its basic elements. John Denning assumed that there were three basic conditions required to decide on foreign direct investment, and he succeeded in incorporating these three different partial entrances into them.

- A. Ownership advantages:-Monopoly advantages are unique to a foreign company that invests abroad compared to domestic companies in the host country. The company possesses numerous invisible assets such as advanced technology, technical knowledge, finance, and marketing and has the advantages of scale, ability to diversify products, easy access to production markets, and economies of scale (Macharia, 2014).
- B. Location advantages:-The investing company prefers to take advantage of the monopoly advantages through foreign direct investment, as it is better than the internal use of the monopoly advantage by selling, leasing, or licensing. The company uses these advantages to overcome government interference and reduce such transaction costs. Overcoming uncertainty with the buyer and avoiding the costs of implementing intellectual property rights and controlling sales outlets (Shila Mishra1, et.al, 2017).
- C. Advantages of internal use of monopoly benefits for foreign companies: where this use through foreign direct investment is better and more beneficial to the company. It is preferable to use the monopoly advantage in the local market by selling, renting, or licensing (Harding Torfinn & Beata S Javorcik, 2011).

This investment includes export and contracting patterns and has three advantages, as it is achieved through this investment that serves the external market. These companies have the advantages of monopoly and internationalization that serve the foreign market with exports from the host country. All this is achieved through the advantages of monopoly, the advantages of location, and the advantages of internationalization that this theory has (A Vindelyn Smith-Hillman & Maktoba Omar, 2005).

Despite the great success that this theory has achieved in explaining the phenomenon of foreign direct investment, it has been subject to some criticism. As it did not indicate or clarify the relationship between its three components and showed each of its components separately without explaining the extent of the effect of each component on the other. It focused on general issues and was ineffective in the decision-making process; she also took care of the property's property individually (Edwin A M, 2014).

Besides, it was not feasible because the idea of market internationalization for the company was sufficient to explain the phenomenon of foreign direct investment. Whereas, the internationalization of production will not occur without the high-quality technical and management capabilities of the company (Dhakar Dharmendra, et.al, 2007).

### **1.8.9 The Organization Theory**

The theory of the existing institution is concerned with foreign direct investment, and it has two different directions. The first depends on the attitude and behavior of the founders of the enterprises in terms of their desire or exposure to the internationalization of the work of the institutions they manage.

While the second is based on the strategy of the institution itself in the medium and long terms, and then internationalization of the activity occurs. Whether or not the organization theory exists depends on the strategy followed within the companies.

In this theory, the vision of managers and their role in the decision to invest abroad appears, as some see that the growth of the project is achieved through the exploitation of new products or the opening of new foreign markets or their conquest (Mohammed Ershad Hussain & Mahfuzul Haque, 2016).

Or possible, if the expansion in a foreign country is through 100% ownership or the creation of new institutions. The role of senior managers can be observed in two aspects, the first is their scientific and administrative capabilities, their awareness of the various investment opportunities available abroad, the risks that surround them, their competence in finding appropriate solutions, and ways to avoid them and consider these risks as potential. As for the second trend, it relates to the psychological currents and self-choices of these managers and the extent of their prospects and prospects (Ali M & Bohara A K, 2017).

And their desire to internationalize the activities of the institutions they manage and to achieve medium and long-term profits. They prefer their sufficiency in the local market only, regardless of the benefits that they can benefit from as a result of investing abroad. According to the institutional strategy perspective, two series of motives are identified that explain foreign direct investment, external motives such as fear of losing the market, and expelling foreign competition from the enterprise's market. As for the internal motives, they are the desire of some managers to settle abroad, take the international dimension, and their desire to transform into a multinational company (Gauselmann A, et.al, 2011).

Institutions adopt a defensive strategy, or offensive strategy, as they choose the defensive strategy to maintain market share, and benefit from cost advantages, technology, and economies of scale. As for choosing the offensive strategy, the company is highly skilled, as it settles abroad after achieving good stability in its country of origin (Harding Torfinn & Beata S Javorcik, 2011).

This theory explained many foreign investments and added two new elements, namely the desire of managers, and the strategy adopted by the company, which contributed to increasing the interpretation of foreign investments (Alberto Melanie Lavado, et.al, 2018).

This theory faced criticism despite the good explanation in which it showed the meaning of foreign investment, and among these criticisms that it does not explain the decision to expand the companies' branches abroad, but rather adopts the offensive or defensive strategy of the parent organization.

However, in many cases, the behavior of some branches of the multinational company is similar to that of the parent company, and this theory did not explain this. Also, it neglected some of the monopolistic advantages that the multinational company possesses, which only allow their use through foreign direct investment (Dhakal Dharmendra, et.al, 2007).

#### **1.8.10 Site Theory (Endemism)**

This theory is considered more comprehensive, it was called the aggregate theory because it combines many elements that are directly and indirectly related to the creation of foreign direct investment.

Besides, this theory classified the factors affecting foreign direct investment, and it came with factors not mentioned in the previous theories. It is mainly represented in the governing factor and one of the conditional factors of the host country's international relations with other countries.

This theory showed that several factors affect the decision to invest abroad, including those related to the foreign investor, its country of origin, and others related to the host country for the investment. (Riedl A, 2010).

The factors specific to the host country for investment are called the endemic factors for foreign investment, which constitute the location theory, which focuses on the motives and spatial advantages of the host country that encourage multinational companies to invest abroad.

These spatial advantages are the decision of multinational companies to prefer and choose between foreign direct investments or export in some host countries but not in other countries (Faik Bilgili, et.al, 2012).

Among the spatial determinants and factors of this theory that affect the decision of these companies is the investment climate. The political stability of the state, the system of government, the availability of infrastructure, the stability of the exchange rate, the tax system, laws, and restrictions on foreign ownership of all investment projects. Besides, preventive measures and cost factors, in addition to marketing factors, incentives, and advantages offered by host countries. (Menyah Kojo, et.al, 2014).

Also, market-related factors, such as the size and growth rate of the host country's market, if the host country's market size is large, and its future growth rate is high, it allows the investor to exploit economies of scale and is encouraged in this market. Especially when the foreign direct investment is primarily directed to meet domestic demand in the host country's market. When measuring the size of the market and its growth rate, the existence or absence of customs unions must be determined between the group of countries in which there are an investment and the extent of the expansion of this customs union to include other developing countries and other countries. Searching for the market in which competitors are absent and the availability of distribution outlets and advertising agencies (Cheong Chia Sin, et.al, 2017).

Cost factors: lower raw materials and intermediate goods, lower labor costs, labor availability, lower transportation costs, provision of all production facilities. This theory explains that each factor creating a decrease in costs directs the investor to produce abroad, and likewise, each factor that increases costs reduces the outward direction of direct investment. Foreign trade controls such as tariffs, quotas, and other restrictions on imports and export (Arbatli E, 2011).

As a quota system for imports applied in the investment host countries, which limits exports to them and thus pushes the investor to produce within these countries to increase the exploitation of his market. The economic policies of the host country, as foreign direct investment, are governed by the nature of the economic system and the laws governing economic activity in the host country. If the country is economic policy does not encourage or allow foreign investment, but at low levels, the flow of that investment will be less. (Jurcau A S, et.al, 2011).

However, if this policy encourages, stimulates this investment, and obtains the concessions and facilities, the flow will be large. There are other factors such as incentives, concessions, and facilities granted by the host country for foreign investment, expected profits, and expected sales. As well as reducing restrictions imposed on the transfer of profits and capital abroad, geographical location and the availability or absence of natural resources (Kersan-Skabic I, 2013).

Also, competitors, and the extent of foreign exchange freedom, the stability of the local currency exchange rate, the rate of inflation, the tax system, the availability of infrastructure. Among the criticisms directed at this theory is that it did not clarify the factors most influencing the occurrence or non-occurrence of foreign direct investment (Ghaith Alzaidy, et.al, 2017).

#### **1.8.11 New Site Theory**

This theory is the development of the ancient position theory has been. It was able to classify the factors affecting foreign direct investment, and it came with factors not mentioned in the previous theories, mainly the ruling factors and one of the conditional factors in the international relations of the host country with other countries. It added many determinants that affect foreign direct investment, and it is a set of conditional variables represented in the characteristics of the product and the host country and their relations with other countries.

The driving variables are the distinctive characteristics of the company and the competitive position, and a set of governing variables represented in the organizational characteristics of the host country, international factors, and the state characteristics of the company. This theory has faced some criticism because it does not take into account the monopoly advantages enjoyed by global firms. Such as the advantages of knowledge due to its characteristics similar to the characteristics of social goods on the supply side, whereby the global parent company can transfer them to its subsidiaries in various countries of the world for exploitation without incurring large marginal expenditures (Mahvish Faran, 2014).

Owning monopoly advantages by foreign companies is a necessary condition for establishing foreign direct investment. This theory neglected the desire of giant companies (multinational companies) to control, control, and direct international markets according to their interests, which makes these companies invest in multiple geographic regions of the world to reach their governing goals regardless of the total or partial, or the availability of factors determined by this theory.

The multinational company is located in several regions of the world and has a variety of activities that can invest in locations where not all the stipulated conditions are necessarily merged which direct and govern foreign direct investment.

Due to the ability of these companies to take some risks against the expected high return, or to bear some risks in certain geographical areas (in a country) to avoid greater risks than other geographical areas. It also bears risks in previous or next activities to maintain the continuity of their back and forward links (Crespo N & Fontoura M, 2007).

#### **1.8.12 Theory of Internal Use of Monopolistic Features**

This theory explains the main motivation for multinational companies operating in the oligopolistic markets in the countries of origin. As it is difficult for any project to increase its share in the local market without facing the risks of destructive price speculation and when expanding abroad (Anis Omri & Bassem Kahouli, 2013).

This investment is the product of escaping from perfect competition in the markets of the invested parent companies, and greater profit maximization, and a means of escaping from monopolistic market pressures to the markets of the host country. These companies are achieving technological sophistication, superb international trade in foreign financial assets, product diversification, capital imposition, massive R&D spending, and superior management skills imposition, compared to national companies in host countries (Ali Acaravc & Ilhan Ozturk, 2012).

It has many advantages for MNC's that invest in the host country, compared to local companies, and the benefits resulting from its production abroad outweigh any other means that it may resort to in its foreign activities, whether it is export, grant, or licensing, and the percentage of profits abroad is relatively higher than it can be.

It is achieved internally, reduces communication transaction costs and administrative expenses to a minimum, increases production efficiency, improves production planning and control, especially while providing significant production inputs (Sharma K & Bandara Y, 2010).

MNC's can overcome government interference and restrictions that affect freedom of trade and investment, such as fixing prices, taxes, and quotas, as they can use the advantage of changing prices. MNC's that invest abroad enjoy a monopoly and competitive advantage in capital costs such as economies of scale, research or development, advertising, technology, new emerging knowledge or intangible capital, and the ability to create new goods (Kok R & Ersoy B, 2009).

Moreover, it enjoys internal advantages and carries out all its production and marketing activities within the company or between its head office and its subsidiaries in the countries where the investment is made (Miroslav Mateev, 2009).

It is characterized by technological superiority and its ability to research and develop and bear its high costs abroad as a result of the benefits of technological monopoly and the desire of the host countries to obtain advanced technology through foreign direct investment (Sharma K & Bandara Y, 2010).

The managerial and organizational characteristics make the organization enjoy the advantages that market monopoly power gives to the factors of production. Provides high technical, technical, administrative, and organizational expertise and skills in all areas of the company's activity (management, production, and marketing) that are not available at the same level as the host country. This affects the company's management efficiency positively and increases its profits (Kersan-Skabic, 2013).

It also distinguishes its products from other similar products produced in the host country and provides distinctive goods by developing appropriate material change, using brand names, using advertising, or changing non-essential terms of sale, as they are marketing skills (Sharma K & Bandara Y, 2010).

It has financial characteristics because it depends on its funds (the parent company and its subsidiaries). Alternatively, borrowing from the domestic and international financial and monetary market, multinational companies can provide sufficient funds to make large-scale (costly) investments. These companies benefit from good borrowing terms because the multinational company enjoys excellent advantages, or because of its strong relationships with international banks located in host countries (Kersan Skabic, 2013).

Besides, it sets restrictions that prevent new competitors from entering the market and prevent modern islands from entering the markets of investing countries through others for as long as possible. This theory has been criticized as other theories that preceded it, including overlooking the current advantages as an important determinant of investment abroad, its activities, and the extent to which it achieves the goals it seeks to achieve (Sharma R & Kaur M, 2013).

This theory assumes that foreign direct investment is limited to the activity of large international companies and that most of the monopoly advantages are related to or arising from the size and this does not correspond to the practical reality, as many small companies participate in the activity of foreign direct investment in the various host countries (Imad Moosa, 2009).

It also considers that the first impulse for foreign investment is to escape from the full competition in the original markets, which is an unrealistic assumption that conflicts with the case of crossed or interlocking foreign direct investment in the same industry. This theory neglected the importance of the spatial advantages of the investment host countries as the main reason for the investor's exit from his country, especially some extractive industries such as petroleum and mining (Kariuki C, 2015).



## CHAPTER 2

### LITERATURE REVIEW

We can find links between this thesis and previous studies that have been taken and used as evidence of the relationship between the impacts of the foreign direct investment of the multinational company on the macroeconomic variables on the Iraqi economy. Compared to a select group from the Middle East and North Africa (MENA). This thesis also deals with previous studies related to general concepts of foreign direct investment and its impact on the growth of countries' economies. It also shows the impact of this investment on several macroeconomic variables (gross domestic product, inflation rate, exports, and imports).

When reviewing the previous studies below, there were mixed results between the importance and impact of foreign direct investment, ranging from a high impact, limited or no impact. In previous studies, there was a positive effect on foreign direct investment.

The study, (Nasser Bouyahiaoui & Souria Hammache, 2017), aims to clarify the relationship between political, economic, and social risks and determinants in the MENA region that control the attraction of foreign direct investment.

Furthermore, the study, (Gammoudi Mouna, et.al, 2016); as this study showed that the countries of the Middle East and North Africa suffer from the lack of the flow of these investments to them. Although they possess most of the elements to attract foreign direct investment.

By (Mottaleb Khondoker Abdul, 2007), the study included 60 low- to middle-income developing countries. A control panel was used to find out the determinants of the flow of foreign direct investment, and the result was that there were a relationship and influence between the gross domestic product represented by the growth of the economy and this investment, as these countries achieve a high and large GDP growth rate, which attracts this investment.

Moreover, (Federico Carril Caccia et.al, 2018) this study conducted in the Middle East and North Africa (MENA) region indicates that political stability factors in host countries have an important role in attracting foreign direct investment.

Therefore, (Imad Moosa, 2009), this study examined the determinants of FDI flow for 18 countries in the Middle East and North Africa and applied a method for analyzing the ceilings, and eight possible illustrative variables were taken advantage of taking three variables, including the rate of GDP growth Overall, study results were one strong variable using conventional EBA. When using restricted EBA, results based on 60% regression with the highest  $R^2$  showed that three variables were more robust, and GDP was among them.

(Ghaith Alzaidy, et.al, 2017), this study indicates that foreign direct investment leads to an increase in the productivity of local companies because this investment works on the transfer of advanced technology from foreign companies to local companies, which contribute to increasing the gross domestic product.

(Herzer D Nowak-Lehmann F D & Siliverstovs B, 2006) This study showed that the country's economic growth is an important factor in attracting this investment and that the high growth rate leads to a high rate of investment, and considered that production functions are identical in all countries, but the reality is that they differ greatly depending on the technologies, institutions, and policies used for production in each country. Thus the impact of foreign direct investment from one country to another.

Concerning other countries of the world, a study, (Yilmaz Bayar, 2018) among the determinants of the flow of foreign direct investment in the countries of the European Union for the period 1997-2011. This study concluded that financial development positively affects the flows of this investment.

To emphasize the countries of Europe, this study, (Chaitanya Korgaonkars, 2012), examined 78 European countries for the period 1980-2009, and the result showed that attracting foreign direct investment inflows leads to the development of financial development in these countries.

Indicates (National Bank of Romania, 2016); the Foreign direct investment (FDI) in Romania is of great importance to economic growth and has a significant impact on GDP. This influence depends on the level of education and labor training. The higher the level of qualifications for the labor force, the greater the impact that contributes to the growth of the economic level in Romania

A study by, (Samad A, 2009) examined the relationship between foreign direct investment and economic growth in nineteen developing countries in Southeast Asia and Latin America, and its results showed that Latin American countries have long and short-term relationships between GDP and foreign direct investment. East Asia is a long-term and two-way relationship in these countries.

According, (Tang L, 2012), the study pointed out the impact of foreign capital inflows on the growth of the European Union economy. The data covered the period from 1987 to 2012, and the result was a negligible and insignificant effect of foreign direct and indirect investment on the growth of the European Union economy.

According, (Akame Refuge Junior, et.al, 2016), This study illustrates Foreign direct investment (FDI) has an important role to play in economic growth by stimulating domestic investment, capital formation, employment, technology transfer, investor protection, and cross-border trade, however, this study shows that the index of economic freedom does not significantly affect investment attractiveness foreign direct.

Therefore, Research (Sun H, 2011), the relationship of causality and integration between foreign direct investment and the consideration of Chinese GDP as a measure of economic growth in it. Covered the period 1985-2011. Use the VEC model 0. The result was a one-way causal relationship between this investment and GDP, and there is a long-term balanced relationship between them.

Through the study of (Emmanuel O N, 2016) concluded that foreign direct investment (FDI) had a positive impact on economic growth and GDP in Nigeria for the period 1981 to 2015. The Central Bank of Nigeria and the National Bureau of Statistics used secondary data.

(Shobhit Seth ,2019) This study explains how to calculate India's GDP. In 2018, GDP per capita (nominal) ranked 142nd in the world; Data collected from the Indian Central Bureau of Statistics (CSO), CPI, Industrial Production (IIP), or others have been certified.

India uses to calculate this output by calculating economic activity by factor cost, collecting data on the net change in the value of several industrial sectors in a specific period, and then evaluating the performance of these industries. Or on the calculation of local spending for various activities on each of the last goods and services (at market prices) during a specified period.

Moreover, (John F. Cassidy & Bernadette Andreosso-O Callaghan, 2006) discussed the relationship between Japanese FDI in China, and GDP, the OLS model was used, and the result was that the relationship between them was positive

According to (Sheila Mishra, et.al, 2017), which examined the effect of FDI in Nepal; data from 2004 to 2014 were used. The results had a significant impact on the real GDP growth rate but had no effect on the per capita GDP, increased employment opportunities in some areas, and decreased unemployment.

(Hamdi, Helmi, et.al, 2014), analyzed determinants of FDI inflows and GDP in Bahrain and the data were quarterly for the period (1980-2010). The result shows a two-way causality between both the flows of this investment and output.

(Gbaiye O G Ogundipe, et.al, 2013) This study argues that there is a causal relationship between exports and the economic growth of countries and that this causality is one-way from exports to the growth of the economies of countries). Multiple regression models were used to test the relationship between variables; the result showed a positive relationship between GDP and foreign direct investment, while there was no clear relationship between GDP and inflation.

(Mohamed Masry, 2015) This study examines the relationship between foreign direct investment (FDI) and economic growth in Egypt and what are determining the economic factors that affect attracting this investment, covering the period 1961-2012. The results of the study indicate that this investment has no significant impact on the growth of GDP in Egypt.

(UNCTAD, 2018) shows that Iraq faces a problem attracting foreign investment due to the deterioration of the security situation and the absence of good local companies. Most of this investment goes to the oil sector, which represents about 5.3% of GDP. Thus, the researcher will use this approach to address the challenges and problems and enhance the impact of FDI on {Gross domestic product (GDP), inflation, and Unemployment} in Iraq after 2008.

However, Concerning Iraq (Alessia Azzutti, 2016) the study revealed that Iraq is a country rich in natural resources and suffers from conflicts, wars, and state control over the structure of the economy. The study focused on the relationship between foreign direct investment and geopolitical events. It concluded that the development of the regulatory, legal, and economic framework, the transition to the market economy, and the improvement of the country's relations with other countries attract that investment.

Hence; in this study (Mustafa Sakr, 2017); Macroeconomic variables such as trade openness and the capabilities and forces associated with the local economy have a significant positive impact on foreign direct investment, the size of the economy, and the gross domestic product in the market. The overall statistics of this study show that multinational companies in Egypt grew significantly, during the period from 1990 to 2012, and foreign direct investment directed abroad grew in Egypt.

Furthermore, (Hsiao Frank S T & Hsiao Mei-Chu W, 2006) examined the causal relationship between, first, gross domestic product, and secondly export (XP), thirdly, FDI flows between Malaysia, Singapore, Korea, Hong Kong, China, the Philippines, Taiwan, and finally Thailand. Covered years from 1986-2004. Use the form, Vector Autoregressive (VARM). The result is a one-way causal relationship between all FDI, XP, and GDP.

Therefore, this study (Cheong Chia Sin, et.al, 2017); confirms that the good management of FDI in Malaysia and the growth and sustainability of the financial system make it an attractive FDI country. This investment plays an important role in the Malaysian economy and increases economic growth by increasing capital which expanding productive capacity and increasing GDP.

According to (Raja Nurul Aini Raja Aziz & Amalina Azmi, 2017), this study investigated the relationship between Malaysian GDP growth and foreign direct investment data used for the period 1982 to 2013 and used Dickie Fuller (ADF) and Ordinary Small Square (OLS) methods in the analysis. The result was a significant positive impact between this investment and GDP growth. The industrial sector grew and contributed to an increase in the GDP by about 25%, which increased its total exports to more than 60%, and the services sector expanded to 54% of it, and the quarrying and mining sector increased by about 9% of the GDP.

Furthermore, (Ang J B & Mckibbin W J, 2007) studied whether FDI inflows increase Malaysian GDP, data covered period (1960-2001). Causality was used, and co-integration tested, and the result was that this investment stimulated GDP well.

(Anwar Ali Shah G Syed s & Faiz Muhammad Shaikhs, 2013), this study showed the effect of foreign direct investment on real GDP growth, which is the main indicator of the economy in Pakistan, which improved after 1990. The data was for 64 Pakistani provinces at current market prices for the period 2010-2011. The result was a positive reflection of this investment on economic growth and output. The gross domestic product, but it does not matter, contributes to employee training and skills development and the performance of the local company. The government recommended improving infrastructure and encouraging these investments

(Hussain Ali Bekhe & Raed Walid Al-Smadi, 2017), according to this study, this investment enhances growth and economic development in any country. The study analyzed the short and long-term relationships between foreign direct investment flows and their determinants in Jordan. Annual data are for the period 1980-2011.

On the other hand (Beata Javorcik, et.al, 2017), claims that foreign direct investment increases the development of the host country's GDP, for example, Turkey, and the inflows of this investment have achieved an improvement in its production structure. And local companies have resorted to innovation and produce products similar to foreign products, and this is a positive thing, meaning that this investment stimulated the local industrial policy.

(Elma Satrovi, 2019) The relationship between economic growth is evident through flows of GDP and foreign direct investment. Data included the period 1993-2015. It included 75 countries (35 developing countries and 40 developed countries). A GMM estimator was used for the analysis. The result was that this investment had a positive impact on the GDP. And that the coefficient of financial development is large and positive, and the flows of this investment accelerate economic growth in all countries.

(Anwar & Sun, 2011) researched FDI inflows and GDP in Malaysia, and the relationship between them used data for the period (1970-2007). The results have been a positive relationship between the increase in this investment and the gross domestic product, as the increase in FDI flows stimulates the growth of GDP.

(Mohamed Ibrahim Mugableh & Mohammad Salem Oudat, 2018) the study examined the causal relationships and the balance between FDI inflows and GDP. Descriptive statistic tests, KPSS integration, ARCH unit root, Johansen and Joselius, and ARDL balance relationships were used. Causal VECM Granger in Malaysia during the period (1971-2013). The results of the study showed that there is a linear relationship between the racists in the end and that the increase of foreign direct investment flows leads to an increase in the gross domestic product and enhance the long-term economic growth in Malaysia.

According, (Aliya Zhakanova Isiksal et.al, 2017); focuses on assessing the relationship between the impact of FDI and the economic situation in Turkey for the period between 2010 and 2016. Per capita purchasing power of GDP, Gross Domestic Product, and Variable Gross Domestic Product (PPP) were studied and the causal relationship between them was strong, and it is presented at the REER level. The results concluded that the Turkish economy is competitive and growing globally. Foreign direct investment plays a key role in increasing Turkish income and GDP. The data covered the period from 2002 to 2015 quarterly. The data is taken from the Turkish Central Bank (EDDS). Use the Granger Causality Test and Johansen Cointegration Test, for data analysis. The results were that there was no relationship or impact of this investment on the economic growth of Turkey in this period.

In the same vein, a study by (Faik Bilgili, et.al, 2012), employed data between 1988 and 2010. They tested the impact of FDI in Turkey, using the Markov Regime-Switching model (MSM). This model tested the GDP growth rate and labor cost in Turkey. According to the study found there is a positive correlation between FDI growth and GDP growth rate.

(Özcan Karahan, 2016) This study deals with the relationship between technology transfer through foreign direct investment flows and the economic growth represented by Turkey's gross domestic product.

In light of, (Mohammad Ameen Almfracj, et.al, 2013) Qatar is considered an oil-producing country, but it has turned to foreign direct investment and succeeded in attracting it. This study examined the impact of these investment flows on businesses inside Qatar. The data covered the period from 1990 to 2010. Eviews used the Granger Test, Causal VAR Interactions. The results were a long interaction between FDI inflows and the growth of the economy in Qatar.

(Nafeesa Tabassum, Samiul Ahmed, 2014) this study examined both foreign and domestic direct investment, trade openness, and economic growth in Bangladesh. The data covered the period from 1972 to 2011. Regression analysis and graphical representation were used. The results showed that domestic investment is more important than foreign investment and opening trade, and has a positive impact on the growth of the bank's economy. This study focused on defining the role of multinational companies in Kenya, on bridging the gap between global companies and local companies, and on achieving full employment and engaging them in achieving economic growth and economic development.

(Patrick Emu & Emmanuel Dodzi K Hav, 2014), this study illustrates the determinants of macroeconomic inflation in Ghana, as it adopts the co-integration approach and empirical analysis of time series econometrics. I found the relationship between inflation and foreign direct investment in the long term, affecting inflation negatively and significantly. It is also higher in the short term, but it is not important. The study suggested allowing foreign investors and creating a suitable business environment.

(Mohamed Abdelaziz Eissa, & Mohammed M Elgammal, 2019) the study dealt with determinants of foreign direct investment in countries whose economies depend on natural resources such as oil to attract this investment, and the study included the countries of the Gulf Cooperation Council and covered the period from 1990 to 2015, the result was a positive relationship between trade openness, market growth, infrastructure, inflation and oil prices. This investment, and that an increase in the proportion of oil reserves harm this investment and to reduce investments in natural resources to investments in other sectors.

(Nazer Y, 2016), this study aims to know the phenomenon of inflation in the Kingdom of Saudi Arabia. The period was taken from the last 13 years until 2016, and a regression model was used to analyze the data. The result was that international external economic factors such as the fixed exchange rate, the money supply against the US dollar, the value of both imports and exports, and the price of oil greatly affect the phenomenon of inflation in the Kingdom. As for the local economy, its effect on inflation has disappeared during this period, so the phenomenon of economic inflation can be considered linked to globalization.

According to a study (Fatih Yücel, 2009), trade openness, financial development, and economic growth for Turkey were studied. The Granger test was used, to indicate the causal relationships between the mentioned elements. The result showed a two-way causal relationship between the three elements. Besides, showed that both the policy of opening trade and financial development greatly affects the growth of the economy in Turkey.

Therefore in this study, (Mohammed Ershad Hussain & Mahfuzul Haque, 2016), there was a relationship between trade and foreign direct investment and the rate of growth of GDP per capita, a long-term relationship between all study variables in Bangladesh. The data included the period from 1973 to 2014, using the VECM model, and there is a significant impact for both trade and foreign investment on the rate of output growth GDP per capita. After performing diagnostic tests, it was found that the slopes showed no automatic correlation and had a normal distribution.

Likewise, (Selma Kurtishi Kastrati, 2013) this study concluded that foreign direct investment creates strong competition in the local market, so local companies have to reduce the costs of their activities because multinational companies recover their money from various sources and support their costs in the host country's market, and this affects Domestic companies can stop operating, multinational companies control the market and monopolize.

(Barka Ahmed Barka Kashtu, e.al, 201), this study examines trade openness, financial development, and economic growth in Malaysia, and its balance in the long and short term. The data covered the period 1982-2014. Granger's causation was performed to investigate the relationship and used the ARDL boundary test of the co-integration approach. The ADF and PP tests applied the chain stability test, and all chains were stable at the first differences, the long and short term relationship between the variables, and the causal Granger test, between the lacks of support for the financing-driven growth

However, (A Vindelyn Smith-Hillman & Maktoba Omar, 2005), this study examined the relationship of foreign direct investment, export guarantee insurance, and multinationals MNCs for the United Kingdom. They used data for the period 1994-1996, they adopted the OLS model. The result was a positive, positive relationship between these EXGI investments.

Furthermore, to a study (Esiyok B, 2010); It turns out that multinational companies are interested in trade in addition to their primary activity, which is an investment. The presence of these companies in any host country positively affects the costs of this trade, and there is a positive effect between them and this investment.

(Anis Omri & Bassem Kahouli, 2013)This study supports that open trade policy is a source of attraction for foreign direct investment. Methods of analysis were used by Phillips-Perron (P.P) and unit root tests represented by Augmented Dickey-Fuller (ADF) were used to test the stability. Use Engel and Granger to test short-term causal relationships between variables. Also, Johansen and Jocelius procedures to test and measure variable integrals.

This study analyzed the inflation rate (INF), gross domestic product (GDP), and how it affects investment flows to Jordan. Johansen and Joselius' results showed that the long-term elements are fully integrated. As the ADF unit, root tests and P.P elements achieved a consistent behavior between me (0) and me (1). The results of the study are important for understanding the basic macroeconomic factors, increasing the flows of this investment into Jordan, and enhancing its economic growth.

(Mina N Balamoune-Lutz, 2004). The study aimed to measure the relationship between imports and exports in Morocco and foreign direct investment. The data covered the period 1973-1999, and the causality test was used, Granger was used. The result of the study was that imports in Morocco had no effect on the growth of its economy, and there was no relationship between the influx of foreign direct investment, the growth of the economy in the short term, and there is no clear relationship between foreign direct investment and the growth of GDP and the absence of an influence between them.

Furthermore, (Blecker R a & Razmi A, 2010) this study assumes that there is a positive relationship between exports and economic growth for many countries that have expanded in manufacturing finished goods or raw materials alike. A modified version was applied to sweating and Granger multivariate causal test. The result showed that exports of final goods have a greater impact than exports of raw materials on economic growth and that there is a two-way causal relationship between these exports and economic growth in the short term, and the clarity of this relationship in the long run. Running around.

This study, (Mehman Karimov, 2019), showed that there is a strong impact of foreign direct investment on international trade, as this trade achieved direct investments that differ from one country to another, and explained that the impact of these investment flows in Turkey on exports and imports is significant. Covering the period from 1974 to 2017. Root models were used. ADF unit, VAR lag select, and Johansen co, Integration, Caused Granger Tests. Results showed a one-way causal relationship from export and import to FDI.

(Shoukat Ali, et.al, 2015) The purpose of this study is to demonstrate the impact of the trade balance on the growth of the Pakistani economy. Data were used for 25 years from the period 1990-2014. This study found that there is a significant impact on the trade balance, especially on the GDP of Pakistan, which is an important component of the economy and the relationship between them was a negative relationship.

(Herzer D Nowak-Lehmann F D & Siliverstovs B, 2006) This study has shown that there is a difference in the effect of exports on the growth of the country's economy. Total exports of final goods are more affected by the economic growth of countries because they provide external capabilities and factors more than primary commodity exports.

Moreover (Vintila Denisia, 2010), this study considered that foreign direct investment, creates competition between local companies and increases the ability to innovate, these companies develop and make use of the technology of foreign companies, and raise the level of production, and reduce unemployment, It creates new job opportunities and develops skills already in the host country.

According to (Enrico Marelli, et.al, 2011) I studied the relationship between foreign direct investment and trade balance, in China and India, data between 1980 and 2007 and OLS technology methods were, used and two square phases (SLS), the result when direct foreign investment was encouraged in which market would achieve a positive relationship between this investment and foreign trade, regardless of the conditions of China and India.

Indicates (Iqbal Mahmood, et.al, 2011); In this study, the economy of Bangladesh was taken and the data for the period 1975 to 2005 were used and analyzed by ADF, OLS, and GARCH. The independent variable trade balance and FDI were considered as a dependent variable and this study found a positive relationship between them.

Moreover, (Mishra P K, 2011) study shows that there is a two-way causal relationship that extends from exports to economic growth for countries, and extends from economic growth to exports.

(Athanasia S Kalaitzi & Emmanuel Cleeve, 2017). This study showed the relationship between economic growth and exports to the United Arab Emirates. The data covered the period 1981-2012. Time-series characteristics examination of study variables, unit root tests, Johansen integration test used to find or no long-term relationship to study variables, and causal trend examination in the short and long term was used.

(Alberto Melane Lavado, et.al, 2018) As the result of this study, was the presence of an impact of foreign direct investment on economic and social innovation, and achieving a sustainable environment in Spain, and the benefit of society and companies from this investment, and its stability or lack thereof, has an impact on the number of flows of this investment, its attraction, or its expulsion.

(Mihaela Simionescu, 2014) studied both foreign direct investment and trade for the 7 G countries for the period 2002-2013. Granger's causal tests were used for data and the result was a causal relationship between this investment, exports, and imports in the short term. As for the long term, it is a one-way causal relationship.

This study (Matthew A Oluwatoyin & Ogunlusi Temiloluwa, 2017); illustrates the nature of the economy in Nigeria, and the study examined the effect of the relationship between this investment and unemployment and covered the study period from 1981 to 2014. The result of the study was a negative relationship between foreign direct investment and unemployment and this investment creates job opportunities, so Nigeria must develop policies to attract and increase foreign investors.

(Eduarda Martins Correa da Silveira, et.al, 2017) this study examined the determinants of foreign direct investment (FDI) in Brazil. The data covered the period between 2001-2013. The vector error correction (VEC) model was used in the analysis, and the result showed a positive relationship between the flows of this investment and the level of national economic activity. The stability of the exchange rate, wages, and productivity in Brazil, and that the foreign investor is developing a strategy to reach an effective Brazilian market.

(Guennouni Habib, et.al, 2014) This study deals with the importance of Algeria's imports and their impact on economic growth, the most important of these imports are raw materials and industrial equipment that contribute positively to the global production sector, and the openness and liberalization of the trade from 1990 to 2010 as Algeria deals with the European Union and North American countries. Use the error correction form to analyze the data. Most of the countries that Algeria deals with are the European Union and North America. The study indicated that these imports affect the growth of the GDP and the growth of the Algerian economy.

Moreover (Edwin A M, 2014); examined the inflow, determinants, role, and factors affecting foreign direct investment in Africa since the 1970s, and if its policy and operation were sufficient to attract this investment and distribute it to the specialized sectors.

The study showed that expanding the business of foreign companies in the host country creates job opportunities, reduces unemployment, trains national skills, and brings advanced technology.

(Matthias Busse, et.al, 2010 the study examined the effect of an effective exchange rate on the flow of foreign direct investment, and the data included several developed and developing countries. The results found a strong negative impact in developed countries, but they did not affect developing countries, meaning that there is no generalization of the effect of the effective exchange rate on this investment in all countries.

Finally (Marie Freckleton, et.al 2010) tested 42 developing countries using the PDOLS model to analyze data on the relationship between foreign direct investment, corruption, and economic growth.

The result was that corruption had little effect on per capita GDP in the end, while corruption had a significant effect on per capita GDP in the short term. The other result is a lower level of corruption, which increases the impact of foreign direct investment on economic growth. This affects policymakers.

## **2.1 Foreign Direct Investment**

Foreign direct investment is the phenomenon of the twenty-first century, and it is part of international investment that takes place outside the country with one or several countries, one company, or several companies. The growth of (foreign direct investment) inflows was much faster compared to the growth of foreign trade between countries in the mid-nineteenth century and had a slight beginning in the name of capital movement and a focus on minerals, agriculture, and public services sectors.

Then, in the twentieth century, this influx increased and became a global phenomenon and an urgent necessity for all countries as a result of the globalization of the economy and the emergence of international blocs. It is the flow of capital between two or more countries to establish new companies or contribute to the capital of existing companies or develop them to produce goods or services of high quality and reasonable prices and achieve a return that exceeds what the investor expects in his country. (Samsul Haris & Nevi Danila, 2018).

Therefore, it is one of the influencing and important variables in the development and growth of the economy of developed and developing countries alike. Foreign direct investment is an important indicator of commercial openness and has the ability to deal with rapid global developments. Foreign direct investment aims to transfer the work of companies residing in the local economy (foreign direct investor) to the international framework (host countries). It is an expression of the establishment of a company that exercises its investment activities permanently in the foreign economy. Besides, the foreign direct investment represents a person or organization from a country that invests its money in another country, whether through full ownership of the project or partial ownership with the goal of making a return. (Laura Alfaro, 2016).

Foreign direct investment can be achieved by an individual, company, group of individuals, or a group of public and private institutions, including national (local) and foreign organizations, using physical investment tools available in the home country and the host country. (Mihaela Simionescu, 2014).

Moreover, foreign direct investment is a material investment, either it is an investment issued by the state and is represented in the material investments of citizens (institutions and individuals) outside their countries or an incoming investment. It is represented in the material investments of non-residents (companies and individuals) in the host country, i.e. allowing investors from outside the country to own fixed and variable assets for economic work in various projects, such as establishing companies or entering into partners in companies to achieve many economic and technical goals in all regions of the host countries.

That is, considering the full or partial ownership of foreign direct investment in a project established by a foreign investor in one country in another country helps him to exercise a degree of management and control by the parent company in the country of origin. Foreign investors seek to purchase suitable real estate and to manage and control their projects in the host country. (Geoffrey Jones, 2010).

As foreign direct investment seeks to have the foreign investor own a portion of the total invested in a specific project. And participation in project management with the national investor in the case of joint investment, which allows participation in management. Or that the investor has complete control over the management and organization of the project in the case of freehold ownership (Singhania M & Gupta A, 2011).

There may be direct ownership, in whole or in part, or indirectly, and the foreign company attempts to own 10% or more in the host country. It can be defined as a fixed share of the resident investor in one economy in a project established in another economy.

Also, foreign direct investment is the creation of new projects in the host country, or the addition of machinery and equipment by foreign investors, or the purchase of foreign investors for local companies in the host country, often (10%), or more of the company's assets. This investment compensates for the decrease in domestic aggregate demand in the host countries to which it is moving (John C Anyanwu , et.al, 2016).

The definition of the Organization for Economic Cooperation and Development:- FDI is defined as a long-term investment, which includes a permanent interest, and control by a resident entity in one economy (represented by the parent company) on a project established in another economy (the subsidiary) (Geoffrey Jones, 2010).

Also, the World Trade Organization knows foreign direct investment occurs when an investor residing in a country (the home country) owns a production asset in another country (the host country) with the intent to manage it. (IMF, 2013).

Moreover, the International Monetary Fund determines foreign direct investment, if the investor owns 10% or more of the shares of the joint-stock company or its equivalent in the non-joint stock company.

FDI is an important source through which important capital projects are funded for the majority of global economies. This investment is capital provided by a foreign investor for a project in a second country outside his country of origin to obtain a long-term share in the constructed project (Singhania M & Gupta A, 2011).

If all economic factors are stable, then foreign capital inflows, especially foreign direct investment, will come from other countries to the host country in large quantities in an easy way.

Finally, To promote the fair distribution of foreign direct investment revenues, to achieve justice and social protection for all members of Iraqi society and the societies of these countries, and to address unemployment and reduce its percentage. FDI flows contribute to the economic growth and development of the host country (Geoffrey Jones, 2010).

Accordingly, one of the features of this investment is the constant interest in creating a long-term relationship between the direct investor and the host country, and that it has a degree of control and a major influence on the management of its subsidiaries in the host country (Wang & Wong, 2009).

Finally, and based on all the definitions of FDI in the previous literature, the researcher sets a definition for it as follows:-

Foreign direct investment is the establishment of economic activity outside the state, the size of which is determined by the size of the companies that practice this activity and the state's ability to absorb this activity, and it is an investment made by a foreign investor (a natural or legal person) who does not have the nationality of the host country for the investment. Long-term between the foreign direct investor and the host country, and enjoys a degree of control and significant influence over the management of its subsidiaries in the host country, if the foreign investor owns 10% or more of the shares of the project in the host country

## **2.2 Stages of Development of Foreign Investment in Developing Countries (The Middle East and North Africa countries)**

Phase I (Early independence of developing countries):-These countries have witnessed a real change, especially in their access to resources from capitalist countries. Most of these investments were in natural resources and agricultural sectors, meaning that most of the investments were foreign direct, and they achieved great profits for the host countries compared to transfers of profits and benefits and the entry of these investments into the homeland.

Phase II (The end of World War II):-The second stage (the end of World War II). This period extends from the end of World War II to the end of the sixties when many countries in the region gained full political independence. This exposed foreign investments to the problems of nationalizing foreign companies and interests. As the ownership of these investments became the governments of these countries, laws, and restrictions were put in place that limits the freedom of these investments to work outside the borders of the state and benefit from the economic surplus achieved in foreign countries. (K Miankhel, et.al, 2010).

Foreign investment focused on fundamental aspects of production, income, employment, distribution, and circulation in these countries and on foreign capital inflows from foreign countries. Most of the foreign money flowing into these countries comes from capitalist countries in the form of loans that have not been used in industry or development in developing countries. (Irandoust, 2016).

Phase III (from the late 1960s to 2010):-Developing countries have turned to the direction of foreign investments to get rid of the problem of foreign debt. Foreign direct investment flows have increased at this stage, as the reason was to reduce foreign debt obligations that the state is not obligated to pay a fixed amount to the outside world, but rather transfer profits, and enters these (K Miankhel, et.al, 2010).

Many countries encouraged these foreign direct investments in this period, but the size and flow of these investments are few, and they are not commensurate with the size of the guarantees and the advantages that were decided upon for these investments. Therefore, these countries continued to rely more heavily on external borrowing, and the share of capitalist countries has more benefits than these returns to developing countries. (Singhania M Gupta A, 2011).

### **2.3 The Positive Effects and the Negative Effects of Foreign Direct Investment on the Country of Origin**

Foreign direct investment has a positive and negative impact on the overall growth of the host country's economy, as this effect depends on several specific factors that must be present in the host country. Such as appropriate legislation and laws for foreign investment, political stability, availability of appropriate technology, right people, capital, open trade system, favorable economic conditions, and an open economy (Sufian Eltayeb Mohamed & Moise G Sidiropoulos, 2010).

#### **2.3.1 The Positive Effects (Benefits) of Foreign Direct Investment**

Encouraging the influx of foreign capital for investment is the solution that countries use to solve the problems of the external debt crisis, compensating for the decline in the bank and government loans, and solving the problem of foreign debts of countries. This investment increases the use of domestic resources, the growth of GDP. It helps with structural adjustments, by entering into export-oriented productive sectors, increasing exports in host countries, and reducing the balance of payments deficit (Gedikli A, 2011).

Providing financing and supporting local investment, and protecting the local economy from some economic shocks and developments. The investor has the right to make decisions and control, foreign investment in many countries has focused on industrialization, and we have found a way to shift in the field of services. Capital transfers by foreign companies also contribute to financing their projects in the host country (Asaad Zeravan, 2014.)

Foreign direct investment is distinguished from other forms of investment in that it includes capital movements not only in the form of ownership stakes but in the form of machinery, technology, knowledge, and skill (Macharia, 2014).

### **2.3.1.1 The positive effects (benefits) of foreign direct investments to the country of origin**

Foreign direct investment is important for countries, and it can increase and diversify economic activities. It increases the competitiveness of production, which helps to face companies to overcome competition at home, the ability to enter foreign markets, develop the production sector, and produce high-quality products at a low price. It helps multinational companies achieve high profits (Marie Freckleton, et.al, 2010).

### **2.3.1.2 The Positive effects (benefits) of foreign direct investments in the host country's economy**

There are positive and negative effects of foreign direct investment on the host country in the short, medium and long term and these effects can be seen through the quantitative effect, the relative influence or the relative importance, and the specific effect.

A. Quantitative effect:-By this, we mean the development of the total volume of investment in the economy of the host country for foreign direct investment so that foreign direct investment increases in the volume of domestic investment

when it enters into the establishment of new production. That is, not adding new productive assets to previously existing units, not using local financial resources to finance this investment, and depriving the local investor of increasing the volume of internal investments. Foreign direct investment shares with local investment, creating links within the host country, which creates a complementary effect between them, which increases the volume of local investments (Shila Mishra<sup>1</sup>, et.al, 2017).

- B. The relative influence of materiality:-The volume of internal investment can increase indirectly by pushing and motivating local institutions to improve their products and services to be able to face their foreign competitors mentioned above and make new investments.

However, if foreign direct investment enters a buyer of production facilities or assets that already exist, the total volume of national investment will not change and will remain stable except within the limits of changing the values of these assets. Also, the owner of the latter changes from local public ownership to foreign ownership, without any change in the total size of the national investments, while the volume of domestic investment will decrease with the same foreign direct investment purchases of the local productive assets that existed before (Ondabu Ibrahim Tirimba & George Munene Macharia, 2014).

- C. The effect arises:-When foreign direct investment purchases already existing productive assets, and when part or all of the foreign direct investment is financed from internal financial sources (borrowing from the domestic market in the host country). When some local investors exit the market due to their inability to face competition from their foreign counterparts (Fathi A. Ali, et.al, 2010).

- D. The complementary effect:- It appears when foreign direct investment enters the establishment of new investment projects or the expansion of existing projects, so the foreign direct investment is fully financed from external financial sources only (self-financing for the foreign investor), and when local investors help to increase their investments by communicating with each other (Macharia, 2014.)

### **2.3.2 The Negative Effects of Foreign Direct Investment**

Despite the advantages of foreign investment, there are its disadvantages as it does not contribute to building a national technological base in the host countries, and it is a factor that drives domestic investment abroad, due to the technical production methods introduced by the foreigner, which may not comply with the conditions of the host country, and it does not change Foreign investor these factors to suit local conditions. Foreign companies also contribute significantly to the disparity in the level of wages and working conditions, and this pushes most of the qualified cadres to shift from the local sectors to serve these companies (Goswami G G & Haidar S, 2014).

#### **2.3.2.1 The negative effects of foreign direct investment on the country of origin**

Foreign direct investment of multinational companies faces many problems in the host country that may lead to great losses. There are many reasons related to the political, economic, and social aspects of the host country. Structural obstacles:- Among the most important obstacles to investment is the infrastructure, the weakness of the land, air, and sea transport networks, the high prices of these services that connect the host country with the outside world and impede the easy access of foreign investors to the host country and the difficulty of movement within this country. This impedes the work of foreign companies, incurs additional costs, and affects earnings.

The weakness of modern communications networks and their lack of availability in the required manner in the host country, which hinders the work of these companies, as these companies are forced to install their networks, and this costs them additional financial burdens. Another obstacle is the lack of basic services, such as the weakness of the electricity and water networks in the project areas, which leads to its establishment (A Vindelyn Smith-Hillman & Maktoba Omar, 2005).

Legal obstacles related to the ownership of land and real estate in the host country, which in most developing countries are under the control of influencers and non-state actors. This causes disputes between foreign companies and these parties, which leads to delays in project completion. In this case, the investment is a great risk for both self and money, and it causes a loss for these companies. It also makes foreign investors hesitate to others just thinking of buying land and real estate or investing them for investment purposes in this country, (Driffield Nigel & Chris Jones, 2013).

The obstacles related to economic policies, such as the high rate of inflation and its volatility, achieve a state of uncertainty that is important for the investor to know future changes, as well as the high unemployment rate, which is an important factor. As the restrictions and complex procedures that foreign currency transfers are subjected to have become alienating the foreign investor and make him move to more attractive markets that provide easy conditions, all of this leads to a decrease in the real value of these companies' investments (Fathi A Ali, et.al, 2010).

Moreover, the multiplicity of exchange rates puts the investor in front of contradictory positions, which leads to negative effects on the cash flows that the investor is expected to reap from the projects he contributes to financing. Administrative Obstacles 1 of the most important of these obstacles is the corrupt bureaucratic system that disperses the investor's energy and wastes his time and money in the corridors of government offices when the initial procedures preceding the establishment of his project begin. The inefficiency of the local human resources in some cases and in the manner required to deal with foreign investment companies that may have a long history in investment activity is among the obstacles to investment (Hayakawa K, et.al, 2013).

Most of the local competencies do not know how to deal with modern computers and do not know the English language, which is the basis for dealing with companies, as most foreign investment companies are of foreign origin in addition to their weakness and sometimes their lack of economic education when dealing with the investor (Mohamed Masry, 2015).

The multiplicity and diversity of institutions, tax fees, and failure to comply with legal taxes on the one hand, and the absence of protection for the trade and industry sectors are among the destructive effects of smuggling, an obstacle that cannot be ignored in the face of any investment activity (H K Nath, 2009).

Also imposing exorbitant fees on the foreign investor, as in some cases additional payments are charged to the original amounts of the investment, by influential non-governmental bodies and entities such as charging unofficial fees and taxes, which is an illegal collection.

These are all considered factors that lead to the investor's extra money, which causes him to lose his investment, so many foreign investors are reluctant to come to such a country (Harding Torfinn and Beata S Javorcik, 2011).

The lack of capabilities to meet the financing requirements of investment projects and the lack of financing institutions make investors rely heavily on short-term loans at a high-interest rate to finance medium and long-term needs.

This causes some companies to become overwhelmed with the burden of debt service, which has plunged them into a spiral of debt. Financial problems led to its failure or suspension due to its inability to fulfill its financial obligations on time (Vinita Denisia, 2010).

Marketing problems such as the existence of barriers and restrictions that prevent the smooth movement of goods and services between countries, as some governments work to intervene sometimes, for social or political considerations, to impose the selling price of a commodity at less than the cost of its production. This leads to the project incurring losses, and it is natural for that commodity to stop marketing to avoid further loss (H K Nath, 2009).

Technical obstacles: are represented by the weakness of technical education and training institutions in supplying the labor market with trained technical and professional staff. (Edwin A M, 2014).

### **2.3.2.2 The Negative Effects of Foreign Direct Investments on the host country's economy**

What the multinational companies produce may lead to the creation of new consumption patterns in the host countries that are not commensurate with the requirements of the overall development in these countries. The presence of these companies may affect the sovereignty and independence of the host country through the political dependence of this investment, as most of these companies interfere with the general policy of the country, especially the poor countries because of their many assets.

These companies may exert political pressure on the ruling political parties in the host country and work to achieve their benefits rather than the benefits of the host country. Or is there a desire to control the international economy and economic colonialism instead of the military colonization of the countries of origin over the host countries (Hayakawa K, et.al, 2013).

Most of the foreign investment in weak developing countries is not aimed at strengthening this country, but rather at controlling the capabilities of this country in its preferences. Host countries are moving towards economic dependency, as host countries rely on multinational company funds for economic growth and GDP growth. (Mohamed Masry, 2015).

## **2.4 Types of Foreign Direct Investment**

There are many classifications, forms, and policies of foreign direct investment according to the relative importance and characteristics of each form of this investment. These forms are characterized by their multiplicity and diversity, and it is common to classify them according to various data, so it is possible to classify them based on: - Ownership of this investment or based on the economic sectors to which the investment belongs. Alternatively, based on the motive, need, and incentive for that investment and there. There are many types of investment (Laura Alfaro, 2016).

### **2.4.1 New Investments**

This type of foreign investment is done through foreign companies that invest in the local market by opening a branch or group of branches such as distribution centers for their products and services.

The foreign company reserves the right to manage, operate, and market, and this type provides an opportunity to attend or a tangible representation of foreign companies in important sectors, especially the production sector in the host countries.

These companies prefer this type of investment because it is used as a means of knowing and measuring the profitability of the market and is characterized by its stability and effectiveness in facilitating the mission of the multinational company in promoting an advanced stage of investment (Okafor E I, et.al, 2015).

This type of foreign direct investment includes several contracts, such as administrative contracts, manufacturing contracts, management contracts, licenses and concession contracts, and enterprise agreements, which are agreements between multinational companies and local companies (public or private) located in the host country (Hiep Ngoc Luu, 2016).

These companies implement legal procedures and a set of arrangements and part of the operations and functional activities of the investment project in exchange for a specific financial return and setting specific deadlines for operations, but the management process is for local partners (Holmes R Miller, 2013).

Also, licensing foreign companies to use technology, patents, technical expertise, engineering research results, and the local establishment of the host country. And the agreement between foreign and local parties to establish and supervise the investment project until the beginning of the process, and to hand it over to the local side, often in the field of manufacturing industries and public utilities (Harding Torfinn & Beata S Javorcik, 2011).

## **2.4.2 Greenfield investments**

(GI) is a new type of FDI, and the concept of this investment is structured in green fields, that is, building new projects by multinational companies, so it is also called new investments, and green spaces may be empty and covered with green leaves before they are used. (A Vindelyn Smith-Hillman & Maktoba Omar, 2005)

It is an investment for a specific country in a company or business in a second country to establish permanent institutions and interests in it, and these companies build a new project from scratch until the end. This is a new investment as the foreign parent company opens a subsidiary company in another country and does not buy or lease a company in it, and when the company decides to largely control its foreign activities within a particular market, avoiding the costs of the mediator, this type of investment is used (World Bank Investment Report, 2018).

The foreign company enjoys full control over the brand and when the company decides to largely control its foreign activities within a particular market and avoid the costs of intermediaries, it uses this type of investment, it achieves high-quality control over the manufacture and sale of products and services, and new departments are created for all the activities of the foreign company (Echandi R J, et.al, 2015).

There are benefits and reasons to invest in Greenfield, as it achieves high control in terms of manufacturing quality, sale of products and services, new ventures, and construction of new buildings and departments for all the company's external activities. The establishment of a new company provides efficiency in the implementation of the project activity, and there is flexibility when developing company designs, and in this case, there is no need to maintain buildings, machinery, and capital equipment because they are all new and if there are new facilities for employees they find that they are suitable according to the actual needs of these facilities. Either when purchasing or renting an existing facility, it may need to maintain the capital machinery and equipment and modify the existing design, and this will cost the company a high cost and more time (Gauselmann A, et.al, 2011).

We can give an example of this investment as follows:-

The foreign company is located in country X and aims to increase its activities in various countries, and this company seeks to penetrate the market of country Y, with an innovative new product. Upon completion of the market research, the company realizes that country X has few competitors in country Y, and this results in no opportunities for foreign companies to set up a store.

In addition to this, countries Y impose tariffs on the imports of country X, which leads to a significant increase in the company's selling price for the imported product.

Therefore, the foreign company decided to establish a production plant and sales office in state Y, to reduce import duties and enter the local market with its new product. This process creates a foreign subsidiary in country "Y" for the parent company in country X, thus helping this foreign company to have complete control over its activity and brand (Asiedu E, 2013).

Despite the advantages of this investment, it has its disadvantages, which you can explain as follows. As it faces many risks as the entry of foreign companies into the market may cost high potential costs because of entry barriers. Alternatively, you may be exposed to government regulations that hinder this investment, as it is too costly to create a new corporate site (Dhakal Dharmendra, et.al, 2007).

### **2.4.3 Brownfield Investments**

This type is spread among the multinational companies, the facilities that were created previously, i.e. polluted land, are used by the activities of an old owner for a new second purpose, or partial energy operation if the same field of activity is with the new production of these companies. This investment is made by purchasing or leasing an existing facility, with a new production, which saves the company money and reduces operating costs and construction time for a new facility on vacant land.

This investment has drawbacks, such as the risk of a foreign company buying a pre-owned facility that you will regret in the future; in some cases, the current capital machinery and equipment are not compatible with the new company's activity. (Alberto Melanie Lavado, et.al, 2018).

Besides, the available technology may be completely unsuitable for a foreign company, and also in the case of leasing the existing facility, it may not be suitable for all its departments with the activity of the foreign company, and it requires many improvements, which may conflict with the restrictions imposed by the host country on these improvements (Hirsch S, 2012).

#### **2.4.4 Company Marriages**

Globalization has increased economic and trade exchange between countries and many countries have relied on each other to cover the shortage of many goods, services, and funds. Which led to an increase in foreign trade, an increase in multinational companies, and an increase in the rapid flow of funds outside the country's internal borders? (Ali F A, et.al, 2010).

These companies aim to achieve profits, provide their services in foreign markets outside the borders of the country of origin, and benefit and exploit the differences in production costs between countries (A Vindelyn Smith-Hillman & Maktoba Omar, 2005).

#### **2.4.5 Joint Venture**

Joint investment or bilateral investment is a foreign investment based on participation in the national capital, whether this participation is in varying proportions according to the circumstances according to the national legislation or in equal proportions between the national or foreign capital, where its owner is distributed between one party and several parties. (Dhakal Dharmendra, et.al, 2007).

It is an investment in the host country and its properties are divided between a foreign party and a local party, and it is the most common in the host country where the local investor participates in it, ownership of economic projects and full ownership of land as a result of gaining confidence and participating in decisions. Management may reduce political risks for the foreign investor and allow him to transfer his profits and not to nationalize and confiscate his property in the future. This investment is made either by establishing a new project or a new branch of a foreign company in equal or unequal proportions between the foreign and local investor. (Asiedu E, 2013).

Or if a foreign investor purchases part of the capital of an investment project or a local company provided that his contribution is not less than 10% of the capital of the project. Concerned so that this foreign investment becomes direct. (Alberto Melanie Lavado, et.al, 2018).

Foreign companies prefer that their local partners be individuals or private companies rather than their government partners because they believe that the private investor is more willing to provide the necessary local expertise and services that the project requires for production operations. The most important advantages of this investment are the increase in the flow of foreign capital to the host country and the utilization of the capabilities available to the foreign investor to develop the productivity used (Gauselmann A, et.al, 2011).

And contribute to the development of technology, improve the balance of payments, and reduce the degree of economic dependency while participating in decision-making and policy-making related to the project. It reduces commercial and non-commercial risks, and the foreign investor overcomes many governmental bureaucratic difficulties (Harding Torfinn & Beata S Javorcik, 2011).

The foreign investor also gets tax benefits, especially if the government is the partner. This investment also obtains customs benefits for the host country's trade over imports through production. Overcoming social and cultural difficulties such as language, class, and local differences, and creates job opportunities. It develops local administrative and organizational capabilities (Laura Alfaro, 2016).

Despite the many advantages of this investment, it is not without its drawbacks, and it may not help in developing technology, productive arts, and administrative and organizational capabilities.

It does not provide additional employment opportunities by using more technological capital methods, or by searching for foreign workers, rather than relying on local labor (Gauselmann A, et.al, 2011).

Alternatively, not using foreign resources, relying on local sources of financing, especially banks, and obtaining returns and profits because of using resources that have not contributed to providing them largely.

This investment may cause conflicts of national and foreign interests. Related to controlling and managing the activity and the percentage of the contribution if the national investor does not do so.

If the local investor possesses technical and financial capabilities close to the capabilities of the foreign investor, this negatively affects the project's effectiveness in achieving medium and long-term goals (Ji Hyun Oh & Jai S Mah, 2017).

If the local party is the government, it is possible to exclude the foreign party after a period and these conflicts with the foreign investor's objectives of continuity, growth, and survival and may jeopardize the foreign company's strategy to preserve intellectual property and the difficulty of maintaining intellectual property rights and patents (Mihaela Simionescu1, 2016).

#### **2.4.6 Assembly Industry**

This type of foreign investment takes the form of an agreement between the foreign party and the host country whereby foreign companies provide the host country with components of a particular product (such as the automotive industry) to assemble it as a final product (Harding Torfinn & Beata S Javorcik, 2011).

#### **2.4.7 Fully Owned Investment**

The investment is fully owned by the economic project by foreign investors, managing the foreign investor, and having full control over production, marketing, and financial policies. This type transmits and provides the best technology, greater profits at lower costs, and many jobs due to the high volume of production, marketing, and financial policies (Kersan Skabic I, 2013).

The foreign investor creates a new investment, such as establishing a new company or a new branch of a foreign company in the country of the producer without involving the local party in any percentage or buying a local company or an investment project in the host country, using its equipment, technologies, production lines, and using labor in it if the prevailing regulations allow that in the host country (Adhikary B K & Mengistu A A, 2008).

This type of investment is considered the most preferred for these companies, branches of productive, service, marketing activities are established in the host country, and foreign companies are responsible for all operations (Lee S-H, et.al, 2008).

The advantages of this investment include the increase in the volume of foreign exchange flows to the host country, the modernization of technology, and the reduction of imports. It affects the equilibrium of the host country and provides complete freedom in managing and controlling the production activity and related trade policies (Harding Torfinn & Beata S Javorcik, 2011).

This type of FDI carries a high risk, compared to joint investment. Where the developing host countries may not accept granting a full license to own a project to the foreign investor for fear of economic dependency, fear of monopolizing their markets, and economic dependence (Michael Holmes J R, et.al, 2012).

Also, its needs huge capital, meaning that small foreign companies cannot engage in investment activity in the host countries, and the degree of risk is high and expensive, which affects the withdrawal process in the event of failure (Macharia, 2014).

This investment is exposed to non-commercial risks such as nationalization, confiscation, forced liquidation, or destruction resulting from political and social instability or civil wars, especially if it is in the context of so-called strategic industries such as oil (Kersan-Skabic I, 2013).

#### **2.4.8 Horizontal Investments**

Horizontal FDI occurs when a foreign company with the same types of business operations is established in the host country as if it were operating in the home country, as the same goods and services are produced in many ways in different locations and countries, and most of the FDI in the production sector is made by a foreign company, the factory supplies products to the local market (Imad A Moosa, 2005).

This type appears when the costs are positive for setting up the factory, avoiding transportation costs, reaching foreign markets, saving the costs of switching from exports to domestic production, and saving customs duties, this investment works to achieve the advantage of proximity to markets and facilitate the process of delivery and access to the market quickly and in a faster and easier way (Crespo N & Fontoura M, 2007).

Foreign companies study both the advantages and disadvantages, and if the benefits outweigh the disadvantages, the multinational corporations begin to switch to horizontal investment. The more these investments increase when the fixed costs of the plant decrease, the higher the returns of that plant, and the higher the costs of transport and export duties (Elena Maggi Ilaria Mariotti & Stefano Elia, 2013).

Horizontal FDI is made by serving the market through domestic production, and it reduces export and trade flows. This investment increases if the investment costs are lower than the costs of imports, and foreign firms produce a product and service nearly identical to the products and services of domestic firms in the host country's market (Anis Omri & Bassem Kahouli, 2013).

Multinational companies in various foreign countries repeat almost the same activities, as this investment is huge financial flows and often contributes to the infrastructure of the project, and this investment represents the purchase of part of the production process. Most FDI is horizontal, as the primary goal of these foreign companies is to access international markets, which is achieved through horizontal investments (Natalia Ramondo, et.al, 2014).

Despite all the advantages of this investment, it has a negative side. Replacing the export service with the local market and creating foreign production leads to the costs of dealing with another country, and there can be fixed and variable production costs that follow the prices of factors and new technology for the host country (Macharia, 2014).

Often this investment occurs in the markets of large foreign countries, so the costs of the new fixed plant are spread over a large production volume, and the company chooses a production site close to the consumer and saves transportation costs by duplicating production abroad (Aguiar S Aguiar-Coraris, et.al, 2012).

#### **2.4.9 Vertical Investments**

It is called vertical foreign direct investment because multinational companies are looking for an external source for the number of stages of their production abroad. It separates the production chain vertically, and the geographical separation of production in stages by these companies in different countries, one by one. Also, profit by choosing low-cost countries, similar to retail production, using factor price differences between different countries. This relates to trade in goods and services to parties outside the company and trade in goods between subsidiaries within the company. A vertical investment can be formed if the investment activity is separated, and a subsidiary company is established to operate as a group of branches or divisions of the parent company in other countries. Besides, when the process of producing the final product is divided into parts according to the foreign company in different countries other than the country of origin (Stefano Elia & Elena Maggi Ilaria Mariotti, 2013).

This investment is used as an alternative to foreign trade, as it reduces the costs of shipping products between different locations and countries at different stages of production and reduces the costs of customs procedures in the host country. The vertical FDI is divided forward and backward, and the forward vertical FDI can be observed via the foreign 4Head, as a foreign company built it. It plays the role of the distributor in charge of purchasing and controlling the distribution and saves the cost of raw materials (Investopedia, 2020.)

Alternatively, to supply the basic components of the production process, depending on the background of the foreign company, as the company creates its supplier for each of the input goods that are delivered to the parent company (Harding Torfinn & Beata S Javorcik, 2011).

This investment is achieved through merging or complete acquisition of other companies and their ability to establish new branches for them to practice productive activity. The role of the supplier plays, and the company's strategy is to reduce production costs by dividing them, increase sales, profits, conduct better business operations, strictly manage and control production quality, manage distribution activity, and provide the flow of data and information through narrow and better supply chains (Kersan-Skabic I, 2013).

It depends on supply chains, which is a group of companies that form a network between them, and the network includes the supplier who provides raw materials and inventory, the product that helps in the production process, the warehouse in which the product is kept, the production and distribution center, and the retailer who controls or owns several companies that are among the supply chains MNC's, sells the final product to the customer (Investopedia, 2020).

This investment has led to a reduction in the cost of production and the establishment of a distribution network, and production goes through stages that require different inputs, and companies search for suitable and low prices for these inputs in other countries and divide the series of production stages to achieve the cost difference for these companies to determine the characteristics of each country to determine the appropriate for it (Kariuki C, 2015).

#### **2.4.10 Free Zones**

It is a form of FDI related to certain areas located near the land borders of the host country. It benefits from customs exemptions and foreign trade controls, concerning raw materials, goods, and final services, and the number of these areas has increased in recent times. Countries have defined free zones in which trade and industry are not subject to duties. Compared to their prices abroad (Hiep Ngoc Luu, 2016).

#### **2.4.11 Strategic Mergers (Strategic Alliance)**

Institutions to achieve a kind of integration and coordination of activities, with the participating parties remaining free and not subject to each other, aiming to overcome weaknesses and turn them into strengths to confront competition, as the strategic alliance leads to control of risks and threats, and the sharing of profits, benefits and tangible and intangible companies (Elif Arbatly, 2011).

#### **2.4.12 Privatization**

Political and administrative factors play a major role in the shift from public state ownership to privatization. The goals of privatization are the efficiency and stability of the state's general economy, the independent and fair distribution of national wealth, and the restructuring of old economic structures. Abolishing the old traditional controls and methods for producing, distributing, and marketing unwanted products. Privatization in traditional markets (Pondicherry H & Tan P H P, 2017).

It is the replacement of the founders of the structure, the ownership system, and the state administration for a project suffering from low efficiency, prices, and a weak market system into a new structure, institutional system, ownership, and management by the private sector. (Sharma K & Bandara Y, 2010).

Among its objective is the establishment of a market-oriented system that reduces production costs in proportion to the production structure, relative price, and the optimal use of available resources for efficient and effective production (Steven Poelhekke & Frederick van der Ploeg, 2010).

Privatization can be achieved through well-known direct methods, such as auctions, bids, or capital privatization, or indirectly. In the case of moving to the private system, efficiency and redistribution must be achieved. There are various models such as the restricted market model, the free market, the regulated market, and the state-controlled model (Crespo N & Fontoura M, 2007).





## CHAPTER 3

### GENERAL BACKGROUND OF IRAQI ECONOMY AND FOREIGN DIRECT INVESTMENT IN IRAQ

The Iraqi economy today suffers from deterioration in economic growth rates ,and major challenges, and the current crisis of the Iraqi economy because of the bad economic policies over the past decades in Iraq before and after 2003. Economists assert that the reason is the occupation of Iraq and financial and administrative corruption ,and control of economic activity, which makes the state monopoly of economic activities, especially the oil sector, and this weakens the competition between this sector, and another sector (Bolnick B, et.al, 2009).

However, Considered and one of the most corrupt countries, which ranks 161 out of 168 countries in the classification of corruption, and corruption is a cause of waste of resources and wealth and not to use and investment.

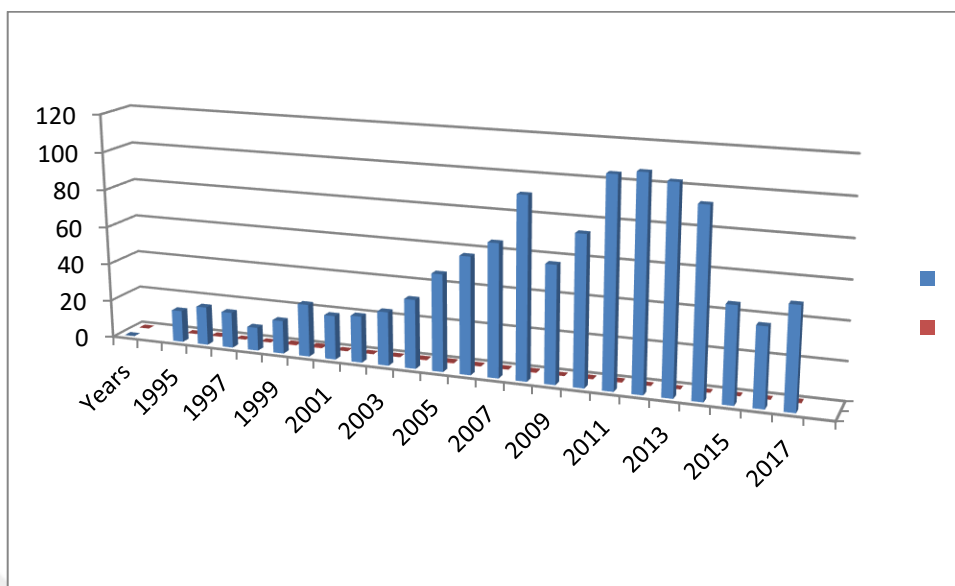
Furthermore, the Iraq economy is a unilateral rentier economy, with the oil sector as the main source it accounting for 95% of the revenues of the public budget, and none the diversification of its sources; it is almost completely dependent on oil revenues. This has contributed to the persistence of structural imbalances in the Iraqi economy of the various productive sectors, the decline in the gross domestic product, the disruption of other sectors, and the financing of basic projects that depend mainly on the oil sector, and this applies in many cases to finance various activities (Ahmad Battal, 2018).

Moreover, the inability of Iraq to depend on itself to meet the needs of the domestic demand for goods and services, its dependence on oil production, and the low contribution of other productive sectors. At present, Iraq relies heavily on imported goods and services and must begin to produce goods at low, high-quality goods suitable to meet the country's need, and then export the surplus and thus will balance the trade balance and apply laws to protect domestic production. (Dunia F C, 2011).

Therefore, Iraq's inability to attract new investments provides the necessary financing for economic development and reconstruction of infrastructure, and has a major role in the allocation of resources and directed towards uses that are more efficient and not to activate its resources (Watling Jack, 2017).

**Table 3.1:** Annual Growth Rate / Annual Compound Growth Rate for Oil Price  
(Base Year 1995) (Source: OPEC, 2018)

Years	Oil price	1995 - base year
1995	16.86	-
1996	20.29	20.34%
1997	18.86	_7.04%
1998	12.28	_34.88%
1999	17.44	42.01%
2000	27.6	58.25%
2001	23.12	_16.23%
2002	24.36	5.36%
2003	28.1	15.35%
2004	36.05	28.29%
2005	50.59	40.33%
2006	61	20.57%
2007	69.04	13.18%
2008	94.1	36.29%
2009	60.86	_35.32%
2010	77.38	27.14%
2011	107.46	38.87%
2012	109.45	1.85%
2013	105.87	_3.27%
2014	96.29	_9.04%
2015	49.49	_48.60%
2016	40.68	_17.80%
2017	52.51	29.08%



**Figure 3.1:** Annual Growth Rate / Annual Compound Growth Rate for Oil Price (Base Year 1995) (Source: The work of the Researchers, 2021)

Iraq pays many of its resources as a debt too many countries of the world, Iraq's debts are described as obnoxious, and the Iraqi state continues to pay interest on these loans and they are constantly increasing, in total, between 15 and 20 billion dollars go to pay off Iraq's external debts. Then it became a burden and a problem. Iraq has no solution and Iraq needs years to repay it, and this is subject to Iraq's oil capabilities for many years under the mortgage of banks and creditor countries (Khalid Al Ansary, 2018).

The amount of Iraqi indebtedness is very large, because of the fake projects and the lack of transparency. Increasing public debt rates and increasing the funding gap as the total external public debt owed by the Iraqi government (76) billion US dollars in addition to the estimated internal debt of about 45 billion dollars, bringing the total public debt (121) billion. (Joseph Sassoon, 2016).

However, Iraq is suffering from the imbalance of the state budget, which is one of the tools of fiscal policy in the past that was suffering from a continuous deficit due to the growth of public spending at greater rates of growth rates of public revenues. This deficit because of the problems suffered by Iraq, but at, present there is a surplus due to increased production because of the dependence of the Iraqi economy on the oil sector (Robertson, Campbell, 2008).

Concerning the banking sector, there is a weakness in the banking culture, mismanagement of the Iraqi banking system and the complexity of procedures that attract individual funds and the retention of the banking system abroad such as the Governor of the Bank of Iraq, which is the currency center that is stored with the public through (77%) of the issued currency. The Iraqi economy suffers from high inflation rates and the exacerbation of unemployment. Investment growth is the best way to boost the Iraqi economy (Ahmad Battal, 2018).

### **3.1 Iraqi Economy History**

Phase I:-This is the first period in the economic life of Iraq, where the Iraqi state was established in 1921, then the features of the state began to appear, but the first concern was political stability, and the economic side was less interested in this sector. As at this stage, the economy was unstable and Iraq was suffering from poverty, poverty, and unemployment, and the official currency adopted was the Indian rupee as it continued to be used from 1921 until independence and the end of the British mandate (Bertelsmann Stiftung, 2012).

Iraq inherited a slow economy and a state of weakness in all joints of its economy, but it can be considered that the emergence of the features of the economy began after independence, during this period some companies were established and Iraq issued its Iraqi dinar currency, which was equal to the value of the pound sterling under Law No. 44 of 1931. Therefore, 1931 was considered the beginning of the financial and banking system, the beginning of accounting, control, and investment work, the emergence of budgets of all kinds, economic development, and the beginning of real economic life (World Bank Group, 2012).

Phase II: - This period began in the fifties and was a typical period, the state sought to achieve economic development, investment was an important factor in the establishment of infrastructure, and the provision of services and focus on the industrial, agricultural, service, and other sectors, and to find a real partnership between the public and private sector (Dodge Tony, et.al, 2018).

Therefore, a mixed sector was created that combines the public sector owned by the government and the private sector owned by individuals. The economy also focused during this period on raising the standard of living for the Iraqi individual, creating job opportunities, eliminating unemployment, searching for and exploiting natural resources in the best way, and working to properly employ capital. During this period, several laws were issued, including agrarian reform, nationalization of businesses and southern oil companies, and corrections of mistakes in all sectors, including commercial ones. Development continued and was a golden age during the twenty years between 1960 and 1980 (Government of Iraq's Ministry of Planning, 2013).

Phase III:- This stage extends from 1980 until now. It is considered a very difficult stage as the Iraqi economy at this stage suffered from many difficulties and was hostage to the painful conditions that existed and the accompanying wars in Iraq and the economic blockade and the resulting negative effects, political and security instability, as a result of the wrong policies of the successive governments Iraq, the lack of a vision, and a clear strategy for the future of the Iraqi economy. The economic structure was damaged in wars and chaos, all of which was accompanied by the destruction of the infrastructure of Iraq, which is one of the main problems facing the development of the economy, and suffers from imbalances in all major product and service sectors (Robertson, Campbell, 2008)

The Iraqi economy was centralized and relied heavily on oil to finance major projects. At the end of the 1980s, Iraq was interested in privatization and independence for a part of the economy. In 1991, industry, agriculture, and infrastructure deteriorated, and the standard of living of the population declined due to the first Gulf War (Al-Ansari Khalid, 2018).

After that, in 1995, oil was re-exported under the United Nations Oil-for-Food Program, but production capacity continued to decline. The beginning of this period was marked by the absence of a solid economic base on which to build, and the increase in economic problems, including the problem of foreign debt, which was exacerbated by the sanctions imposed on Iraq (Government of the United States of America, 2003).

Besides, the phenomenon of inflation is widespread, as the Iraqi economy suffers from the phenomenon of inflation, which resulted from multiple monetary and real factors linked to the deterioration of the various productive and industrial sectors (Ondabu Ibrahim Tirimba & George Munene Macharia, 2014).

All sectors suffer from problems, as the industrial sector constitutes a low rate of about 1.7%, while in the past the contribution of this sector was 9% due to the suspension of about 80% of industrial projects and the rest at half their capacity and lacks the requirements of production and sabotage. Likewise, the damage to the agricultural sector, which constitutes a small percentage of the GDP, is estimated at 5.9%. Failure to employ the oil sector and failure to employ oil resources in economic development (Central Bank of Iraq, 2014).

Iraq is an oil country, as this sector contributes about 95% of the general budget revenues and the lack of balance in other sectors and the financing of basic projects as it does not constitute an important percentage in the economy due to the neglect that affected it for many years.

Iraq suffers from a high unemployment rate despite the high contribution of the oil sector, but it contributes to employing only 2%, which is a very low percentage because it represents the main sector of the GDP. Economic conditions have improved due to higher oil prices and improved security, but capital-spending restrictions are preventing the rapid growth of the Iraqi economy (Al-Ansari Khalid, 2018).

It is expected to reach 8.1% in 2020 due to higher oil production, at the end of the OPEC agreement in mid-2019.

However, with lower oil prices, the increase in spending has increased the budget deficit by 5.4% of GDP. The decline and increase in oil prices are imports that convert the current account balance into a deficit partly financed by international reserves.

Therefore, Iraq must rebuild its economy and exploit its vast oil resources well to achieve economic growth and development in the future. (Philip Marfleet, 2019)

## **3.2 Foreign Investment in Iraq**

Iraq is considered one of the worst countries in the practice of international business, as it ranks 166th in the world out of 183 countries, and it is considered one of the least invested countries compared to other countries that have suffered from conflicts due to the deterioration of the political and security situations, and the cadres of this investment have not been exposed to threats to property and lives. Various reasons in Iraq do not allow foreign direct investment to take its correct and complete role, as it lacks the security situation, corruption is widespread in all aspects of political and economic life, and there is no flexibility or transparency in dealing. (ICSID, 2015).

Its banking system suffers from many problems, as it does not have the technologies that would allow it to deal on the international level. The laws on international transactions are insufficient, for example, an old and underdeveloped arbitration law, and there is a problem regarding intellectual property rights (IPR) and the existence of many internal disputes over oil rights (Alesia Azzutti, 2016).

### **3.2.1 Indirect Foreign portfolio Investment (FPI); in Iraq**

The Iraqi Stock Exchange is the only official market in Iraq, through which the financial instruments in Iraq are exchanged. In 2005, Iraq became a member of the Arab Federation of Exchanges, and in 2006, it began to seek membership in the World Federation of Exchanges (Asaad Zeravan, 2014).

### **3.2.2 Historical Process of Foreign Direct Investment in Iraq**

Because of the phenomenon of economic globalization and interconnectedness between world economies, the increase in the volume of exchange of funds and products across international borders, and the rapid spread of technologies and their development, a state of integration and exchange emerged in the growth of the global economy (Ali Accuracy & Ilhan Ozturk, 2012).

Countries wishing to attract foreign investment usually seek to simplify transparent legal procedures for foreign investors by enacting a law on foreign investment, establishing legal legislations regulating economic activity in the country, allocating benefits that are not guaranteed by other legislation, and operating multinational companies. So companies in various countries, including Iraq, were facilitated, which is known as a foreign direct investment (Ghassan F Hanna, et.al, 2014).

Foreign investment is the movement of capital across countries for employment in various economic processes, such as establishing or contributing to productive projects, subscribing to stocks, bonds, or loans, and obtaining remunerative returns. The investment consists of adding new production capabilities to existing assets in the country through the creation of new projects, expansion of existing ones, and the replacement or renewal of old ones (Jordan E Toone, 2013).

This is done outside the legal, monetary, financial, economic systems of the investing country, the investment aims to exploit important natural resources in some countries, such as oil and gas and others, and prices are often low in those countries. Establishing controls for foreign investment and directing it towards productive sectors, not consumers, and following up on the country's development needs (Asaad Zeravan, 2014).

Foreign direct investment creates productive capacities, and this investment is effective in developed countries and advanced integrated regional markets. It meets the growing consumer demand for products and services previously imported by the host countries, and the low wage rate benefits from skilled and trained workers in the host country.

Regarding Iraq, the fierce wars and political and security instability were the main reason for the deterioration of the economic conditions in general in Iraq. This affected the Iraqi economy, foreign investment flows in general and foreign direct investment in particular in Iraq. Foreign investment in general and foreign direct investment, in particular, is a recent experience in Iraq that began after 2005.

Also, market-related factors, such as the size and growth rate of the host country's market, if the host country's market size is large, and its future growth rate is high, it allows the investor to exploit economies of scale and is encouraged in this market (Ondabu Ibrahim Tirimba & George Munene Macharia, 2014).

Especially when the foreign direct investment is primarily directed to meet domestic demand in the host country's market. Thinking about attracting this investment and issuing a law for foreign direct investment in Iraq after 2006, and working to encourage multinational companies to come to Iraq. Now, despite all the measures that encourage this investment, the obstacles it faces are very large, which has led to a decrease in investment inflows into Iraq until the present time (World Bank Group, 2018).

### **3.2.3 Foreign Direct Investment (FDI) in Iraq**

Foreign direct investment (FDI) is an investment made by a company or entity whose headquarters are in a country other than the host country. It is called direct investment because the foreign investor tries to control, direct, or influence the local company and the permanent interest in the host country. It is considered one of the important variables for the country's economic growth, the measure of openness to the global economy, and how it adapts to rapid international development. This investment is achieved through the acquisition of an existing foreign company, the opening of a subsidiary company, or the participation in a foreign company. This relationship is positive in the case of adopting advanced technology, developing local markets, and developing workers' education. A group of tangible and intangible assets that contribute to building productive capacity is another lesser source of financial fluctuations (Mihaela Simionescu, 2016).

Moreover, this investment is part of the host country's fiscal policy, either explicitly or implicitly. It is important to establish regulatory policies to attract, organize, develop, and encourage an investment that is part of the state's general economy and contributes to stimulating and growing the economy (Joanna Tochman Campbell, et.al, 2012).

The positive relationship between foreign investment and economic growth also depends on the host country's exports, the strength of its financial market, the development of human capital skills, the transfer of technology and knowledge, as well as the increased productivity of local enterprises (Fuad Rashid Bullo, 2013).

There is a relationship between foreign direct investment and economic sectors, and these sectors are given priority according to their importance, and the strength of this investment depends on the strength of the sector in which the investment is made and the level of economic development of the host country (Steven Poelhekke & Frederick van der Ploeg, 2010).

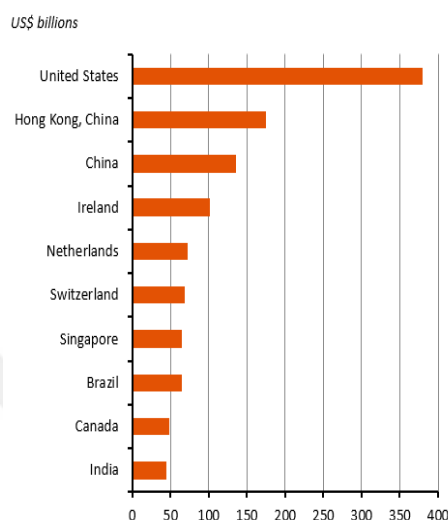
As a result, foreign direct investment has a positive effect on economic growth in host countries and contributes to the transfer of technology and business knowledge to countries that attract the largest investment and have the highest growth rate and significantly increase the volume of contributions to the capital formation (Central Bank of Iraq, 2019).

There is a relationship between foreign direct investment and economic sectors, and these sectors are given priority according to their importance, and the strength of this investment depends on the strength of the sector in which the investment is made and the level of economic development of the host country. As mentioned, this investment is still recent in Iraq, as it is present in small quantities, most of which are concentrated in the extractive operations sector and the oil and gas sector, while the rest of the sectors suffer from a great weakness in attracting this investment (Nelson Johnny, et.al, 2018).

Iraq has issued Law No. 13 regarding foreign investment in Iraq in 2006, which opened the country's economy for the first time to all foreign and Arab investors, and investments began to enter the country, but not at the level of ambition and need for Iraq, as the amount of foreign direct investment flows is still modest. To attract foreign direct investment, the Government of Iraq should encourage investment generally and foreign direct investment in particular (Bertelsmann Stiftung, 2012).

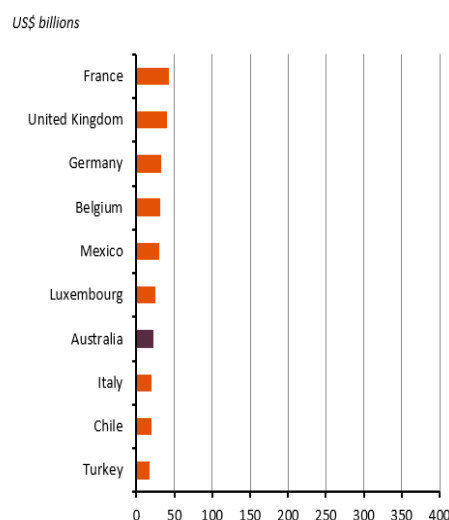
Create a better investment climate for a foreigner, which is important for increasing the volume of flows from this investment and working to raise its annual growth rate in Iraq (Caravan Asaad, 2014).

**Host economies for FDI inflows in 2015, one to ten**



Source: Figure 3 in UNCTAD World Investment Report 2016.

**Host economies for FDI inflows in 2015, 11 to 20**



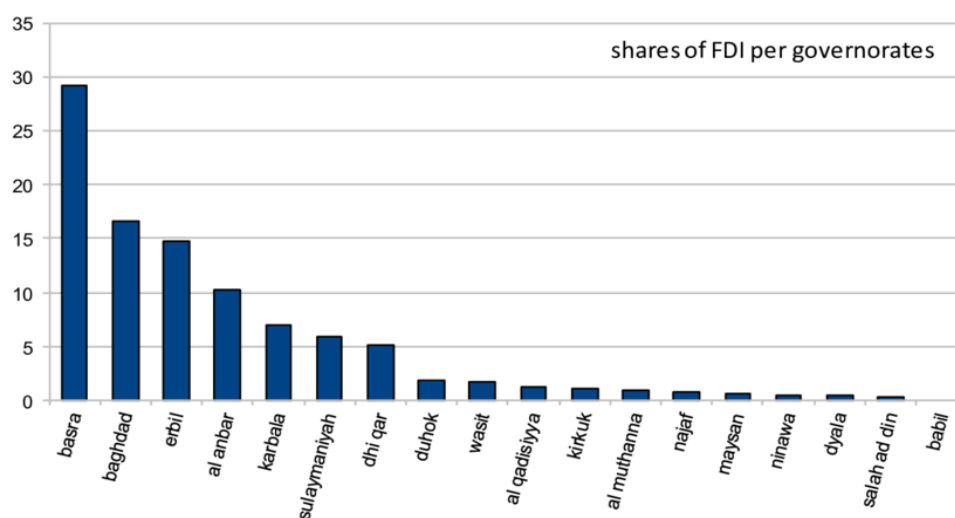
Source: Figure 3 in UNCTAD World Investment Report 2016.

**Figure 3.2: Top 20 Destinations for Foreign Direct Investment (FDI) – in Iraq – 2015 (UNCTAD World Investment Report; 2016)**

Iraq should seek and develop a strategy to attract this investment, achieve sustainable social and environmental development, strengthen national and international investment policies, find a balance between the role of the market and the state, international cooperation in productive capacity, and modernize, activate and encourage foreign direct investment tools (Laura Alfaro & Jasmina Chauvin, 2017).

**Table 3.2: Direct Investment (FDI) in Iraq for Years 2008– 2013 (Source World Investment Report, 2014)**

	2008	2009	2010	2011	2012	2013
Foreign Direct Investment Inflows \$ mil	1856	1598	1396	2082	2376	2852
	2008	2009	2010	2011	2012	2013
Foreign Direct Investment Outflows \$ mil	34	72	125	366	448	538



**Figure 3.3:** Flows of FDI to Iraq by governorates (percentage of total value) (Irene Constantine, 2013)

Developed infrastructure and basic services, especially electricity, water, sewage, and roads, must be provided, and their ownership in the hands of the state must be preserved and smart mechanisms for selecting and studying the private sector must be devised and privatizing important productive sectors. Through this investment, knowledge is easily transferred, the movement of capital is not fully liberalized, and foreign capital is not allowed to dominate the banking sector (World Bank, 2012).

Moreover, Iraq should implement economic policy reforms and international standards by joining the World Trade Organization, liberalizing the economy, and integrating and expanding the growing interactions with the global economy. Introducing a new policy that enhances the flow and impact of this investment, enhances the attractiveness of the Iraqi economy to foreign investors, and facilitates their ownership of Iraqi assets for their work in private (R Grenier, 2012).

In general, investors are interested in countries that have natural resources that need extraction and development, such as oil and gas. Iraq can be considered one of the most important developing countries, with many natural resources in addition to oil and gas, which enter the vital industries (Government of Iraq's Ministry of Planning, 2013).

Developing countries, including Iraq, prefer joint or bilateral investment because it provides foreign direct investment and allow them to control projects based on their territories, joint or bilateral investment is one of the most common types in developing countries (VV. AA, 2011).

When a private local investor or government or both owns joint ownership by a foreign investor for economic projects based on their lands, which means that more than one party participates in the ownership of the project, and at the local or private-public level, it can be shared with the foreign investor represented in the multinational companies, as agreed upon between the various parties (Laura Alfaro & Jasmina Chauvin, 2017).

Consequently, it participates in management decisions, and this participation reduces the political risks that foreign investors may be exposed to nationalization or confiscation and reduces the financial burdens incurred by the host economy because of the participation of the national investor in the joint foreign project. There are criticisms of this type of investment, which is that the capacity of host developing countries, such as Iraq, for example, is less or limited compared to the capabilities of foreign investors (Imad Mousa, 2011).

#### **3.2.4 Iraq Investment Climate**

As we mentioned in the previous chapter, the investment climate is a set of conditions that affect the direction of capital and labor flow, and that there is a set of existing components that provide an investment environment that encourages investment in the host country, by the local or foreign investor. Besides, the investment climate is a stable and stimulating economic environment for investment under market mechanisms and optimal allocation of resources. The investment climate is also considered a stable economic environment that stimulates investment under market mechanisms and the optimal allocation of resources. It is a good investment climate with multiple characteristics, such as a stable political environment conducive to finance and good trade (Aguiar S Aguiar-Coraris, et.al, 2012).

It leads to stability, investment expectations close to reality and the future, and the presence of transparency and flexibility in obtaining economic data in the host country. There should be a slight deficit in the general budget and an acceptable deficit in the balance of payments that can be financed from external flows. The inflation rate in the host country is low, and the exchange rate is realistic. The multiplicity of circumstances affects the confidence of the foreign investor and makes him direct his investments to a specific country and not to others (Government of Iraq's Ministry of Planning, 2013).

The stability or turbulence in the political situation, the state's administrative organization, its effectiveness, economic conditions, programs, the extent of fluctuations, and the general conditions of the state all together affect the confidence of the foreign investor.

The country's openness to the world, the availability of infrastructure, the availability of production factors, and the strength of the state's budget and its contribution to achieving growth. Several important types of investment climate that affect foreign investment flows can be identified. Concerning Iraq, it suffers from difficulties and problems in most aspects that are important to attract foreign direct investment flows.

Therefore, it is important to provide a good investment climate to attract appropriate inflows of foreign investment, especially foreign direct investment (Ahmed Jafari & Maryam Monfared, 2011).

#### **3.2.4.1 The economic components of the investment climate**

Iraq's accession to the World Trade Organization is a good indicator that positively affects foreign investment flows, especially the flow of foreign direct investment to it in the future. Therefore, the conditions of this organization must be met reasonably and work to adhere to them to achieve a good level of foreign direct investment in Iraq.

Among these conditions are working to eliminate subsidies for local products, including fuels and their derivatives, facilitate trade and financial procedures, ease restrictions on capital movement, and protect and treat foreign investors as local investors (Dhakal Dharmendra, et.al, 2007).

Therefore, Iraq sought to open up the economy and provide the appropriate economic and financial environment to attract foreign investments, especially direct ones. Also, he succeeded in attracting these investments, but in the oil sector, but other sectors did not witness any development and were not attractive to foreign direct investments. Because of the unstable conditions that Iraq is going through, these investments are reluctant to come to it (Government of Iraq's Ministry of Planning, 2018).

#### **3.2.4.2 The non-economic components of the investment climate**

##### **A. The political climate:**

The stability of the country's political system and the nature of its relations with neighboring, regional, and global countries are important factors for foreign investment in host countries. Therefore, political stability in the host country has an important and influential role in attracting or expelling capital and foreign investment, as the political environment is considered one of the most important factors affecting attracting foreign investments and it is more important than other economic factors (Asaad Zeravan, 2014).

The weakness of political stability leads to a decrease in savings and an increase in the rates of domestic capital flight, which is the factor affecting the decision of the investor, who usually fears the climate of different crises. It is a political environment that has an impact on foreign investment in Iraq, as Iraq's experience in attracting foreign investments was not of the required size. Despite the interest of successive Iraqi governments after 2003 to develop investment-friendly legislation through the adoption of Law No. (13). and issue its amendments (Mazaheri Nimah, 2010).

Iraq has made great efforts to create a suitable climate for investment, but this did not lead to an increase in attracting foreign investment, a lack of development, and a decrease in the rate of economic growth. Despite this, Iraq has been unable to maintain its national funds and large amounts of Iraqi funds have gone out to invest in other countries (Masher, Niamh, 2010).

Among the factors that led to the failure of this experiment was the instability of Iraq's security after 2003 due to terrorism, the destruction of service infrastructure, political instability, and its impact on the weak attraction of foreign investment. As Iraq was a dangerous, politically unstable, and insecure country, its position among the countries of the world did not improve (Asaad Zeravan, 2014).

According to the Global Peace and Security Index, which was compiled by the Institute for World Economy and Peace in its annual reports, from 24 indicators ranging from (0.4) to countries with high levels. Iraq was ranked 163 among the countries of the world, one of the most corrupt countries in the world, and was suffering from the worst security conditions, rampant corruption, and accusations of Iraqi political figures of involvement in corruption. The Transparency International report showed the reluctance of foreign investors and Arabs to invest in Iraq due to the many harassment and risks they face (Government of Iraq's Ministry of Planning, 2013).

Many politicians interfere in most of the joints of the economy, the lack of separation between political and administrative positions, the failure to apply the principle of equal opportunities based on competence and competence in assuming positions, the absence of a clear strategy, and submission to personal jurisprudence. Infringement on lands designated and granted investment licenses in Iraq by some political parties and influential groups in Iraq, not allowing investors to practice their business and threatening investors, which harms the investment and investment climate. To continue obstructing the passage of the infrastructure law at the end of 2012, the absence of a peaceful transfer of power to governments, and the political struggle between political blocs (Watling Jack, 2017).

As well as obstructing the adoption of laws and legislations that include providing financial allocations for service projects, especially those related to the investment side, and not contracting with strong international companies to implement services and infrastructure projects (Asaad Zeravan, 2014).

### **B. The legal and regulatory climate:**

Legislation and laws related to foreign investment activity of all kinds is an urgent necessity to open up to the international economy. The laws of the state, the legal environment, and the updating of legislation, laws, and regulations affect foreign direct and indirect investment and instructions related to investment.

Enforcing laws, facilitating and simplifying procedures, and eliminating bureaucracy have a major role in attracting foreign investment. The Iraqi National Investment Law equals local and foreign investors to qualify for the incentives. Foreign investors are allowed to trade in securities and securities listed on the Iraq Stock Exchange in addition to allowing investors to finance and transfer capital inside or outside Iraq (World Bank, 2018).

With exemptions from taxes and fees for ten years and up to 15 years if the proportion of the Iraqi investor more than 50%, these privileges are all factors of attraction for foreign investment. The Investment Law of Iraq No. 13 of 2006 aims to attract and encourage investments in the private and foreign sectors in the country.

Also, protect the rights, property, and returns of investors. The new law follows the one-stop-shop approach (in receiving and operating investment applications. (Dunia Frontier Consultants, 2013).

Iraq joined the agreement for the settlement of investment disputes between states and citizens of other countries in 2012. And it works to encourage investment and protect the investor in disputes that arise between states and citizens of other countries through resorting to settlement and arbitration. Iraq has concluded bilateral agreements to protect and encourage foreign investment with eight Arab countries as well as foreign countries. And free trade agreements with 11 Arab countries under the Free Zones Authority Law No. 3 of 1998. (Majid Saleh, 2011).

### **C. Social and cultural climate:**

The social and cultural climate is concerned with what affects the workforce in terms of quantity and quality (efficiency). It consists of the role of trade unions, their policies, and their results compatible with labor and market needs, the rate of population growth, the ratio of the workforce to the total population, the social structure, and the environment.

The extent of awareness of foreign direct investment entering Iraq, unfortunately, has a weak role, as it is marginalized, and there is no real guidance for the role of these investments. Likewise, tribal domination of illegal areas of land places an obstacle for foreign companies to exploit them. In addition to the great corruption among many influential people in Iraq who interfere in the work of local and foreign investment and the work of local and foreign companies operating inside Iraq (IFC, 2012).

#### **3.2.5 Future Expectations about the Investment Climate in Iraq**

Iraq has gone through difficult circumstances and the 2014 war, and it is still suffering from insecurity in some areas of Iraq that are directly affected by the investment environment. The damage and needs in Iraq in the seven governorates directly affected are estimated at \$ 45.7 billion, and there are expenditures for the reconstruction of the affected areas, as the need reaches about \$ 88.2 billion for reconstruction and recovery.

Both the oil and non-oil sectors in the gross domestic product stagnated, which greatly exacerbated the financial situation, the external sector, and the potential for medium-term growth (Watling Jack, 2017).

Governmental material losses were estimated at (31.7) billion dollars in addition to the resulting cuts of trade routes and thus diminished investor and consumer confidence. Agricultural production has also decreased by 40%, undermining food sufficiency in the country (Al Ansari Khalid, 2018).

Many factors contribute to stimulating investment and creating a positive and attractive business environment for those wishing to invest in Iraq. Maintaining growth is a major challenge in light of the insecurity and peace and the lack of the necessary infrastructure for this investment. This situation provides short-term investments and projects that are better able to adapt to uncertain and changing circumstances (Geoffrey Jones, 2010).

Iraq slowly emerged from the deep economic pressures that accompanied it in the past three years, which negatively affected the joints of the economy. The improvement in oil prices since mid-2017 and the control of government spending have contributed to achieving better results in the financial and foreign budgets. And the start of comprehensive reconstruction, infrastructure construction, stabilization, and the satisfaction of needs and services that contribute to attracting long-term foreign direct investment (Robertson Campbell, 2008).

### **3.3 The Importance, and Justification for Iraq to Resort to Foreign Investment**

Foreign investment in Iraq has great importance in the Iraqi economy because of its economic and social advantages, as it strengthens the economy and increases its growth and has a role in supporting the investment process and providing the appropriate investment climate. (Graciana del Castillo, 2010).

Iraq is seeking at present to attract more foreign investments, and to diversify these investments, not only to invest in the oil and gas sector but also to attract investments in the industrial, agricultural, commodity, and service sectors. Foreign investment is an important pillar for Iraq because it compensates for the deficit in national savings available for investment. (Geoffrey Jones, 2010).

As it provides important financing for reconstruction and infrastructure, Iraq needs financing to address internal deficiencies due to declining exports due to its reliance on exporting one commodity, crude oil, which is the main source of foreign exchange.

Work to reduce the external debt and solve the problem of deficit in the state budget and high prices, which leads to lower profits, and to provide job opportunities expected to be created. Expanding and diversifying the activities that have different projects and sectors, and enhancing the contribution of the local private sector in various sectors (Robertson, Campbell, 2008).

Iraq began laying down the necessary mechanisms to encourage foreign investment by laying down the legal basis for the foreign investment process, which is the issuance of the Foreign Investment Law No. (13) Of 2006 emanating from the National Investment Commission. This law aims to attract and encourage investments in the private and foreign sectors in the country, protect the rights, properties, and returns of investors, expand exports, and increase competitiveness at home and abroad. (Iraqi Parliament, 2015).

This law achieves its objectives in providing advanced political, material, and social infrastructure and reducing financial corruption that attracts investments. The decline in oil prices in global markets caused a decline in the financial revenues of Iraq, and thus the need for foreign investment to meet the deficit in investment financing (Robertson Campbell, 2008).

### **3.4 Objectives of Foreign Investment in Iraq**

Financing economic development, use of foreign resources, savings, and foreign capital, especially foreign direct investment. Due to the inability of local resources to provide financing for national investments and infrastructure projects on concessional and non-concessional terms, investment is considered an alternative to external resources such as loans with interest and obligations imposed on them.

This investment provides an important source of advanced technology that is important to develop economies and contributes to bridging the economic gap and bridging the gap between public revenues and expenditures (Torfinn Harding, Beata S. Javorcik, 2011).

As multinational companies transfer advanced technology and use it in modern production methods that are commensurate with the nature of production and contribute to expanding production capacities. It contributes to improving the balance of payments of the investing country by increasing the export capacity on the one hand and reducing imports, on the other hand, providing capital and meeting local needs instead of relying on imports. It works to expand and diversify the activities of various projects and sectors, and to enhance the contribution of the local private sector in various sectors. (IFC, 2013).

Preserving and protecting current investments, and improving competitiveness between foreign companies and domestic companies. Reducing monopoly by a small number of firms, improving the quality of services and products, and reducing domestic production costs. It increases the ratio of value-added to national income through the salaries, wages, and taxes that companies pay to the host country. Foreign investment provides the optimum use of available human resources and expands growth opportunities by creating new jobs and increasing employment opportunities (Harding, Torfinn & Beata S Javorcik, 2011).

### **3.5 Determinants and Obstacles of Foreign Investment in Iraq**

There are many positive determinants and negative restrictions related to attracting or expelling foreign investment in various countries, especially developing countries, including Iraq, and they control the effectiveness or failure of this foreign direct investment if any in any country. Iraq should work to develop those determinants to attract large inflows of foreign investment and to raise, reduce and restrict the restrictions that prevent the flow of sufficient quantities despite the many capabilities that Iraq possesses that attract this investment to any country. Foreign direct investment is a cultural phenomenon and a measure of the strength and weakness of the local, national, and comprehensive economy of the Iraqi state. The presence of foreign direct investment in Iraq is a strong and good economic phenomenon, but it is recent (Jones G, 2010).

Iraq enjoys an abundance of natural resources of interest to foreign investment, and the greater the volume of foreign direct investment flows, the higher the rate of GDP, and thus the increase in the growth of the Iraqi economy. Provided that these investments are directed to various important sectors in the country, and not limited to. In the oil and gas sector (Jonathan Jones & Colin Wren, 2016).

Despite all the resources that Iraq has to attract foreign direct investment, it faces great challenges to obtain foreign investment opportunities and move to the scientific market. Iraq suffers from a shortage of foreign investment inflows due to a long conflict, the multiplicity of wars that emerged from it, and the comprehensive blockade it was subjected to (Graciana Del Castillo, 2010).

Because of the collapse of the Iraqi economy, insecurity, political instability, corruption, flawed government policies, and a weak public sector are among the factors that drive foreign direct investment. Despite all these difficulties, Iraq seeks to increase the flows of this investment and provide positive advantages to attract its importance in achieving the economy and development (United Nations Conference on Trade & Development, 2017).

Therefore, the Government of Iraq has introduced technical service contracts such as customs duties for multinational companies, which facilitated private ownership and rapid recovery of their initial investments and working to meet the requirements of the appropriate investment climate for multinational companies such as providing raw materials. Generally, multinational companies prefer to invest in a location that offers multiple advantages that foreign investors prefer (Harding Torfinn & Beata S Javorcik, 2011).

### **3.5.1 Determinants of Foreign Investment in Iraq**

Determinants are the factors and conditions that control and affect the direction of the flow of foreign direct investment into Iraq, and they are the factors that encourage the flow of foreign direct investment and help to create a successful investment environment in Iraq, which are as follows:

- A. Security and stability are the basis for the entry of major foreign investors and companies that Iraq needs at this stage, as it needs its expertise and technical, technical, and administrative capabilities, so the better the security situation and the greater the opportunities for foreign investors to enter (Brahimi L, 2007).

Therefore, the Iraqi government must make efforts to make Iraq enjoy political and security stability, as it encourages foreign companies to come to Iraq and develop the state-owned and private sectors, as it represents a major challenge facing Iraq in attracting foreign investment (Graciana Del Castillo, 2010).

- B. Economic stability and a stable economic environment, meaning the presence of an appropriate, correct, clear, and stable economic policy are important for this investment, as this policy works to reduce economic turmoil. Among the most important economic indicators in it is the exchange rate, the inflation rate, the surplus or deficit in the balance of payments, and the trade balance (Irene Constantine, 2013).
- C. Providing adequate infrastructure to attract foreign direct investment. Providing services and placing them at the disposal of investors at moderate prices, and taking all measures and simplifying them for the foreign investor upon entering Iraq (Watling Jack, 2017).
- D. Legislating laws and procedures that help develop investment and make the private sector supportive, and a vital partner in the investment environment (Watling Jack, 2017).
- E. A stable banking system should be provided within the rights of investors when transferring funds before, after, and during the investment transaction, providing financing and assisting in the speedy and complete completion of this, which helps to achieve economic growth and enhance the confidence of foreign investors (Jones G, 2010).
- F. Encouraging free zones and industrial zones in the country in which foreign goods are allowed to be imported, stored, and re-exported, and the practice of commercial and industrial activities, as the state does not require any participation rate in the free market.

### **3.5.2 Obstacles of Foreign Investment in Iraq**

Many challenges and obstacles are facing foreign investment in Iraq, which prevents the flow of sufficient quantities despite the much potential that Iraq possesses that attract this investment to any country.

Because of the international sanctions that lasted for the period (1990-2003), which destroyed its economic infrastructure and the collapse of the Iraqi economy (Graciana Del Castillo, 2010).

Iraq has been suffering for many years from external and internal wars and difficult security conditions at home and in all its provinces, which are as follows:

- A. Political obstacles due to the sensitive political and security conditions that Iraq is going through. Insecurity, political instability, corruption, and flawed government policies are among the factors that prevent foreign investments from entering the Iraqi economy and the deportation of foreign investors, and it is the most important obstacle to foreign investment in any country (Vinita Denisia, 2010).
- B. Iraq suffers from a lack of infrastructure that is the basis for encouraging foreign investment, such as the lack of infrastructure for water, electricity, roads, and airport services, and the lack of development, which are among the problems that hinder the flow of foreign direct investment into Iraq (Khoury S J & Wagner E, 2010).
- C. Iraq also suffers from great economic fluctuations and problems that negatively affect the work of multinational companies in it. Weakness in the public sector is among the factors driving foreign direct investment, and the lack of developed institutions and investment systems, such as a wholly-owned or jointly owned project (Ahmed Battal, 2018).
- D. Reconstructing what was destroyed by wars forces Iraq to borrow heavily and accumulate huge debts that weigh down its budgets, and this affects the cash flows resulting from foreign direct investment (Iraqi Parliament Research Center, 2015).

- E. The weakness of the banking system in Iraq, poor banking and insurance services, and most of its operations are limited to basic consumer transactions. Seven public banks own 96% of the banking sector's assets, and there are 24 private banks, 19 foreign banks, and 19 Islamic banks in Iraq, but they are much less important and focus on business (United Nations Conference on Trade & Development, 2017).
- F. The absence of legislation and laws related to foreign direct investment in Iraq, the absence of laws that fully protect the rights of foreign investors, and the absence of specialized courts in foreign investment cases. Despite the legislation of the Foreign Investment Law No. (13) Of 2006 (ICSID, 2015).

### **3.6 The Foreign Direct Investment Strategy For Multinational Companies and The Expected Role For it in Iraq**

Iraq continues to improve the regulatory environment for investment and laying the foundations for political and security stability. A partnership strategy for foreign companies with local Iraqi partners must be adopted. This allows local partners to gain vital market knowledge, deal with regulatory requirements, provide labor and other inputs at competitive prices, and develop banking and legal institutions to ensure the success of the investment project. (IMF, 2016).

Multinational companies are important for the economic growth of developing countries often including Iraq. These companies and foreign investors are looking for natural resources, especially untapped oil and gas, which is an economic opportunity for the. (Asaad Zeravan, 2014).

The Iraqi economy is characterized by state control, but the development of the economy and society has had a significant impact and many laws and legislation be enacted that allow foreign companies. Iraq has an abundance of natural resources that can be targeted for foreign investment because it suffers from internal and external conflicts. In 2013, foreign direct investment inflows tripled, while outflows of foreign direct investment boomed in the same period by more than 67 times (Central Bank of Iraq, 2016).

Iraq needs the activity of foreign investors to preserve the economy, by increasing jobs and investing in infrastructure, after many years of devastation and pain. The new strategy in Iraq is based on building the existing state by transforming the planned economy into a free market economy (Al Ansary Khalid, 2018).

So, the new economic fundamentals of the good governance agenda not only include neoliberal policies such as privatization, liberalization, and fiscal and monetary discipline, but it also includes a new complementary set of institutional reform that promotes good governance (Jonathan Jones & Colin Wren, 2016).

Attracting foreign direct investment requires fundamental changes, such as creating a sound investment and regulatory environment, rebuilding damaged infrastructure, resuming relations with the international community, and moving to the rule of law. This provides a strong incentive for foreign direct investment to enter the Iraqi market that improves people's living standards (Irene Constantine, 2013).

In this context, many orders were issued as follows;

Under Order 39: Giving new laws to foreign investment, which turns public institutions into investment and the private sector in Iraq, and privatized more than 180 government institutions for private investment. Under Order 56: Orders were issued for the independence of the Central Bank of Iraq. Under Order 64: Abolition of restrictions on companies. Under Order, 94: Foreigners working in Iraq that are suitable for local banks own the formation of private banks (World Bank, 2011).

Besides, develop an investment strategy for the oil sector, which is one of the most important factors attracting this investment and the establishment of investment projects by multinational companies' exploration and development. This sector has huge reserves of global reserves, representing 10%, and there are other undeclared quantities in Iraq, and the costs of extracting oil in Iraq are considered low due to its proximity to the surface of the earth. The rate of oil flow in Iraq is constantly increasing and the price of oil extraction in Iraq is estimated at \$ 7 while the price of oil extraction in other countries is \$ 20 (NIC, 2015).

Therefore, the Iraqi oil sector is profitable regardless of its global price and the lack of alternative energy sources for oil. Infrastructure and basic services, such as electricity, water, power, bridges, etc., should be improved to attract foreign investment into Iraq. Overall, Iraq represents a good opportunity for foreign companies (World Bank, 2013).

### **3.7 The Reality of Foreign Direct Investment in Iraq**

Iraq today desperately needs to enter foreign investment in all economic sectors, especially after the decline of real economic sectors and the deterioration of basic infrastructure. Therefore, it was the duty of reforming the Iraqi economy according to modern economic bases, investing its resources fully, diversifying its sources, encouraging the private sector and developing it, and encouraging investments in different sectors. The State reserves the right to manage strategic sectors such as oil and gas through state-owned or controlled companies (VV AA, 2011).

Iraq attracted foreign investment during the years 2007-2017. Most of the investments were in the oil sector, especially after the Iraqi Ministry of Oil signed licensing rounds agreements with international companies. Disputes with the Ministry of Oil or the Iraqi government, which secured their rights in their contracts and licenses, unlike other investments (Alessia Azzutti, 2016).

However, this number decreased after 2014 due to the poor security situation in Iraq. Investments and national capital began to reverse migration from Iraq to other countries, which amounted to (2028) million dollars for the period 2008-2017. The main indicator to measure the importance of foreign direct investment in the domestic economy is the ratio of foreign investment to total fixed capital formation.

Besides, the contribution of investment in increasing the formation of fixed capital. This leads to an increase in the volume of the gross domestic product. Growth investment is the best way to promote the Iraqi economy. Despite the actions taken by Iraq and many reforms affected economic and political development. The liberalization of the economy and the new internal competition system between the Iraqi provinces (IFC, 2012).

Changing the institutional and economic framework to suit economic globalization. Affect the flow of foreign direct investment and became a preference for foreign capital, creating new opportunities. In addition to these foreign inflows, the gap between the rich and poor provinces, the inequality, the existence of religious and ethnic divisions, and social dispersion has been deepened. This investment has been directed to foreign political and economic interests.

Leading to a weak internal political and economic balance, especially after regime change in 2003. These companies are an important event for the host country Iraq, and the government must support the work of these companies because they promote economic development (Jonathan Jones & Colin Wren, 2016).

Multinational companies are promoting the expansion of the volume of shopping by increasing their exports as they sell their goods in the host country. This needs new marketing outlets and in turn, leads to the need for employment and it reduces the rate of unemployment in Iraq (Paolo Maggiolini, 2013).

Also, for Iraq, their presence remains neglected despite the factors influencing attracting foreign, direct investment, which is largely available in Iraq. Such as natural and buried resources, and foreign investors looking for these natural resources.

However, Iraq has not succeeded in attracting a large amount of this investment and limited to a limited number and a little of this investment (Iraqi Parliament Research Center, 2015).

Because of the political, security, and environmental conditions of business and foreign investment. Iraq's position on foreign investment is weak relative to other economies in neighboring countries. It decreased from 152 in 2009 to 165 in 2013. There are many reasons for this decline, among which is that Iraq is classified among the most corrupt countries, especially in the public sector. High unemployment and low level of education live at least 25% of the population of Iraq underlines Poverty despite the large income obtained from the sale of oil (Bertelsmann Stiftung, 2012).

Although Iraq has taken several steps to attract foreign direct investment. Its investment climate remains a challenge given that the political and security situation is unstable (UNCTAD, 2003).

Despite the significant improvement and political risks to foreign, direct investment more dangerous than security concerns. The international rating agencies and guarantee that the investment climate in Iraq is negative and classified under the level of investment. Because of its almost total dependence on oil and sovereign debt and the weak banking system and corruption. The volume of investments entered into and out of Iraq is very low compared to other countries in the region. So weaknesses must be addressed (VV AA, 2011).

### **3.8 The Importance and Justification For Iraq to Resort to Foreign Investment**

International agreements related to this investor. Providing and improving the investment climate in the host country, and eliminate corruption and mismanagement, supporting this investment, and providing financial services, Like Tax policy.

The country's position on privatization. Granting appropriate investment incentives to both parties. Achieve the efficiency of low-cost assets resources, inputs, and an intermediate good. Market policies and structure (especially competition, mergers, and acquisitions).

Market factors such as market size, growth rate, access to global markets, and per capita income Provide skilled and unskilled labor with suitable wages. Foreign direct trade policies (tariffs, national protection policy) interdependence of investment. Providing technology and innovations.

Provide Transportation and communication. Provide raw resources Labor laws and standards of dealing with branches of foreign companies. Facilitate business Provide appropriate social requirements Post-investment services (Goswami G G & Haidar S, 2014).

### **3.9 Investor Obligations**

Investor obligations: The Authority shall grant the investment license upon a request submitted to it by the investor following concessional conditions prepared by the Authority.

The following: - Fill in the application form prepared by the authority and available on the website. Financial efficiency from an accredited bank. Projects are, undertaken by the investor inside or outside Iraq. Details of the project to be invested in and economic feasibility. Timetable for the completion of the project. (Jordan E Toone, 2013).

#### **3.9.1 Privileges Granted to Investors**

Exemption of capital, profits, and revenues resulting from investment from all taxes and fees throughout the life of the project, including the establishment and construction. The project.

Exempting the wages of foreign workers from taxes and allowing their income to be diverted out of Iraq. Iraqi workers are 50% of their wages. Exempt from income tax. Exemption of goods and raw materials imported and exported from all taxes and fees except those exported to the country. Entry and exit of foreign currencies or dealing with them within the free zone shall not be subject to any restriction or condition.

Allowing investors in the free zones to open accounts in certain banks that are fed in foreign currencies. Granting investors a temporary entry privilege for their cars according to the needs of the project. Granting the right to waive investment, enter a partner, or remove a partner (UNCTAD, World Investment Report, 2014).

#### **3.9.2 Investment License Services**

1. Investor. 2. National Investment Commission. 3. Relevant sectoral entities and landowners. Investment license services.

The One-Stop-Shop at the National Investment Authority (NIC) assists investors in obtaining investment licenses. Creating investment opportunities. Coordinate with the relevant departments of the National Investment Commission and the relevant authorities to create a list of investments.

Opportunities for strategic projects. As well as small and medium enterprises. Logistic support. Supporting investors. Provide investors with market study and details of the economic climate. Direct investors towards centers and consultants specialized in economic and technical feasibility studies. Facilitate the process of entry of foreign investors to Iraq by obtaining entry visas and complete hotel reservations and movement from.

Besides, at the airport. Response from NIC to the investor within 45 days. Reply and answer from the relevant authorities to the National Investment Commission within 15 days (Qaiser Abbas, et.al, 2011).

### **3.9.3 National Investment Commission**

Investor Application Study. Feasibility study. Ensure legal issues. Obtaining the approval of the relevant authorities. To set up an investment project. Help the investor get in Land allocated for the establishment of the project. Relevant sectoral entities and landowners.

Economic and technical feasibility study for the project. Statement of opinion on the establishment of the investment project. Obtaining sectoral approvals: Working to obtain the approvals of the sectoral bodies on investment offers and technical and financial feasibility studies submitted by investors. Within the specified legal period (Jordan E. Toone, 2013).

### **3.10 Bilateral Iraqi Agreement**

Agreements signed with Japan-France-Germany-Belarus-Armenia-Kuwait-Jordan-Iran). In addition to the agreement with the United States on investment incentives.

Agreements negotiated with Russia, the Czech Republic, the Netherlands, and Italy. Agreements to be negotiated with: Canada - China - South Korea – Turkey – Austria – Slovakia – Poland - Spain – Portugal – Romania – Lithuania – Indonesia – Vietnam – Lebanon – Oman - United Arab Emirates – Egypt - Bahrain - Bosnia, and Herzegovina - Macedonia.

### **3.11 Multilateral Agreements to Which Iraq has Acceded: MIGA Investment Guarantee Agency**

World Association of Investment Promotion Agencies for the year 2002. International Center for Settlement of Investment Disputes between States, Citizens, and Other Countries. The Unified Agreement for the Investment of Arab Capitals in the Arab Countries. Agreement on the Promotion, Protection, and Guarantee of Investments among the OIC Member States. Agreement with the Arab Corporation for the Guarantee of Investment and Export Credit for the year 3231.

Cairo Convention for the Settlement of Investment Disputes in the Arab Countries for the Year 6000. Oman Arab Convention for Commercial Arbitration for the year 3223. United Nations Convention on Transparency in Treaty-based Investor-State Arbitration.

### **2.12 The Various Agreements to Which Iraq Will Accede**

New York Convention of 2023 on the Recognition and Enforcement of Foreign Arbitrators' Judgments

### **3.13 Memorandums of Understanding**

**First:** Memorandums of Understanding signed. Memorandum of Understanding for Cooperation with the Arab Corporation for Guaranteeing Investment and Export Credit in Kuwait. JCCME 6.

Memorandum of Understanding with the Japanese Cooperation Cent.  
Memorandum of Understanding with the General Authority for Investment and Free Zones in Egypt. Memorandum of Understanding with the Korea Trade and Investment Development Agency.

**Second:** Memorandums of Understanding are not signed. Memorandums of Understanding are not signed. Memorandum of Understanding with the Pakistan Investment Authority.

Memorandum of Understanding with the Greek Investment Corporation.  
Memorandum of Understanding with the Romanian Center for Trade and Investment. Memorandum of Understanding with Sri Lanka.

### **3.13.1 Safe Investment Zones in Iraq**

The National Investment Commission has formulated a strategy for investment zones in Iraq in cooperation with the Middle East and North Africa Investment Program of the Organization for Economic Co-operation and Development. Also, set laws and procedures to protect investment and foreign investors in Iraq.

### **3.13.2 Safe Investment Areas**

- A. Investment area in Baghdad.
- B. Investment area in the province of Basra - Khor Al-Zubair area
- C. Investment area in the province of Babylon - Hittin region.
- D. Investment area in Anbar province.
- E. Investment zone in the middle Euphrates between Najaf and the holy cities of Karbala.
- F. Investment area in the province of Nineveh.
- G. Investment area in Diyala province new Iraq camp (Irene Constantine, 2013).

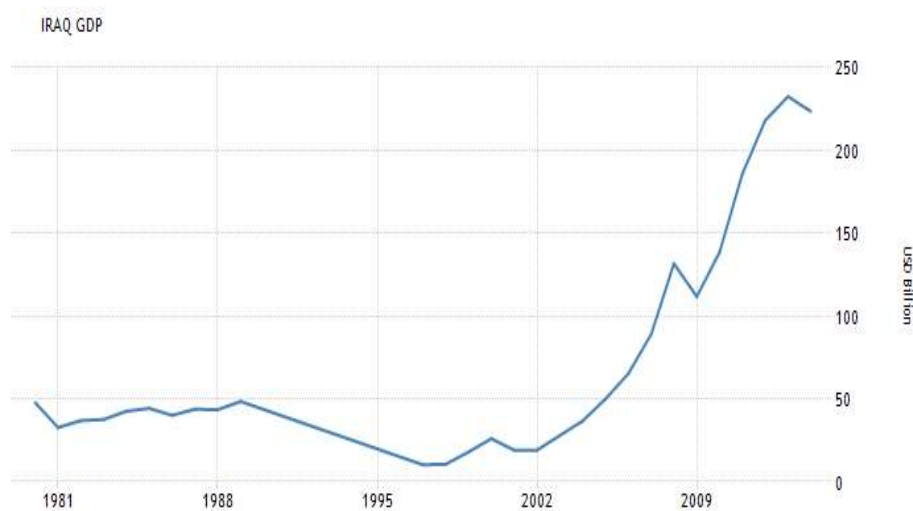
### 3.14 Some of the Macroeconomic Variables on Iraqi Economy

This study explains several components of the Iraqi macroeconomy, the most important of which is the gross domestic product. It is possible to note that Iraq suffers from the weak gross domestic product, and the presence of a major structural imbalance in the growing relations between the market for goods and services and the monetary mass, which led to the imbalance of the relationship between GDP and income.

The Iraqi gross domestic product witnessed a sharp decline that it had not seen before, and since 1990, because of the comprehensive blockade and international sanctions on Iraq after the occupation of Kuwait (Goswami G G & Haidar S, 2014).

This decline continued until 1993 when it began to rise due to the application of the Memorandum of Understanding between Iraq and the United Nations (Oil for Food) that led to the flow of Iraqi oil to the international market, and production began to grow to a maximum in 2001.

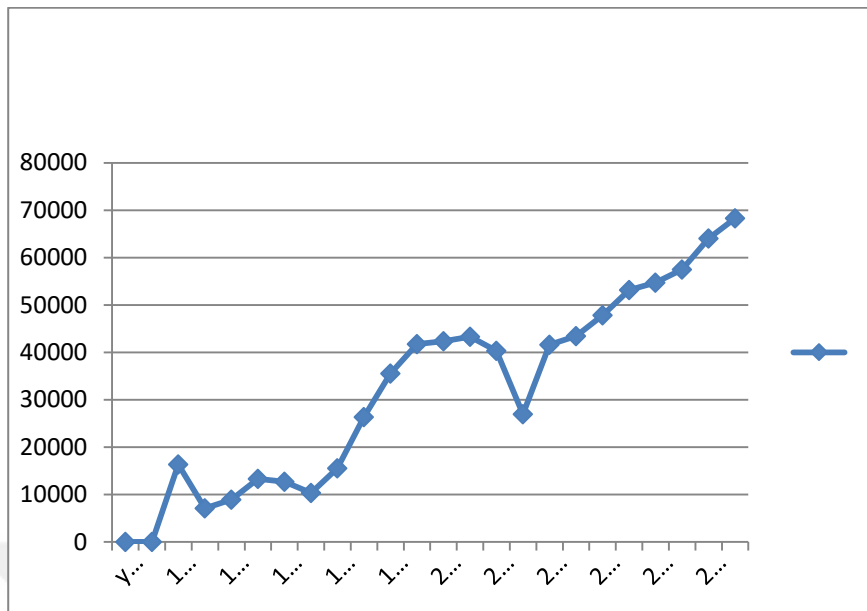
This increase is largely due to the oil sector, based on which the Iraqi economy dominates and depends only on it, but decreased in 2002 at an annual change rate of 6.9% (Qaiser Abbas, et.al, 2011).



**Figure 3.4:** GDP of Iraq -1980 – 2014 (Source: Central Bank of Iraq, 2016)

**Table 3.3:** GDP at constant prices in Iraq for the period (1990-2011) (Qaiser Abbas, et.al, 2011)

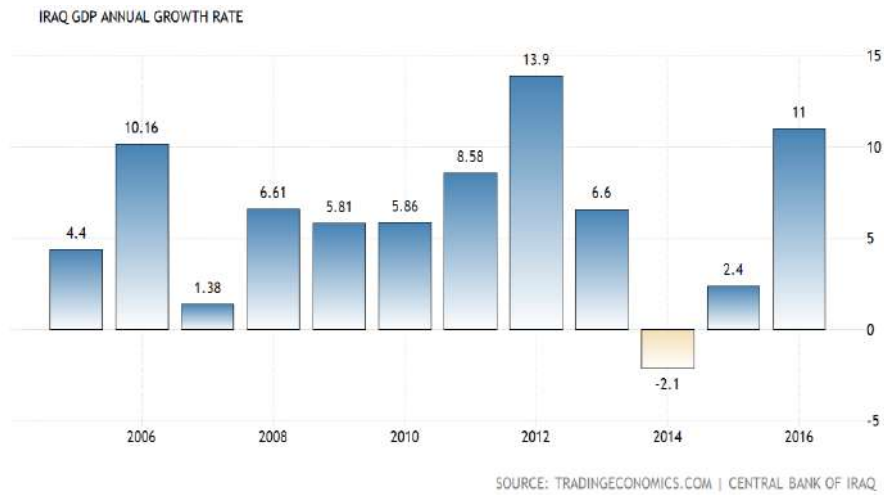
Year	Gross Domestic Product (at constant prices) million Iraqi dinars
1990	16373.4
1991	7134.8
1992	8964.0
1993	13318.4
1994	12703.4
1995	10376.8
1996	15527.8
1997	26342.7
1998	35525.0
1999	41771.1
2000	42358.6
2001	43335.1
2002	40344.9
2003	26990.2
2004	41607.8
2005	43438.8
2006	47851.4
2007	53205.2
2008	54720.8
2009	57495.9
2010	64081.7
2011	68285.8



**Figure 3.5:** GDP at constant prices in Iraq for the period (1990-2011) (Source: The work of the researchers, 2021)

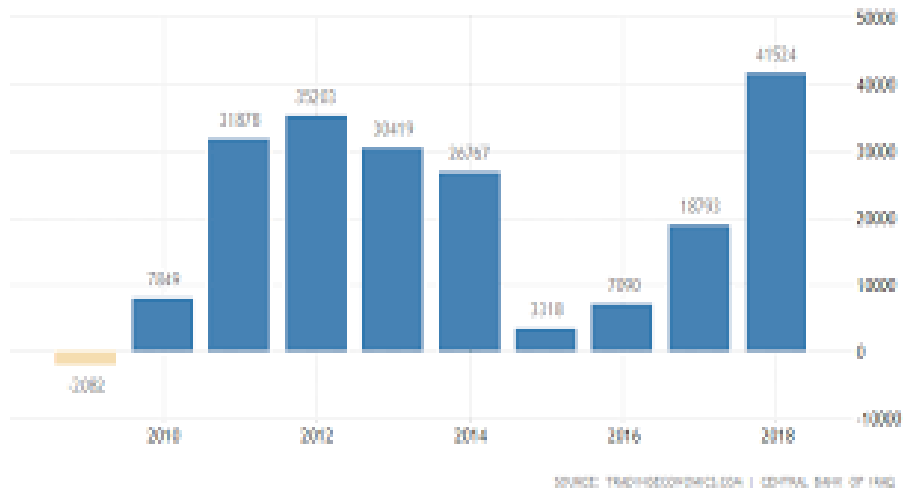


**Figure 3.6:** Iraqi GDP per capita, 2006-2016 (Source: Central Bank of Iraq, 2016)



**Figure 3.7:** Iraqi GDP Annual Rate (2006-2016) (Source: Central Bank of Iraq, 2016)

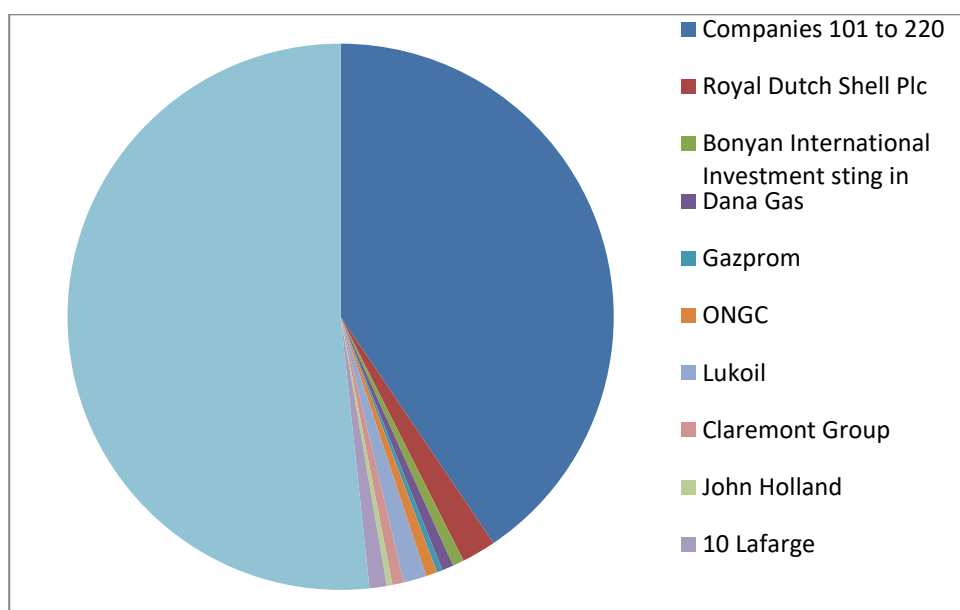
As for the rest of the other economically productive sectors, the contribution rate of these sectors to the GDP decreased, from 13.3% in 1990 to 0.33% in the following years. The decline in the rest of the productive and economic sectors resulted in a shock to the supply and price hikes on many commodities, which resulted in inequality between the flow of goods and cash. The gross domestic product continued between the rise and fall due to the fluctuating political and security conditions experienced by Iraq, and in 2018 Iraq witnessed significant development, as real GDP growth occurred by 0.6%, and this is due to the marked improvement in security conditions and high oil prices (R Greneir, 2012).



**Figure 3.8:** Iraq Balance of Trade 2010- 2018 (Source: IMF, 2018)

**Table 3.4:** Top 10 companies investing in Iraq 2003-2015 (IMF, 2015).

Top 10 companies investing in Iraq between 2003-2015				
Rank	Company	Projects	Jobs Created	Cost Million \$
1	Companies 101 to 220	120	35,077	43,767
2	Royal Dutch Shell Plc	6	1,631	6,727
3	Bonyan International Investment	2	3,875	4,676
4	Dana Gas	2	416	3,267
5	Gazprom	1	146	2,617
6	ONGC	2	2 816	2,300
7	Lukoil	4	651	1,865
8	Claremont Group	2	1,075	1,754
9	John Holland	1	875	1,676
10	Lafarge	3	3 1,507	1,200
	Other	153	10,208	1 1,378
	<b>Total</b>	<b>296</b>	<b>56,277</b>	<b>81,226</b>

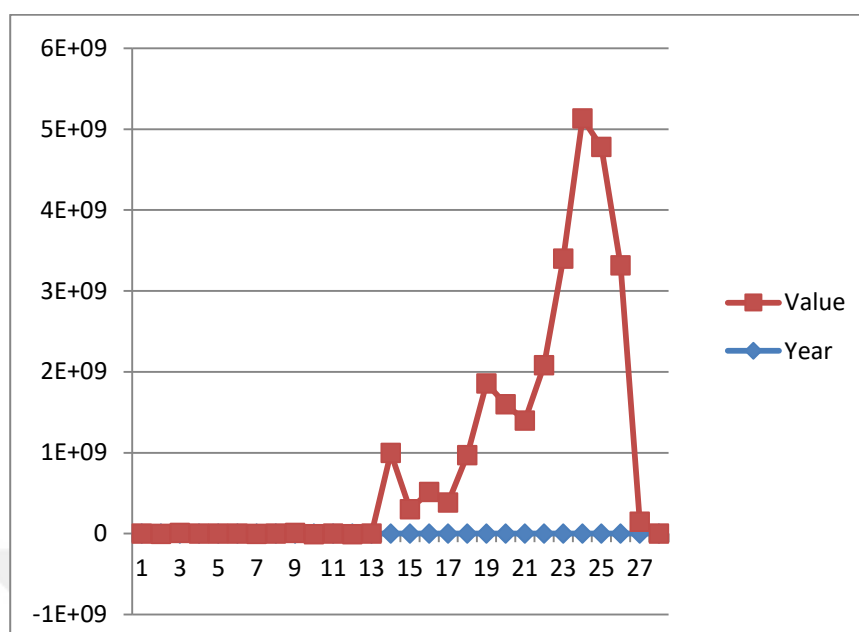


**Figure 3.9:** Top 10 Companies investing in Iraq between 2003-2015 (Source: The work of the Researchers, 2021)

Oil exports can be considered at present as one of the most important exports of Iraq, due to the turmoil of many economic sectors, especially the industrial ones, as exports are the engine of rapid economic growth, stimulating the growth of GDP, linking growth with trade openness, business development, strengthening the state's economy, and development finance, and economic growth (Christopher Foote, 2004).

**Table 3.5:** Foreign direct investment, net inflows (% of GDP) 2005 -2016 (Source: International Monetary Fund, 2016)

Year	Value
2005	\$515,300,000
2006	\$383,000,000
2007	\$971,800,000
2008	\$1,855,700,000
2009	\$1,598,300,000
2010	\$1,396,200,000
2011	\$2,082,000,000
2012	\$3,400,000,000
2013	\$5,131,400,000
2014	\$4,781,800,000
2015	\$3,316,300,000
2016	\$146,400,000



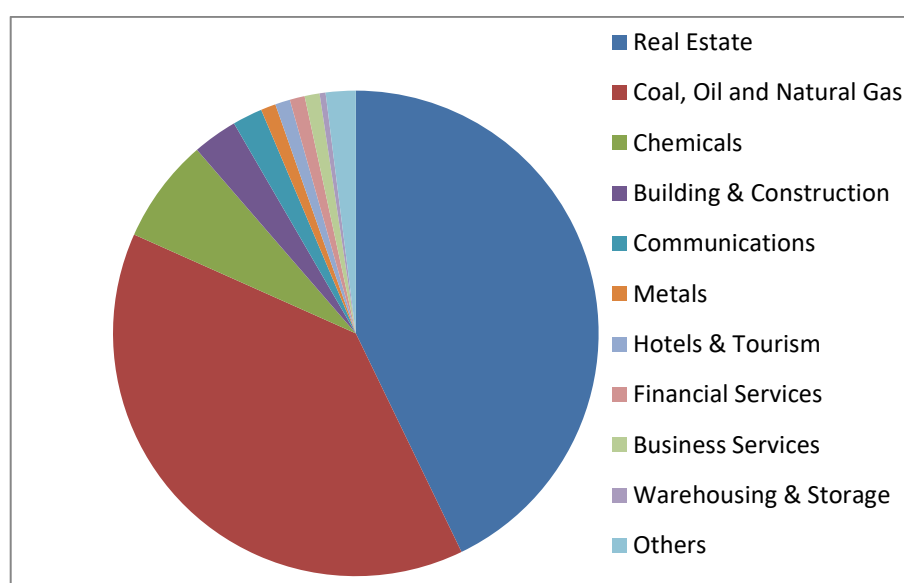
**Figure 3.10:** Foreign direct investment, net inflows (% of GDP) 1996 -2016  
(Source: the work of the researchers, 2021)

A trade surplus is achieved when the country's exports are higher than its imports, and most countries, including Iraq, seek to increase these exports by selling domestic production surpluses in the markets of other countries to achieve a surplus or balance in the trade balance (Afaf Abdul J Saaed & Majeed Ali Hussain, 2015).

A country that achieves a trade surplus because of increasing its exports contributes to solving the problem of economic recession, which is a major economic problem. Besides, other economic sectors witnessed a rapid rise and recorded a growth rate of 4%. Also, several trade agreements were signed with neighboring countries. Besides, start normal reconstruction. Although Iraq has taken several steps to attract foreign direct investment. Its investment climate remains a challenge given that the political and security situation is unstable. Despite the significant improvement and political risks to foreign, direct investment more dangerous than security concerns. The international rating agencies and guarantee that the investment climate in Iraq is negative and classified under the level of investment. Because of its almost total dependence on oil and sovereign debt and the weak banking system and corruption. The volume of investments entered into and out of Iraq is very low compared to other countries in the region. So weaknesses must be addressed (VV AA, 2011).

**Table 3.6:** Inward Investment in Iraq by the sectoral distribution between 2003 - 2015 (Source: Ahmad Battal, 2018)

Rank	Sector	Companies	Projects	Jobs Created	Cost (Million \$)	% of Total
1	Coal, Oil, and Natural Gas	33	43	9,941	34,612	43
2	Real Estate	17	18	25,094	31,899	39
3	Chemicals	3	3	3,017	6,009	7
4	Building & Construction	4	8	2,216	2,035	3
5	Communications	20	23	1,244	1,513	2
6	Metals	6	6	4,847	1,101	1
7	Hotels & Tourism	9	12	1,512	1,101	1
8	Financial Services	30	52	858	816	1
9	Business Services	46	51	656	445	1
10	Warehousing & Storage	4	4	636	321	0.4
	Others	60	76	6,256	1,376	1.376
	<b>Total</b>	<b>22</b>	<b>296</b>	<b>56,277</b>	<b>81,226</b>	



**Figure 3.11:** Inward Investment in Iraq by the sectoral distribution between 2003 - 2015 (Source: The work of the Researchers, 2021)



## CHAPTER 4

### INVESTIGATION OF ECONOMIES OF MENA COUNTRIES

The countries of the Middle East and North Africa are among the developing countries that suffer from instability. This region is characterized by the strong control of the state over the joints of local life, especially the economy, and the spread of severe corruption and the local factors are among the most important determinants that affect the flows of foreign direct investment in the Middle East and North Africa (Hatem Hatef Abdulkadhim Altaee, et.al, 2016).

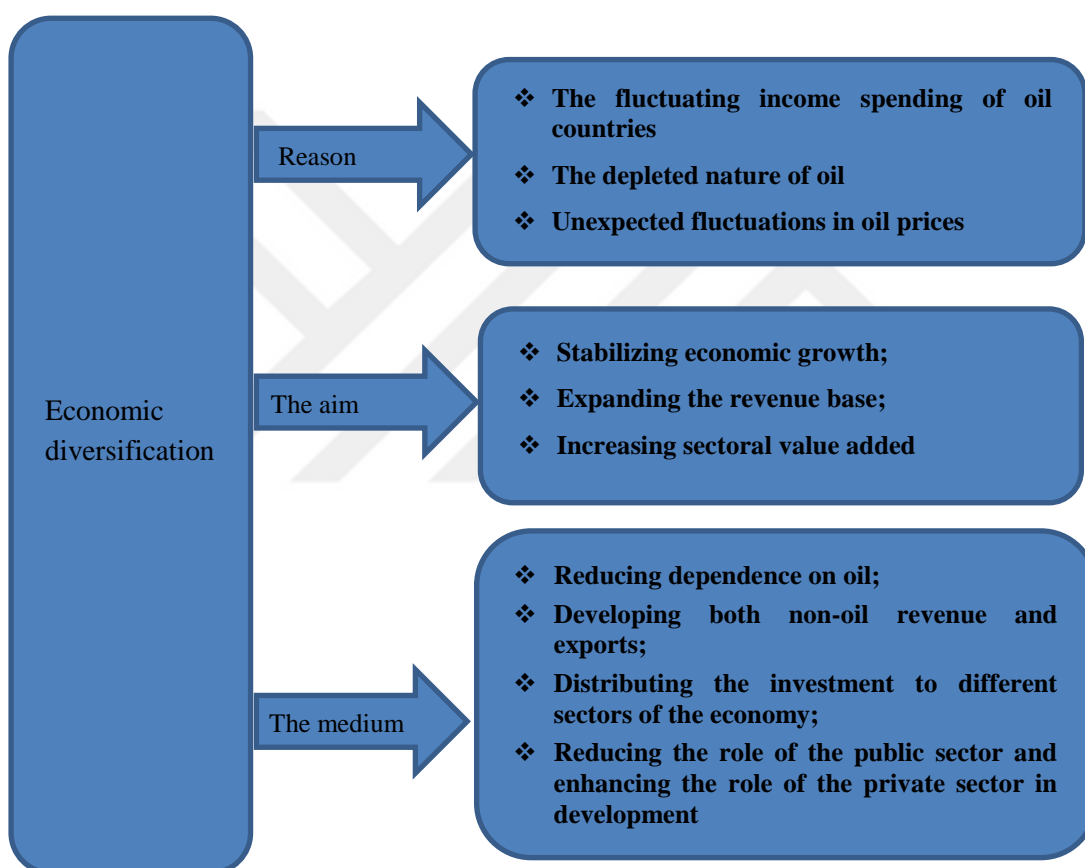
These countries suffer from a fundamental problem, which is financing. As there is a gap between the available funds and the actual need to achieve economic opportunities, as they suffer from the scarcity of resources necessary to achieve economic growth and economic development, and this situation threatens the opportunities to attract, inflows, and obtain foreign direct investment, and these risks constitute an important obstacle to this region in general (A Vindelyn Smith-Hillman & Maktoba Omar, 2005).

#### 4.1 MENA General

The Middle East and North Africa region need to implement bold and profound economic reforms, as it has been affected by the economic crisis, the situations these countries went through due to the change in their political activities, and the problems facing some of their countries, which greatly affected foreign direct investment coming into the region, in light of these circumstances (Dhakal Dharmendra, et.al, 2007).

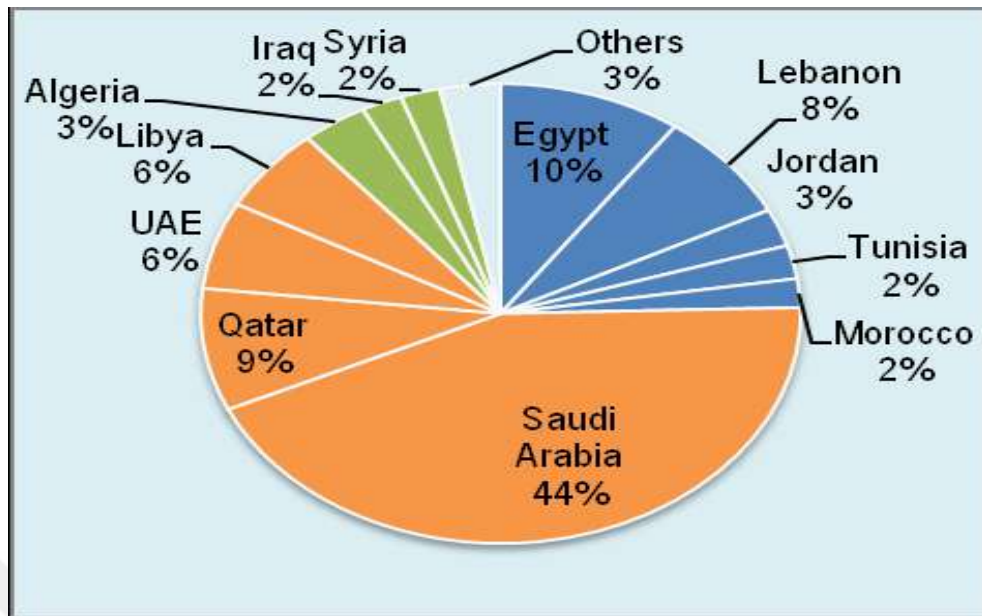
Although GDP growth in the region recorded 0.6% in 2019. It represents a small percentage of the rate required to achieve sufficient job opportunities to increase the working-age population, and even in countries that have experienced growth, the poverty rate has not decreased. To reform and promote fair competition and inclusive growth (Carlos & V Z Eddie, 2015).

The economic sector in the MENA region suffers from tangible risks, such as increasing global economic hardship and escalating geopolitical tensions. To attract foreign direct investment flows, it is necessary to move from the target economy to a market economy and find ways to protect fair competition, work to transform state-owned companies into joint-stock companies, encourage the private sector, and create equal opportunities between them (Brahimi L, 2007).



**FIGURE 4.1:** The Form of economic diversification in the oil countries (Sours: the work of the researchers, 2021)

Moreover, the countries of the region must focus on dismantling monopolies in their markets and harnessing collective domestic demand in their economies to achieve export sector-led growth at the regional and international levels (Federico Carril Caccia, et.al, 2018).



**Figure 4.2:** FDI Inflows to the MENA region in 2010 (Source: UNCTAD, 2011).

Foreign direct investment is an important source of economic development and improving the well-being of the host countries in this region by boosting growth, increasing GDP, and economic growth (Al Khouri R & Abdul Khalid U A, 2013).

Foreign direct investment is considered one of the main tools to achieve the goals of economic and social development, as it is considered one of the most important determinants of the growth path in the MENA region because it is one of the most important determinants of capital, which achieves expansion in the future (John C Anyanwu, et.al, 2016).

This investment is useful in boosting the growth of these countries' economies, as it helps it bring in more foreign capital, advanced foreign technology, develop local skills, and bring in local skills (Biru Paksha Paul, 2014).

It seeks the Middle East and North Africa, like the rest of the world, to encourage foreign direct investment through its decisions, and to provide incentives for multinational companies to work in their countries, and the building and the establishment of factories and local businesses because they offer many positive effects (Al Khouri R & Abdul Khalid U A, 2013).

This investment includes three main components, namely, equity participation, profit reinvestment, and inter-company loans. Foreign direct investment is carried out by multinational companies (the parent company), as they own the structures and assets in the host country, and these companies intend to privatize the companies that foreigners buy, or part of them in the host country for the investment, all this helps them to conduct the investment process abroad (Johannes Fedderke & AT Romm, 2006).

These investments are financed from owning funds, retained earnings, and loans obtained from parent companies or foreign or domestic institutions. Multinational companies are constantly striving to make their investments in countries where there are natural resources, suitable markets, and sufficient human resources to carry out the production process (Rodrik D & M S McMillan, 2011).

It is better for the countries of the Middle East and North Africa to mainly rely on foreign direct investment to obtain domestic financing, promote economic growth, achieve economic development, and encourage openness to this investment (Badr Osama M & Tahar L Ayed, 2015).

Some factors encourage the entry and flow of foreign direct investment and multinational companies into the market of one country but not another. Such as factors related to the host country market itself, and factors related to the host country's natural, human, and geographical resources. The extent to which the state seeks to achieve efficiency and quality in exploiting its wealth and attracting and expanding foreign investment (Johannes Fedderke & AT Romm, 2006).

At the same time, some reasons prevent the attraction and flow of this investment and these companies to a specific country, such as the instability of the political, economic, and financial situation of the host country, or the lack of acceptance of individuals, and the presence of such companies in certain areas without the others. All of this leads to a state of uncertainty in the host country, which affects the expectations of the foreign investor concerning future profits, which is the main goal of any foreign company or investor (Wong K Tang T, 2010).

The companies' dependence on external factors, such as trade openness and foreign direct investment in financing is accelerating and is important to strengthening the management of industry growth. Most countries have liberalized their fiscal policies to attract foreign multinational companies (MNCs); low incomes have opened up new sectors, and have introduced various forms of incentives to encourage foreign companies to invest in these countries.

These companies provide the latest technology to the future country as this investment affects the industries of other local sectors in addition to the industries these companies bring. The economy of the countries of the Middle East is diversified, as there are countries with a rentier economy that relies on producing and exporting oil, the other is a socialist economy, and the rest depends on free markets. In recent times, most countries in the region have sought to diversify their economies, and their economic growth has increased at a significant rate compared to other countries in the world, such as Iran and Turkey (Asiedu E, 2013).

The flow of foreign direct investment inside and outside developing countries has increased greatly in recent years, as these flows represent an ideal solution to bridge the savings gap in these countries, and in most cases, the flow of capital from a rich country to a poor country (Anis Omri, et.al, 2015.)

The scarcity of capital in the developing country increases its need for these funds, and thus increases the opportunities for foreign direct investment due to its need for foreign capital, as well as allowing foreign direct investment to control production and the flow of capital, technology, and assets owned by the company. Foreign direct investment has an impact on GDP growth, inflation, and exports and imports in the MENA region (Dhakal, Dharmendra, Franklin Mixon, & kamal Upadhyaya, 2007).

The gross domestic product is one of the most important indicators of the total economy of the country, as it reflects the performance, activity, and growth of this economy during a specific period, and the growth of this product is linked to an increase in domestic and foreign investment in the country (Nunnenkamp Peter, 2001).

This leads to the accumulation of capital for the state, increased exports, reduced imports, raised the standard of living of individuals, increased employment, reduced unemployment, and a higher rate of GDP growth for any country leading to social and political stability, economic growth and the advancement of health and education. (Mohamed Abd Elnaby & Mohamed Sallam, 2014).

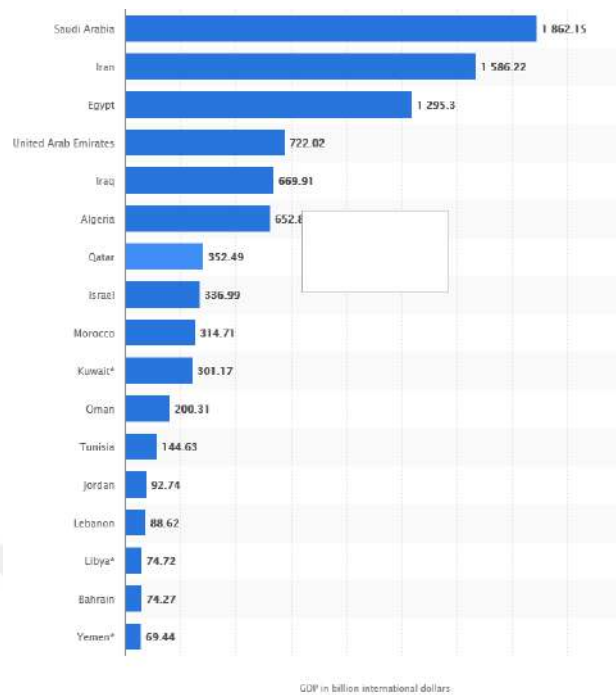
Gross Domestic Product (GDP) is the only measure or indicator used across the country to know the strength of a country's economy, and it is the monetary value of the sum of final goods and services that are produced within the country's borders in a given period.

We can determine the gross domestic product of a specific country by calculating it using different methods, as each country uses a different method that suits its economy (Shobhit Seth, 2019).

In general, GDP takes into account the value of goods and services produced within the country's borders, minus the values of both intermediate goods and services used in production. Likewise, the sum of personal consumption expenditures, private gross domestic investment, net exports of goods and services, government consumption, expenditures, and total foreign investment represent foreign-owned production within the state's borders (Mohamed Ibrahim Mugableh & Mohammad Salem Oudat, 2018).

GDP can also be considered as a measure of the standard of living in a country, and it should be equal to per capita income, that is, it is an indicator to measure a country's economic strength and size. This output includes the sum of final goods and services produced in a specific period (Ahamad F Tanin & Z U Ahmed, 2010)

The gross domestic product is a measure of the standard of living in a country, and it must be equal to per capita income, as it is an indicator to measure the economic strength of a country and its size, in general, the growth of the gross domestic product (GDP). It is a measure of a country's general economic activity. This growth increases the welfare of individuals within the country, and the GDP allows us to know the economic reality and compare it with other countries. (Al Khouri R & Abdul Khalid U A, 2013).



**Figure 4.3:** MENA region: Gross domestic product (GDP) in 2018, by country (Source: <https://www.statista.com/statistics/804761/gdp-of-the-mena-countries,2020>)

About foreign direct investment, it affects the growth of GDP, as it is a major source of financing the country's economic activities. This investment and these companies bring the latest technologies to the receiving country, and this investment affects industries in other sectors in addition to their own. Most countries liberalized their financial policies to attract foreign multinational companies (MNCs), lowered entry barriers, opened up a new sector, and introduced various forms of incentives to encourage these companies to invest in these countries (Arbatli E, 2011).

Therefore, these countries in the Middle East and North Africa must work to improve their political and economic policies and to attract and encourage the flows of this investment. The outlook for the economies of the Middle East and North Africa region is unclear and needs reform in various fields. In light of the unstable political and social conditions and the conditions afflicting the Middle East and North Africa, the process of attracting foreign direct investment is considered weak compared to other developing countries (Geoffrey Jones, 2010).

The overall economy of this region shows that the GDP, revenues, and exports are heterogeneous and there is an irregular distribution of natural resources in it. It can be observed that the relationship and economic activity between this region and the rest of the countries are weak, except for those that import natural resources. Such as China, where there is a large commercial relationship between it and the countries of this region (Gedikli A, 2011).

There are 21 countries in the region, and they have a geographical location, a similar language, and close and similar common cultural relations. They possess about 45% of the global crude oil reserves and the total gas reserves, but they contribute a small percentage of about 6.6% of global trade in 2014. Due to technical and procedural obstacles that hinder regional trade, which is the reason for the contradiction in trade flows between the countries of the region (Bernard Hoekman, 2016).

The Middle East and North Africa region face many challenges and difficult obstacles, and it must find solutions to them, because it will impede economic growth in the long term, and it will not be able to attract foreign direct investment. Among these challenges are the deterioration and increasing security and political risks such as wars, coups, and revolutions, and the absence of a general or economic, financial policy, such as fluctuating economic growth, high unemployment rates, underdevelopment, the ineffectiveness of the public sector, and a weak financial sector (Aguilar S Aguiar Coraris et al., 2012).

In addition to the weakness of laws and legislations to resolve disputes, protect and secure this investment and the lack of appropriate tools for it. One of the most important and serious problems is the uncertainty in the region in particular and the global market in general. Because of these restrictions, countries in the region must find common solutions. Such as developing good plans and mid-and long-term strategic improvements. Work to encourage trade between the countries of the region. Seeking integration in the region's foreign direct investment activity. (Barka Ahmed Barka Kashtu, et.al, 2019).

Enacting laws and legislations appropriate for all countries, finding effective tools to implement these laws and legislations, combating corruption, and ensuring transparency. Create an effective financial and economic policy to attract foreign investment among them, such as reducing tax restrictions and transferring money and profits easily. Finally, improving the investment climate and the economic environment. Economic policies in the countries of the Middle East and North Africa are concerned with financial development and focus on it, but they do not concern or achieve economic development (Nasser Bouyahiaoui & Souria Hammache, 2017).

However, financial development follows the economic growth of the state, so the financial sector must be concerned with providing the necessary and sufficient resources to create new organizations and institutions working in the real sector, and to create new strong financial tools that contribute to economic growth, and then achieve financial development (Anis Omri, et.al. 2015).

High levels of public and external debt, investment in luxury infrastructures such as the internet and mobile phones, high unemployment rates, and high spending on reconstruction in war-torn countries in Iraq, Libya, Yemen, and Syria. Growth in this region is expected to improve, albeit slowly, in the future from 2.3% in 2019 to 2.8% in 2020. Economic reform, correcting financial imbalances, investing in basic infrastructure that promotes economic growth and sustainable economic development for the entire region (Federico Carril Caccia, et.al, 2018).

Increasing non-oil trade with other countries, working to diversify revenues, moving away from relying on oil only, creating jobs and eliminating unemployment, foreign direct investment in all sectors, and increasing cash transfers (Gammoudi Mounaa, et.al, 2016).

All this could bring the growth of oil-exporting countries to 2.2%, and reduce the budget deficit in the region to 3.1% of GDP in 2020. The region's current account is expected to register a surplus of 1.4% of GDP in 2020. In terms of foreign direct investment, it has increased, but in countries rich in natural resources (Imad Moosa, 2009).

Production in homes and non-marketing activities are not included in GDP, even if these activities increase consumption for individuals includes government investment, companies, and families in the housing sector and the consumption of durable goods (Debraj Kalyan Roka, 2019).

The second important variable is the rate of inflation, as the phenomenon of inflation is old, and it goes hand in hand with all economic systems. Inflation is a threat to economic activity in any country because of its negative effects such as reducing savings, reducing investment rates, contributing to the inequitable distribution of wealth, and reducing the rate of economic growth (Emmanuel Amoah, et.al, 2015).

Inflation is an important and major cause of the country's weak economic growth. Inflation has a strong relationship with macroeconomic stability, growth, and the efficiency of any country and this relationship is reversed, which means that stability and growth lead to lower inflation, which is a measure of macroeconomic efficiency (Patrick Enu, et.al, 2014).

Inflation is a dangerous phenomenon if it rises to a high rate, it has a negative impact, as the higher the inflation rate, the greater the uncertainty and risks, and it leads to a decrease in the attraction of domestic and foreign investments. Increasing the rate of inflation beyond what is specified for it will create a state of economic depression, and the continuation of this increase will lead to an economic recession (Salem an Al Jundi, 2012).

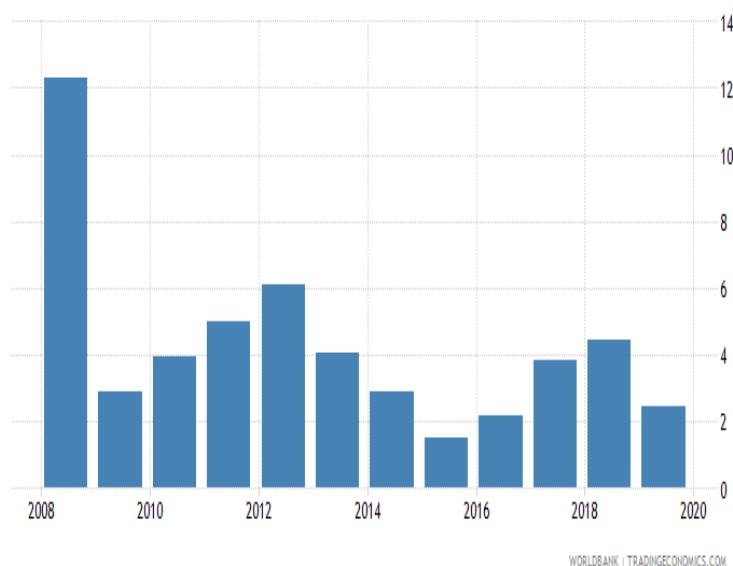
Inflation is linked to the increase in the prices of goods and services in the country's economy, and this rise will continue for a specific period. Rising prices increase the purchasing power of the country's domestic money.

Therefore, plans and policies must be found to reduce the rate of inflation. The inflation rate can be in several ways, including using the general consumer price index to determine whether this rate is acceptable or not, as many countries put an annual inflation rate between 2 and 3% to maintain stability and economic growth, and if the rate is more or negative.

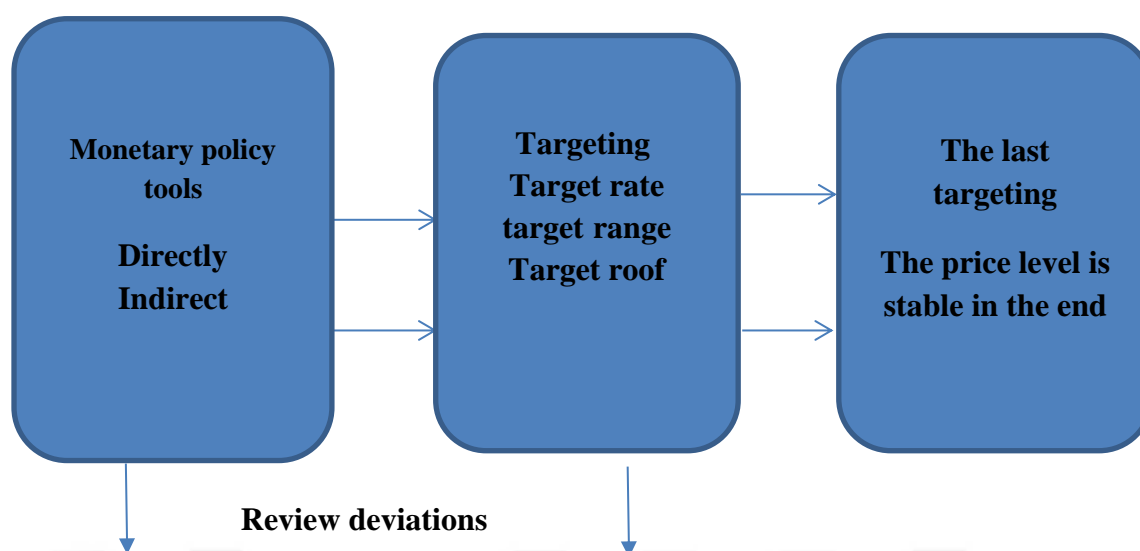
As is the case in many countries, it turns into a major economic problem that can lead to deflation and then to an economic recession. In this case, the government should intervene to find a solution to this problem (Watling Jack, 2017).

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**Figure 4.4:** Inflation, consumer prices (annual %) in the Middle East & North Africa 2008-2020 (Source <https://tradingeconomics.com/middle-east--north-africa-developing-2020> )



**Figure 4.5:** Central banks strategy to target inflation Outlook (inflation forecast  
(Source: The work of the researcher, 2021)

There are internal and external economic factors in the country that affect the rate of inflation, as inflation is greatly affected by these factors. The degree of this influence depends on the nature of the economy and the degree of openness to the outside world. Since increasing this openness increases the influence of external factors, reduces the influence of internal factors, and vice versa, as the country's economy is less open to the outside world, the influence of external factors decreases, and the influence of internal factors increases (World Bank, 2013).

Demand is rising faster than the aggregate supply level due to multiple factors, such as government deficit-funded spending, and the expansion of money supply in an inconsistent manner with the development of the aggregate supply of goods and services. Inflation has many negative economic effects, as it harms the competitiveness of the national economy, production, and trade. Inflation is a dangerous phenomenon for the country's economy, especially if its rates are high. It is known that the general rise in prices leads to the loss of the national currency.

The depreciation of the local currency, that is, the loss of money to its position as a valuable store, that is, the decrease in the value of money and the weakening of individuals' confidence in the local currency, reducing its purchasing power, and increasing prices (E Amoah E N Yarko & K Asare, 2015).

Inflation leads to an increase in consumer spending and their unwillingness to save, especially cash, which is matched by an increase in in-kind savings such as the provision of goods, gold, or foreign currencies. Venture capitalists are pushing to invest abroad to get rid of high inflation (Andersson Fredrik N G, 2011).

## **4.2 ME Countries**

Open economies with development prospects; attract more foreign direct investment than closed markets with highly regulated economies. These investments are beneficial to the country's economies because experienced investors find their way into the market to expand, expand the market, and improve their competitiveness.

This leads to various benefits such as improving efficiency, developing the economy, introducing new skills and technologies, transferring knowledge, creating job opportunities, raising the standard of living, achieving cooperation, and providing joint employment opportunities between foreign companies and local companies (Asiedu E, 2013).

Moreover, the host country should study potential areas for foreign direct investment, develop appropriate investment laws related to foreign ownership of foreign companies, and a law to protect small domestic companies from foreign investors gaining market share (Dhakal, Dharmendra, Franklin Mixon, and kamal Upadhyaya, 2007).

### **4.2.1 The kingdom of Saudi Arabia**

The Kingdom of Saudi Arabia is the largest free-market economy in the MENA region. It accounts for around 44% of the total investment in the region. The Kingdom maintains a 25% share of these countries' GDP combined. Oil is the backbone of the Saudi economy and ranks second in the world in oil reserves and first in production and exports (Ahmed Al Darwish, et.al, 2015).

It possesses 25% of the total world oil reserves and possesses natural resources of industrial raw materials and minerals. Its economy ranks third globally, and the larger global economy in terms of total reserve assets, and third globally in current account surplus, and its economy ranks among the 20 largest economies in the world, seventh among the G20, and 26th globally in the global competitive standard (Khalid an Alkhatlann K, 2013).

The Kingdom's economy follows a system of market mechanisms based on supply, demand, and competition. There are no restrictions on foreign exchange operations, or the number of merchandise imports, except for the few commodities that are not imported for legitimate reasons or are related to national security and the protection of the public health of citizens (Driffield Nigel & Chris Jones, 2013).

The Kingdom has been an important source and main source of foreign direct investment in the MENA region, as it aims to reduce the dependence of its economy on the oil sector, pay attention to the private sector, and increase its contribution to the GDP from 40% to 65% (Khalid an Alkhatlann K, 2014).

Saudi Arabia has carried out many major economic reforms and has taken tactical steps, using all Saudi and foreign economic energies, taking advantage of foreign investment opportunities, achieving economic growth, and good economic development (Samya Beidas-Strom, et.al, 2011.)

The growth and percentage of these sectors increased to 80% of GDP, and because of this rise, the phenomenon of stagnation in the Saudi economy was eliminated in 2017. In 2019, the growth rate of GDP slowed to 0.4% due to OPEC regulators cutting Saudi oil production (An Alodadi & James Benhin, 2015).

As for the other sectors, the GDP is fixed. The strong international openness of the Kingdom's economy and the marked easing of restrictions on goods, services, and assets. In addition to the local causes, the most important causes of inflation. The phenomenon of inflation is a major problem in the Kingdom, as the inflation rate is high at around 3.6% (Alhamad S H, 2014).

Due to the increase in total demand compared to the total supply in the increase in salaries and wages of workers, the growth and expansion in the money supply, the

increase in the level of prices of goods and services, the increase in government spending, and the application of the value-added tax (Nazer Y, 2016).

To get rid of this phenomenon or control acceptable rates, the Saudi government has taken economic measures that limit the money supply, create a policy of pricing the local currency against foreign currencies, government oversight over the private sector and import activity, and a policy of tax exemptions (Sana Naseem, 2018).

#### **4.2.2 The United Arab Emirates**

The United Arab Emirates is one of the richest Arab countries, as its per capita income is among the highest in the world and its surplus is high. Its economy relies mainly on oil, and it has modernized its economy, and it is one of the most important centers of the global economy (Abu Dhabi Chamber of Commerce & Industry, 2008).

Its economy is characterized by an open and dynamic economy that depends on the diversification of its resources and its advanced and sustainable infrastructure. It occupies an advanced economic position, has distinguished relations with the countries of the world, and is suitable for global investment (Daniele Schiliro, 2019).

It is one of the largest economies in the developed world today and is considered one of the most diverse and growing economies, a strong economy, one of the largest economies in the Arab world, and the second economy after Saudi Arabia. The Arabian Peninsula. The UAE seeks to diversify the contribution of its economic sectors. This diversification is important to achieve better economic performance, reduce its volatility, and help achieve sustainable economic development and may contribute to reducing the unemployment rate and providing local job opportunities, as the majority of the country's workforce consists of foreign and Arab workers (Badr Osama M & Tahar L Ayed, 2015).

The policies of the UAE aim to be a country with a modern economy that focuses, uses research and development, and advanced technological innovation to achieve growth in its economy (Department of Economic Development, Abu Dhabi, 2009).

Also, work to achieve diversification of the economy. Among its goals is also to transform its economy into a knowledge-based economy that competes in the global markets with skill and diversity, as it is considered one of the most countries in the region in attracting foreign investment of all kinds (UAE Ministry of Economy, 2012).

In 2012, the investment sector contributed about 31% of the output, and sectors such as industry, tourism, and trade contributed about 21% of the GDP, as the growth rate of GDP increased by about 4.7% despite the global economic crisis of 2009 (Krane J, 2012).

In 2012, the investment sector contributed about 31% of the output, and sectors such as industry, tourism, and trade contributed about 21% of the GDP, as the growth rate of GDP increased by about 4.7% despite the global economic crisis of 2009 (Schilirò Daniele, 2012).

The UAE economy has achieved successful performance due to the diversity of policies supporting growth, the resilience of the national economy, and the continued government spending (Emirates Competitiveness Council (ECC), 2011).

As its policies are based on expanding the activities of various sectors such as construction, tourism, transportation, and retail, as it achieved growth in the non-oil sectors in 2019 (IMF, 2019).

### **4.2.3 Qatar**

The economic growth of the State of Qatar depends on the oil and natural gas industries and ranks advanced in terms of average per capita GDP. As it has a high level of per capita income and is not subject to tax, and its tax rate is very low compared to other countries, as it is the richest country in the world (according to Income per capita) in terms of GDP per capita, and purchasing power parity.

Its corporate law states that a Qatari citizen maintains 51% of any project in the country, and has foreign direct investments, worldwide (Al-Khatib M A, 2011).

The Qatari economy has shown great strength, as it suffers from the blockade and the severing of economic and financial relations with some countries of the Arab Gulf Council, but it was able to overcome these problems and achieved an increase in the level of growth of its economy. These improvements are due to several reasons, including structural reform policies that the Qatari government has set up to confront the blockade such as achieving macroeconomic stability. (Qatar Central Bank, 2019).

Qatar followed structural reform policies to achieve macroeconomic stability, encourage local manufacturing, improve the environment for domestic and foreign public and private investment, and pay attention to foreign trade. It is ranked seventh in the world, and the oil sector is the main sector in the economy, as it contributes to more than 70% of the total government income General Secretariat for. It is also the third-largest reserves of natural gas in the world and the second country that exports it worldwide and is trying to be among the first countries in the region to invest (Ibrahim & Frank Harrigan, 2012).

#### **4.2.4 Sultanate of Oman**

It is one of the countries with a small area and has established its Basic Law, whereby the national economy is based on justice and the principles of the free economy, and it has put in place effective plans to diversify its economy at a time when it seeks to be an advanced and economically strong country. Due to its possession of many mineral resources, it has achieved growth in GDP, good income per capita, and job creation for Omanis, as the real GDP of the Sultanate of Oman increased by 2.2% in 2018, but this rise did not continue, as the growth of GDP decreased. The contractions decreased by 1.1% due to a decrease in fuel production in mid-2018 (Al Khouri R & Abdul Khalid U A, 2013).

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Sultanate of Oman increased by 2.2% in 2018, but this rise did not continue, as the growth of GDP decreased. The contractions decreased by 1.1% due to a decrease in fuel production in mid-2018.

The continuous diversification of economic activity led to an increase in the growth of the non-oil sector, as it achieved a growth of 1.5% in 2018 as a result of economic reform policies and supportive activities in the main sectors, and this sector has continued in recent times, reaching about 4%. As for the inflation rate in the Sultanate, it recently reached 0.8% and is expected to increase at greater rates in the coming years. (Federico Carril Caccia, et.al, 2018)

#### **4.2.5 Bahrain**

Bahrain is home to many multinational companies, revenues based on many major industrial projects, and its economy is considered the fastest growing in the Arab world, and is characterized by an advanced degree with complete freedom in the Middle East region. Also, it ranks first in the world, agriculture contributes 0.5% of total production in Bahrain, and the sector grew by 0.2% annually in 2019 (Hamdi Helmi, et.al, 2014).

As for the economy, economic growth, in 2019, it achieved an annual growth of 2.7% in the expansion of Malaysia's inflation rate in 2019 of 3.3% by the imposition of the value tax. It has a high unemployment rate, which is an economic problem in the end (Dhakal Dharmendra, et.al, 2007).

#### **4.2.6 Kuwait**

Despite the small size of the State of Kuwait, it possesses natural resources and huge oil reserves, and has generated a financial surplus in the annual budget due to high oil revenues, which constitute 80% of government revenues, and ranks fifth in oil production (Al Khouri R & Abdul Khalid U A, 2013).

It ranks second in the Middle East in terms of economic identity and is keen to reduce dependence on oil imports and encourage non-oil investments.

It is considered one of the richest countries in the world and has a very high economic power compared to the countries of the world, and ranked 11th in the world in terms of per capita income in 2013, which is the second Arab region in terms of per capita income (John C Anyanwu, 2011).

Kuwait witnessed an increase in the influx of foreign direct investment in 2004, as the trade surplus decreased, and spending on imports related to infrastructure increased, as the Kuwaiti government established many infrastructure projects.

However, it is still underdeveloped compared to the Gulf Cooperation Council countries, where foreign direct investment flows into it are low compared to the countries of the Gulf Cooperation Council, as the overall movement of foreign direct investment is low (Nasser Bouyahiaoui & Souria Hammache, 2017).

Moreover, the sector is overburdened with investment firms, some of which are involved in non-investment activities. Sectors, where foreign direct investment is not permitted, are the extraction of crude oil, natural gas, vital product manufacturing, and real estate activities, except for urban development projects, your security sector, and investigation. After the global financial crisis (Federico Carril Caccia, et.al, 2018).

The performance of the Kuwaiti investment sector witnessed a general decline, and there is a lack of confidence in companies and investors in the market, their unwillingness to take risks, and their dissatisfaction with regulations and bodies, with the emergence of the problem of mismatch between assets and liabilities (Baek K Qian X, 2011).

#### **4.2.7 Syria**

Economic activity in Syria has maintained its performance despite the difficult conditions that the country is going through due to improved economic policies. The Syrian economy is characterized by an open market, but its economy declined significantly due to the Syrian crisis, and it shrank by 20% during 2013, with the

destruction of the necessary infrastructure, and weak foreign direct investment in Syria (Driffield Nigel & Chris Jones, 2013).

Syria made efforts to improve the level of performance, increased the value of foreign trade and foreign direct investment, and put in place appropriate economic policies to deal with new economic variables, and the percentage of foreign investment inflows reached about 11% in 2006 (Brahimi L, 2007).

Syria encourages foreign direct investment, launched the Greater Arab Free Trade Zone, established free industrial zones and cities, and liberalized services within this zone at the level of joint Arab action. Activating the Investment Court, concluding a capital investment agreement for Arab countries, free trade, and concluding bilateral agreements with Arab and foreign countries (Mihaela Peres, et.al, 2018).

The Syrian economy supports the private sector and investment and easing trade restrictions, which has resulted in increasing technological progress and reducing the costs of attracting investments and making them more profitable. Developing the infrastructure, amending laws, and improving the procedures required for an investment to attract foreign investors, granting incentives such as tariffs, customs fees, and tax deductions (Tintin Cem, 2010).

Despite these measures, the Syrian investment climate suffers from weakness, and the presence of administrative obstacles to investment, such as red tape, bureaucracy, imbalance in the implementation of laws, the long period of implementation of projects, and the difficulty of preparing official investment permits and obtaining licenses (Baek K Qian X, 2011).

#### **4.2.8 Lebanon**

Lebanon is distinguished by its commercial investment economy, and it has global investments and trade relations spread all over the world, and Lebanon represents about 37% of the region's investments, and it is characterized by a high percentage

of skilled workers equivalent to the level of European countries and the highest among Arab countries (Badr Osama M & Tahar L Ayed ,2015).

#### **4.2.9 Jordan**

The Jordanian economy is a knowledge-based economy that is on the path of educational development, privatization, and continuous economic liberalization, with economic restructuring to ensure the path to a knowledge-based economy, and has achieved economic growth of about 10% and this is a good percentage. Its economy depends mainly on the service sector, trade, tourism, and some extractive industries for its ambition to transform into a knowledge-based economy (Buthiena Kharabsheh & Ahlam Aldaher, 2020).

The Economic and Investment Council set the following policies, and some companies operating in Jordan were privatized, including liberalizing the economy, stimulating growth, and raising the level of per capita income. Free trade lines were opened with more than one Arab country that owns a large number of industrial zones, and it worked to revitalize the money market and trade. Real GDP grew by 2.0% in 2019, which is the main driver of the economy and supply, while the services sector contributed 1.4%. Jordan depends on natural resources, water resources, and oil imports for energy, completely. (Critchlow A, 2009)

The instability of the region surrounding Jordan is among the main obstacles facing the Jordanian economy and the growth of GDP. The industrial sector contributes 0.3% of the GDP while the agricultural sector contributes 0.2% (Hussain Ali Bekhe & Raed Walid Al Smadi, 2017).

#### **4.2.10 Yemen**

The Yemeni economy is weak and underdeveloped, the government depends on international aid, the economy is mostly rentier, despite the scarcity of oil resources, and it is one of the worst economies in the world, according to the Corruption Report 2013 issued by Transparency International (Sasi, 2016).

The economic outlook for Yemen is vague and largely dependent on the political and security situation. The violent conflict in Yemen has disrupted economic activity and caused damage to infrastructure and a huge loss. (Brahimi L, 2007)

Yemen suffers from worsening inflation and an increase in the prices of local goods and services. The unemployment rate among university graduates is 54%, which is a high percentage compared to other countries (Sarbjit Chaudhuri & Ujjaini Mukhopadhyay, 2017).

Although the overall economy has improved slightly recently thanks to increased hydrocarbon production. The economy is growing at slower rates, well below the rates needed to rebuild or meet human development challenges. In 2012 saw good GDP growth of 2.4% (167 out of 177 (Badr Osama M & Tahar L Ayed, 2015).

#### **4.2.11 Turkey**

Turkey ranks eighteenth in the global economy and the first among emerging markets and is characterized by a dynamic diversified economy, an emerging market, and a modern global industrial country. The Turkish economy enjoys a consistently high annual growth and an increase in the rate of privatization (Barry Eichengreen, et.al, 2013).

The Turkish economy ranks nineteenth in the world, as both nominal GDP and real GDP are ranked 13 as measured by purchasing power parity according to the sum of the gross domestic product and the nominal GDP. The country is ranked 17th in the world (Karahan Özcan, 2016).

The most important sectors that contribute to the GDP are the industrial sector, which constitutes about 29.5%, and provides job opportunities for 33.7% of the total workforce, and the service sector constitutes about 58.5%. Annual growth rates continued to rise to about 6.8% in 2002. This diversity has achieved an essential development in the economic structures of Turkey, which enabled it to find a global place in production, industry, and trade among the rest of the world (CBRT, 2018).

In addition to achieving rapid development in the rate of production growth, it is concerned with the production of products with high benefit, which is a necessary goal that Turkey sought to achieve local products (Daniel Gros & Can Selçuki, 2013).

After 2001, Turkey achieved remarkable economic growth and established a strictly regulated financial system, which improved its per capita GDP (Erdal Karagol, 2013).

However, the dependence of the Turkish economy on foreign funds had negative effects on the continuation of this growth. As well as, bearing a large financial burden because this financing imposed a high real interest rate (Aysu İnsel & Fazıl Kayıkçı, 2012).

Turkey has taken many measures, including restructuring its real sectors and working on the participation of these sectors in achieving economic growth. This led to an increase in foreign direct investment with an increase in inflows and contributed to the rise in Turkey's GDP. It is characterized by an increase in its population, the majority of whom is young, has succeeded in reducing the unemployment rate to 9.1%, which is below the average for European Union countries (Mustafa Kutlay, 2015).

The relationship of foreign direct investment and trade is a positive one, and the import and use of requirements for the production of goods and services provided by this investment have a positive effect on imports. Turkey suffers from a budget deficit, with increasing inflation and external debt, and this was the reason for the devaluation of the Turkish currency (Barry Eichengreen, et.al, 2013).

The Turkish economy suffered from a recession in the second half of 2018, against the backdrop of the currency crisis, however, in 2019, a development appeared in the Turkish economy after the rise in private and public consumption. There has been growth in credit and expansionary fiscal policy, and the growth rate has increased to 0.9% annually in 2019 (Mehman Karimov, 2019).

Turkey suffers from a set of negatives and problems. As the growth of the Turkish economy depends heavily on the growth of the Turkish Balance of Payments (BOP) (Ömer Açıkgöz & Asli Günay, 2020).

That is, the Turkish economic performance depends greatly and directly on the flow of international capital. This led to a decrease in the gross domestic product in the period of the (Covid-19) epidemic, which the whole world suffered (Ümit Akcay & Ali Rıza Güngen, 2019).

#### **4.2.12 Iran**

The Iranian economy is diversified, and the production sector is one of the most important and diversified sectors, and the oil and gas sector constitutes the largest proportion of the economic structure, as it contributes a large percentage of government revenues, and it is the main pillar of the state's exports (Institute of International Finance, 2014).

Iran has the fourth-largest oil reserves and the second-largest natural gas reserves in the world after Russia, and its economy is characterized by the manufacturing sector, as it depends mainly on oil and natural gas exports, which represent 70% of government revenues (IMF, Iran, 2011).

In 2011, Iran ranked first in the world in scientific growth and was one of the fastest-growing countries in the field of telecommunications at the global level, but the sanctions imposed on it in 2011 reduced this growth. (IMF, Iran, 2012).

Iran has a strong public sector that makes up 60% of the economy, is directly managed by the state and centrally planned, and has significance in the global trade of commerce. The Iranian economy deteriorated due to the sanctions, the inability of foreign companies to enter the Iranian market, and lost foreign investment in all sectors and its currency recorded a sharp decline in its value (IMF, Iran, 2015).

The impact of the sanctions was not limited to the oil sector, but on the non-oil sectors as well, shrinking by 0.9%. These economic sectors (industry, services, and agriculture) contribute 83% of the GDP (Eman El Sherbiny & David Wood, 2015).

Iran has international economic relations with China. It is the largest buyer of Iranian oil, as China is an important investor in the Iranian market. Russia is also a staunch economic and political ally, and many Latin American countries import Iranian oil (Central Bank of the Islamic Republic of Iran, 2015).

Iran has suffered from rampant corruption among its various institutions, and it suffers from the control of the security services that are controlled by religious parties, who control the government and most aspects of political, economic, financial, and social life. And this is the most important challenge facing foreign companies and foreign investment of all kinds to work inside Iran (IMF Iran, 2014).

### **4.3 North Africa Countries**

Globalization, liberalization, and openness of the economy and the process of trade contribute to an increase in the flow of international capital in large quantities, which has economic and non-economic impacts in all countries in which it invests in the long term. These investments look for countries that enjoy political, economic, and social stability, where the degree of risk is low (Babatunde, 2011).

They also look for countries that have advanced economic and productive structures. If the host country does not possess these elements, and even if it grants concessions and large exemptions, it will not be able to attract this investment (Nadia Lemzoudi, 2005).

Africa has great natural, human and material investment potentials, which could enable it to occupy a strong and high position to attract this foreign direct investment, however, and this investment has not been directed to these countries until the present time (Sebastian Tocar, 2018).

Nevertheless, the entire African continent gets a lower rate of foreign direct investment flow compared to its assets, as the foreign investment rate is 0.6 percent annually of the total global foreign direct investment.

There has been an increase in the rate of foreign direct investment coming into Africa, due to the abundance of natural resources there, the most important of which is oil (Nadia Lemzoudi, 2005).

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The distribution of foreign direct investment flows has changed dramatically between these countries, as investment flows to them increased after 2015, and these investments are nowadays the main source of foreign capital for most countries, due to the advantages they provide (Baek K Qian X, 2011).

Foreign direct investment is the direct contribution of the foreign investor to the capital and management of the company, in the investment host countries. That is, flows of capital invested by foreign companies into facilities for producing physical goods in receiving countries. These are long-term flows of foreign direct capital.

Foreign direct investment is linked to an increase in new investment flows, which constitute an important engine for increasing the rate of economic growth and thus increasing job opportunities for members of society. Foreign direct investment is an important means for the advancement of the national economy if domestic financial resources are scarce in these countries. (John C Anyanwu, 2011)

African foreign direct investment represents 0.2% annually, at a rate of 3%, compared to foreign direct investment in developing countries, which is a small percentage. Many reasons and risks that reduce the attractiveness of these investments in North Africa, in general, suffer from instability due to the instability of the economy in this region (Ahmed Jafari, et.al, 2011).

This could lead to capital losses and losses in the assets of foreign companies due to their inability to implement their contracts with the host country. And the frequent armed conflicts that destroy the material side of the investment, in addition to high tax rates (Jonathan Jones & Colin Wren, 2016).

Therefore, North African countries must improve their political, economic, and social conditions, provide appropriate infrastructure, and work to modify their economic structures, and use foreign direct investment as a way to avoid customs restrictions (Cleeve Emmanuel A, et.al, 2015).

#### **4.3.1 Egypt**

The Egyptian economy is one of the oldest economies in the world, and it has witnessed significant economic development and reform. It is one of the most diverse economies in North Africa, and the sectors of agriculture, industry, tourism, and services are almost involved in it. Equal proportions in its basic composition, as the economy depends mainly on agriculture, Suez Canal revenues, tourism taxes, cultural and media production, and petroleum exports. Egypt represents about 37% of the investments in the countries of the region. (Badr Osama M & Tahar L Ayed, 2015).

Given the importance of this investment, Egypt, like other developing countries, sought to attract investments, implement the economic reform and structural adjustment program, grant these investments concessions and tangible improvement in the investment climate, and the sustainability of investment policies was achieved as a result of the state's efforts (Baek K Qian X, 2011).

And it removed restrictions and obstacles before the foreign investor, permitting the ownership of lands and projects and transferring profits according to his request, and issued laws, guarantees, and investment incentives. Foreign direct investment helps grow the economy, has an important role in economic development, and helps bridge the savings gap. Where the need for funds for economic growth and economic development became necessary after the major change in the global economy (Adel El Sherif, 2004)

Egypt depends on foreign loans with interest, and because these loans constitute one of the debt burdens in Egypt, so relying on these investments is better than loans. This investment creates jobs in Egypt, brings new technology, and develops production. The volume of this investment has increased in Egypt compared to

North African countries, where it ranks second in Africa, and represents about 20% were multinational (K Malec, et.al, 2016).

Many factors and difficulties face the flow of foreign direct investment to Egypt, as it faces a problem in increasing its share of global investments, and its investments are volatile and unstable, as the volume of foreign direct investment develops during some periods and then decreases in other periods. The rate of real foreign investment flowing into Egypt has decreased due to the absence of the general investment climate, the high-interest rates, and the absence of independent institutions that undertake the process of encouraging foreign direct investment within it. However, at the beginning of 2019, the rate of GDP growth increased to 6% and this rise continued until the beginning of 2020, but this growth began to slow significantly due to the epidemic containment measures. (Khoury S J & Wagner E, 2010).

#### **4.3.2 Tunisia**

The Tunisian economy is characterized by diversity, as Tunisia borders the Mediterranean and mediates between the African and European continents, and does not exceed the share of each sector of the GDP, such as mining, manufacturing, tourism, and others (Ezzeddine Mosbah, 2015).

The government is heavily involved in and controls the operations of the economy, and recently this intervention began to limit the trend towards privatization and began to achieve economic growth at a low inflation rate. Tunisia ranks 128th in global economic freedom or about 55.8 globally, and 14th in the Middle East and Africa region, which is a very good percentage compared to the rest of the countries in this region (Mohammed Bayouhd, 2012).

Thanks to its economic policy, it has maintained internal economic differences. Both the diversified production sector and the service sector's contribution to GDP, with a GDP growth rate of 3.5% per year in 2008. The main factor in this economic growth was tourism and trade revenues. In 1998, the partnership with the European Union concluded trade barriers, liberalization of the Tunisian economy, improved

infrastructure performance, and a shift to privatization (R & Abdul Khalid U A, 2013).

It accomplished economic reforms, especially economic liberalization, and the improvement of the investment climate. Its economy has achieved a growth rate of over 5%, and the inflation rate has decreased to 3%, which is a good rate. The internal and external financial balance was maintained, and the current deficit was limited to about 2.6% of GDP (Babatunde, 2011).

Despite the above characteristics and measures, the Tunisian economy has suffered from a major recession and a decline in domestic and foreign investment in it. There are productive economic structural problems, including inefficiency in financial markets, goods, and services (Ezzeddine Mosbah, 2015).

Tunisia has been interested in attracting foreign direct investment and has made it a goal that it seeks to achieve, and it has provided many determinants that facilitate the flow of this investment. Laws regulating foreign direct investment were enacted more than 20 years ago to develop the export sector, create jobs, and take advantage of advanced technology in the industrial sector. Signs of foreign direct investment began during the 1970s and increased in the early 1980s due to its activity. Achieved economic reforms, especially economic liberalization, and the improvement of the investment climate (IMF, Tunisia, 2020).

### **4.3.3 Algeria**

Algeria has enormous potential to boost its economic growth and has seen an expansion of 4% from 2.8% in 2013. It aims to diversify the reforms needed for the structural transformation of the economy. The development strategy aims to achieve stronger and sustainability. Its economy is based on the oil and gas sector, which accounts for a high percentage of the GDP, around 70%. It is a major resource for the state (Farah Elas Elhannan, et.al, 2018).

Algeria seeks to change the structure of the economy and develop a strategy aimed at creating a diversified economy in addition to the oil sector, efficiently managing

national resources, setting a policy to improve economic growth, and achieving sustainable development in its economic growth. The growth is mainly attributed to the oil and gas sector, which is the main source of income and constitutes about 70% of the total budget and about 97% of total exports (Hors série & juin, 2012)

The Algerian economic performance continued to develop and was strong, as there was growth in all sectors, especially the non-oil sectors, as the industrial sector contributed 61% annually of the gross domestic product; the services sector contributed 31% annually of the GDP, and the agricultural sector 8% per year from. As well as for the involvement of the private sector in various economic fields and the important role in achieving economic growth and economic development. Laying down plans and policies to attract foreign investment in various fields and sectors, and encouraging the creation of a flexible investment work environment (Nadia Lemzoudi, 2005).

#### **4.3.4 Libya**

Libya suffers from difficult political conditions, wars, and conflicts that affected the growth and recovery of its economy, despite the growth that occurred because of increased oil production and the recovery period, it averaged 17.3% in 2017 (Nasser Bouyahiaoui & Souria Hammache, 2017).

The structure of foreign direct investment in it is limited-to-limited sectors such as oil, which is the largest sector that attracts foreign direct investment. However, the volume of these investments in non-oil sectors is weak below the level of ambitions, and the amount of investment available is not commensurate with Libya's untapped potential in the economy (Al Khouri R & Abdul Khalid U A, 2013).

Because of the inadequate investment environment, which suffers from administrative regulatory burdens and bureaucracy, institutions are still controlled by the government, and privatization is slow at its beginning. Moreover, the quality

of the infrastructure is inadequate and still suffers from underdevelopment and shortages in much of it. Although the official authorities in Libya try to provide some data and information, they remain below the required level. The financial market suffers from a major defect and needs reforms, despite its large size and purchasing power. The flow of foreign direct investment into the production sector and achieving economic development and the use of modern technology is the main factor in achieving a positive impact on the Libyan economy (John C Anyanwu et. al, 2016).

Its economy suffers from a decrease in the volume of foreign direct investment inflows compared to some developing countries, and these flows fluctuate from year to year. The GDP slowed to a rate of 5.5% in 2019. Suffered from high inflation, but due to government policy, the inflation rate has decreased to 7% annually in 2019. The central Libyan government-imposed fees on hard currency transactions while facilitating access to the foreign currencies needed to pay basic import rates. It started with an economic reform program, such as opening its economy, liberalizing capital movement, liberalizing trade and foreign direct investment, and easing or eliminating restrictions, administrative procedures, and decisions (IMF, 2019).

Rehabilitation and expansion of the infrastructure to accommodate foreign direct investment activities. And developing laws and legislations that encourage foreign capital investment, facilitate the acquisition of assets through foreign companies, and protect the rights of foreign investors (Al Khouri R & Abdul Khalid U A, 2013).

#### **4.3.5 Morocco**

Morocco is a developing country with a market-oriented economy with a strong presence of public authorities in investing and directing economic policies, and its economy enjoys stable and low inflation rates. The Moroccan economy ranks fifth in Africa, and it is the sum of the internal, circumstantial, and structural policies and factors that determine the economic reality in the contemporary era. It

redoubled its efforts to improve the economic and investment climate and followed a sound monetary policy that lowered the inflation rate to 0.6% annually, and the unemployment rate decreased slightly to 9.3% in the past years (Jonathan Jones & Colin Wren, 2016).

The Moroccan economy is strong and rich in natural resources and benefits from its geographical location close to European markets. All this has been achieved thanks to major political and institutional reforms, and it provides services with distinction, as value-added services amounted to 54.9% of the total output in 2013 despite the operation of other sectors (Khoury S J & Wagner E, 2010).

Its strategic location helps in attracting foreign direct investment that contributes to the production process, thus achieving a surplus in production that helps to export it to foreign markets. Foreign direct investment is a relatively new phenomenon, and before that period, inflows of foreign direct investment were relatively weak. The privatization option increased automatic inflows of foreign direct investment, entry of important foreign companies, and huge sums of investment. The success of the privatization process had a very important impact and positive motive, as it created a positive relationship and great trust between the foreign investor and the host country (Center Bank K Qian X, 2011).

This confidence rested largely on his reforms, and with the halt of privatization, the flow of foreign investment decreased, and the number of multinational companies invested in it decreased. It was characterized by remarkable record results, especially concerning foreign direct investment. It ranks second in Africa and first in the Maghreb in terms of attracting foreign direct investment. The government pursues a policy of privatizing some public sectors to increase their effectiveness and remove part of the burden it bears (Babatunde, 2011).

However, the economy still suffers from structural impediments, most notably the heavy burden of energy and public debt, and the impact of some sectors on circumstantial fluctuations (climate or external), with the persistence of deep structural problems such as social inequality, widespread poverty, unemployment, and corruption (Nasser Bouyahiaoui & Souria Hammache, 2017).

## CHAPTER 5

### FOREIGN DIRECT INVESTMENT COMPONENTS

The components of foreign direct investment are important matters that must be concerned with both the foreign investor and the host country, and the number of these components is often three, and they are necessary for foreign direct investment.

- A. Initial capital: - It is the amount of financing provided by the foreign investor to purchase a share in a project in a country other than his country of origin, provided that the shareholding percentage is not less than 10% of the project capital until this foreign investment becomes direct.
- B. The reinvested profits: - The foreign investor's share of the profits of his investments in the host country from the investment that has not been transferred to his country of origin. And reinvesting the profit into new investments owned by a foreign person (natural or legal). Then the volume of foreign direct investment becomes the sum of the initial contribution with profits reinvested within the same country.
- C. Long-term loans to the parent company on its subsidiaries or between branches of one company in several countries (Gauselmann A, et.al, 2011).

#### 5.1 Investment Climate

The investment climate is the total of the political, economic, social, legal, organizational, administrative, and cultural conditions in which the investment process takes place. This climate affects the success or failure of investment projects, the movement of investments, their trends, and investor decisions. It is also a set of policies, indicators, tools, components, and constraints that directly or indirectly affect investment decisions, and clarifies whether the host country encourages, attracts, and stimulates investment (Akame Afuge Junior, et.al, 2016).

The investment climate includes aspects that the investor deems necessary for the success of his investments, and suitable for carrying out his activities in the present and the future. The importance of the investment climate stems from its effect on attracting or expelling national and foreign investments, and it plays an important role in investment flowing into the host country. Therefore, different countries of the world seek to try to improve their investment climate with its various components to attract this investment in large quantities (Sufian Eltayeb Mohamed & Moise G Sidiropoulos, 2010).

The investment climate is considered a benchmark for comparison between countries, and many international standards and indicators define and measure the most important risks to investment (Bruce Blonigen A & Jeremy Piger, 2011).

As it enables foreign investors to determine the degree of risk of the investment climate in the country through these indicators when the return on investment in two different countries is equal, and the investment climate is the separation between them, so the investor chooses the economic climate. Where the political and social risks are lower, that is, the lower these risks, the better the investment climate, the greater the investment risks, the weak investment climate, and the isolation of foreign investors (Hayakawa K, et.al, 2013)

### **5.1.1 Investment Climate Components**

The concept of investment climate has developed recently, includes some economic, social, and political factors, and has become necessary to attract national and foreign investments and obtain investment opportunities. This climate consists of several factors that determine the suitability of the political, economic, investment, and legislative environment, the degree of attractiveness of investment, and the achievement of increased trade exchange in open it leads to an increase in the rate of economic growth and the achievement of economic development. Besides, lead to the prosperity of countries, and this climate is important for any developed or developing country (Emmanuel O N, 2016).

#### **5.1.1.1. The economic components of the investment climate**

It includes a group of elements that are indicative of the level of performance of the national economy and the most important of them .

Economic policy: This policy includes (financial policy, monetary policy, and foreign trade policy).

A. Financial policy:- Is the most important major economic tool, as it has effects on economic variables, as it affects actual demand, activity levels, employment, and the general level of prices. This policy affects the balance sheet, whereby the balance, deficit, or surplus is achieved for the balance sheet, where a large deficit leads to a large increase in the rate of inflation, and then severe deflation and the continuation of the high inflation rate lead to economic depression.\

Therefore, the fiscal policy must maintain a specific rate of the state budget deficit that does not lead to high inflation and does not lead to major deflation and recession (IMF, 2006).

B. Monetary policy:- refers to the planned change in the money supply to affect aggregate demand, and the monetary policy may be expansionary whenever its attractiveness for this investment increases by using appropriate monetary tools that are compatible with the change in the required economic activity and is characterized by stability or contraction. (Magdalena Radulescu, et.al, 2012).

C. The efficiency of the financial and banking system, the volume and quality of the services it provides. Sudden fluctuations in exchange rates harm the investment climate, as they increase the uncertainty in these investments, and the investor can reveal a large unexpected loss that the investor cannot control.

Regarding inflation rates, it has a direct impact on the policies of foreign direct investment flow, the size of profit, and the movement of capital, so the monetary policy must control the exchange rate and the rate of inflation (Khachoo A & Khan M, 2012).

D. The strength and growth of the local economy, which is considered one of the most important economic indicators that investors rely on in the investment decision-making process when the growth rate in the host country is stable and stable locally for a long time (Khan M & Akbar M I, 2013).

It is considered a driving force for a country's economy, the size of the natural resources available in the country, the degree of competition within the local market, and its ability to face external competition. (Nihal Bayraktar, 2013).

E. The direction of the economy in dealing with the outside world, and the absence of restrictions on the movement of trade or production elements to ensure economic efficiency and the absence of imbalances in these markets. Therefore, the higher the degree of economic openness in a particular country, the better the investment climate in that country (Hunya G, 2009).

F. It also affects the production costs of multinational companies, as the increase in inflation rates in the host country affects the profitability of the market and this rise contributes to the corrupt investment climate (Rădulescu M & N Dascălu, 2009).

G. Foreign trade policy contributes to improving the investment climate, stimulating and encouraging export-oriented investments. Therefore, restrictions that hinder this trade must be removed, flexibility should be provided, customs are reduced and transparent, appropriate tariffs reduced, and implementation procedures reduced without bureaucratic complications.

This policy has positive or negative effects on the current account, as the current account achieves a surplus if the foreign trade policy is good and sound and attracts new foreign investors or a deficit in the current account causes the alienation of investors and foreign investment in general (Elif Arbatli, 2011).

The high ratio of exports to the host country's GDP can be considered a measure of the degree of economic openness. As for its decline, it indicates a lack of economic openness that affects the investment climate (Adil Khan Miankhel, et.al, 2010).

H. Reducing costs as the foreign investor is interested in the cost of raw materials, labor and profit taxes, taking into account their availability in the host country, or they will be imported from abroad (Kok R & Ersoy B, 2009).

And the costs of the exchange rate of the host country's currency for the investment, and the extent of its stability or volatility, as foreign companies are affected by fluctuations in exchange rates and are attracted to the state when the value of its currency depreciates (Nihal Bayraktar, 2013).

#### **5.1.1.2 The non-economic components of the investment climate**

Some elements do not have a direct relationship with economic activity, but they affect it indirectly by facilitating economic work and providing a suitable work environment. Among these elements are the political system and security stability, as the stability of these conditions encourages the investor to increase his capabilities. Investments, attracting them to the host country and ensuring the future of their investments (Lee H, Biglaiser G & Staats J L, 2014).

The foreign investor may be subject to multiple legal and administrative procedures that are costly to obtain a license to practice his activity or pressure from local and regulatory authorities, restrictions on raw materials and production, or the local public opposes these investments. These factors affect the degree of openness of the host country, its acceptance or rejection of foreign direct investment, and the availability of clarity and transparency in economic affairs (Accolley Delali, 2003).

This encourages investors to invest in the country with a high degree of clarity and transparency to clarify their expectations for future investments. Investment legislation and laws, as the investment process includes many legislations and laws that affect it, such as property laws and financial laws.

And it is considered a tool for translating the investment policy of the state, and legislation and laws should be clear, flexible, and inconsistent. Indirectly, it focuses on foreign exchange, exports, and imports (Pondicherry H & Tan P H P, 2017).

Despite attention to legislation and laws related to this investment, most host countries place restrictions on ownership, transfer of profits, and freedom to import and export. It sets a ceiling for foreign ownership and investor control over project management is limited to undesirable matters for the foreign party and transferring investment profits to the country is partially or forbidden under specific circumstances, and this does not correspond to the primary goal of the foreign investor (Singhania M & Gupta A, 2011).

One of the most important non-economic indicators is the transition from traditional government to e-government that improves interaction with investors. It provides transparency in performance, reduces costs, simplifies procedures, and provides complete data and information about the political, economic, and social situation in the country.

Therefore, many countries have resorted to e-government to end their daily transactions because it saves time and cost and facilitates the business of investors (Geoffrey Jones, 2010).

At present, the digital economic climate has arisen, which is the age of the Internet and advanced digital applications that have begun to be used on a large scale around the world, through which millions of transactions are executed within minutes (Aguar S Aguiar-Coraris, et.al, 2012).

It provides commercial and investment opportunities despite the challenges facing electronic technologies and arbitration systems in commercial disputes, and investors are interested in arbitration systems in commercial disputes, and how to provide guarantees for their rights and privileges granted to them under the laws of countries (Echandi R, et.al, 2015).

### **5.1.2 Motives for Foreign Direct Investment**

The motives of the investor wishing to invest outside his homeland differ from the motives of the country wishing to attract and receive this investor, and we offer below the most important motives of the two parties:

A. The motives of the foreign investor.

- a) The nature of economic and commercial activity has a role in encouraging the investor to carry out his activity across national borders, providing suitable production, searching for suitable consumer markets for this product to market it, and directing production on time .(Nuno Crespo & Maria Paula Fontoura, 2007).
- b) Reducing the risks that the investor is exposed to through investing abroad if he encounters local competition threatening his activity and the continued existence of his company so that the company transfers its activity or part of it to another country or countries. Which is located. There is no intense competition (Miroslav Mateev, 2009).
- c) Foreign capital, as the foreign direct investor tries to distribute his investments in different countries and markets to reduce the negative repercussions of economic crises that may be exposed to one market (Kalman Kalotay, 2012).
- d) Protecting investors' markets and the desire to grow, expand, export their products to the markets of other countries, and establish projects and factories in them if they encounter local competition from an importer at a price lower than the company's price (Central and Eastern Europe, 2017).
- e) The increase in sales through the global market is large, as it consists of the markets of all countries that can be exported to, and the local market, regardless of its size, is very small when compared to the global market, and it helps in marketing the surplus production in the local market to the markets of other countries and reduce export costs (United Nations, 2018).

B. Host country motives to attract foreign direct investment:

- a) Foreign direct investment is one of the most important and best sources of financing, as it is easily accessible on simple terms. Foreign currency is supposed to flow into the host country, supplementing domestic savings to fund government development plans. (Central Bank of Ngo Phuc Han and others, 2017).

- b) Improving the balance of payments situation, as countries that suffer from a deficit in their balance of payments seek to attract foreign direct investment to get rid of this deficit, or at least to alleviate it in the short, medium, and long term (Rudra P Pradhan, et.al, 2012).
- c) Optimum utilization of natural resources in host countries that do not possess good productive capacities to enable them to exploit some or some of these resources. Therefore, this investment complements these productive capacities, which leads to the possibility of exploiting the largest possible amount of these resources.
- d) Optimal use of foreign financial resources, because foreign direct investment provides a high degree of economic wisdom in using financial flows and investing in profitable projects with high returns, and avoiding financing unprofitable or bankrupt projects (Steven Poelhekke & van der Ploeg F, 2010).
- e) Reducing the level of unemployment creates new job opportunities and reduces the unemployment rate, as the operation of new foreign investment projects requires a workforce, and the costs of this labor are often low in the host countries (Nunnenkamp Peter, 2001).

### **5.1.3 Characteristics of Foreign Direct Investment**

Foreign direct investment can bear and reduce the damages of the economic crises that countries suffer from time to time because it is less vulnerable due to the long-term planning that the foreign investor does in the host countries and bears the foreign financial and economic risk. This investment affects the macroeconomic variables of the host country, and this effect is either positive or negative and plays an important role in increasing the growth of the economy and contributes significantly to the economic development of the host country. Sometimes this investment poses financial and economic risks, and this depends on the political, economic, financial, and social aspects of the host country (Hayakawa K, et.al, 2013).

#### **5.1.4 Operational foreign direct investment for multinational companies**

The phenomenon of internationalization is the beginning of commercial capitalism and the beginning of the emergence of foreign companies.

The creation of a group of cartels and trusts in 1880 can be considered the first appearance of multinational corporations. (Douglas P S & Craig S C, 2011).

Because it is the basic beginning of the economies of capitalist countries. Multinational companies have worked to distribute production, marketing, and assembly activities in different regions of the world (Riedl A, 2010).

After the Second World War, the United States of America became in control of international investments, the activity of these companies increased during this period, and the strategies of multinational companies appeared, and they were making their decisions in light of global developments (Edyta Gheribi & Nataliya Voytovych, 2018).

These companies continued their activities, but these companies in independent developing countries were exposed to the risks of nationalization, and this situation continued until the 1980s, when the attitudes of developing countries towards foreign investment changed, especially after the debt crisis, when they returned to deal with multinational companies. (Farah Elias Elhannan, et.al, 2018).

In the 1990s, the activity of these companies increased in the increase, especially after the emergence of globalization, and the exchange of goods, services, and capital across borders increased, and they diversified with the rapid technological development. Several giants from developing countries, such as China, India, and Brazil, have emerged among the largest in the world. At present, all developed and developing countries are working to obtain all types of foreign investment provided by these companies (Douglas P S & Craig S C, 2011).

## **5.2 The Main Features of Multinational Companies (MNC's)**

Multinational companies have many advantages that helped them form their strategies at the global level, as these companies began to play a fundamental role at the international level, and are present in developed countries, and in some developing countries that have achieved great economic and social progress such as China, South Korea, and Brazil (Hsiao F & Hsiao M, 2006).

Foreign companies have an important role in increasing the rate of economic growth, technology transfer, and improve the use of natural resources, increasing production processes, and encouraging competition with local companies. These companies enjoy substantial economic control, size, and power equal to or greater than the size and power of the host country for this investment, provide large-scale financing loans at reduced terms and encourage economic development (Nigel Driffield, & Chris Jones, 2013).

Large sums of money are used in research and development to create new products or production methods that enable them to obtain industrial secrets around the world. The (MNC's) is characterized by the concentration of senior management and the unit of the decision center, and they exercise central control over their branches around the world, and a strict system, and rely on a wide network of contacts to be able to communicate with its partners and branches and to develop strategies and policies quickly (Kok R & Ersoy B, 2009).

Most of the (MNC's) refuse to divide the group to achieve greater profitability due to the existence of indivisible profits and to preserve technology secrets that competitors may steal. They enjoy financial advantages and the availability of large financial resources and enable them to borrow on the best terms from the global financial markets because there is an element of confidence in the integrity and strength of their financial position. These companies are distinguished by the geographical spread and the multiplication of their products and marketing branches in a large number of countries. It has great potential, increased activity, greater revenues, oligopoly advantages, technological superiority, and technical and managerial skills that help it dominate the market (Bernard Hoekman, 2016).

It has administrative experience and technical skills that help it in the production process, which many host countries cannot provide without the help of these companies, and it is characterized by diversity in activities and products because it depends on the horizontal and vertical integration of one commodity (Qaiser Abbas, et.al, 2011).

Besides, we find that developing countries find it difficult to enter foreign markets, so the (MNC) helps the marketing of its products because it is often an exchange within the branches of the same company, especially in the field of natural resources (Hirsch S, 2012).

### **5.2.1 The Role of the Multinational Companies**

Multinational corporations represent one of the most important factors that have a role in the global economy and have been an important turning point in international economic activity. The number of these companies increased and their various branches in the world became a prominent phenomenon in the global economy, which had a major role in the policies of developed and developing countries (Macharia, 2014).

The role of multinational corporations in the global economy can be summarized through the following points:

A. Multinational companies have a major role in emphasizing the global character and a role in the mechanisms and components of the global economic system, as their main goal is a business development and the transition to the globalization of the economy (Jones G, 2010).

These companies were able to transform the world into a unified entity in which communications and information are available to all. It has achieved globalization and extended to all levels of production, finance, technology, marketing, and management, thus making it of a global nature (Hiranya K Nath, 2009).

B. These companies have a major role in international investment, as investments flow to different regions of the world

- C. These companies create new patterns of specialization and division of labor in countries as a result of the interaction and their role in global trade and international investment trends between industrialized and developing countries alike (Hirsch S, 2012).
- D. The role of these companies on the international monetary system, as they possess large liquid assets and international reserves, as they were able to play an active role on monetary policy and global monetary stability by controlling global financial markets and international institutions. (Gedikli A, 2011).
- E. It has an important role in the system and structure of foreign and international trade because these companies own a large proportion of the volume of international trade and sales, and high technology, and this is what made them possess many countries competing in global advantages in various industries and activities (Holmes R, et.al, 2013).

## **5.2.2 The Positive and Negative Effects of the Activity of Multinational Companies (MNC's)**

The activity of multinational companies has an impact on the home country and the host country, and it is often positive, although the primary goal of these companies is to maximize their profits, the host countries seek to attract this because they are aware of the benefits that can be reaped (Mustaf Sakr & Andre Jordaan, 2017).

### **5.2.2.1 Positive and Negative Economic effects of the activity of multinational companies (MNC's)**

Most countries are trying to attract multinational companies and offer them various incentives such as tax exemptions, reducing customs duties, and allowing these companies to transfer part of their profits home (Mustaf Sakr & Andre Jordaan, 2017).

It is allowed to specify a portion of the profits and capital for these companies to import the necessary materials and supplies without being subject to duties or taxes,

or to use a certain amount of the local production resources of the host country during the production process. These companies bring the necessary funds to carry out the investment and production activities that help achieve the economic development of the host country. They work to provide technical knowledge, scientific expertise, and technology without costing the host country large sums. They are trying to achieve a surplus in the balance of payments and a surplus in the balance of trade of the host country if its policy is to increase export activity. The host country may require these firms to employ a certain percentage of the workforce in the host country, and this measure may contribute to reducing the unemployment rate and developing local skills in the host country (Macharia, 2014).

These companies help in economic integration between the major industrial countries and deal with the economies of developing nationalities to achieve profits for them. Despite all these advantages and positive effects, there are negative effects for these companies, as they seek to achieve their interests first, then the interests of the host country, and the importance of the implemented project in the national economy of the host country and its economy. Because it focuses on its interests and the extent of its realization, and the use and exploitation of national resources in the host country (Mustaf Sakr & Andre Jordaan, 2017).

These companies do not meet all national requirements because they are foreign companies, and prefer their interests over the interests of the host country, and for this reason, the host countries resort to placing government restrictions on these investments according to their standards. Not distributing wealth to all groups of society, transferring huge sums of money and state profits, which depletes the resources of the host country, and wasting opportunities for the national investor and not to benefit from them.

The resource is in national industries, it reduces the national productive industry in the host country, makes the host country highly dependent on it, and turns into a consumer state (Holmes R, et.al, 2013).

### **5.2.2.2 Positive and negative Social effects of the activity of multinational companies (MNC's)**

These companies have positive and negative effects, and the positive effects can be seen when they provide job opportunities for local workers and give them appropriate wages, which helps raise the standard of living for their workers and reduces the unemployment rate in the host country.

These companies can provide social services in the region in which they establish their investments if they build schools, hospitals, paved roads, modern means of communication, or other services, that is, they work to develop the areas in which they work and contribute to the development of the infrastructure of the host country (Hirsch S, 2012).

Despite the previous positive effects, these companies have negative effects and social damages, as social impacts are not among the priorities of these companies, as they do not link their work with national industries in developing countries but rather work to achieve their goals and policies.

The working class provides high wages without providing services to the rest of the investment area, and this leads to an increase in social differences between its workers and the majority of society, and the gap between the social classes in the host country increases (Joanna Tochman Campbell, et.al, 2012).

Unemployment rates may rise through the new projects offered by these companies if modern technology is used to a large extent to do their work, and this use sometimes leads to dispensing with local labor or it is possible not to increase employment, which leads to an increase in unemployment in the country the host.

Likewise, the difference in customs and beliefs between the foreign investor and the host country may negatively affect the local culture, the goods produced by these companies may be affected and bad consumer goods that are not up to international quality may be promoted (Holmes R, et.al, 2013).

### **5.2.3 Classification of Multinational Companies**

Multinational companies do not have the same characteristics, we can classify them according to several criteria in terms of their organizational form, size and type, the sectors in which they operate, their country of origin, and the host countries we explain these categories as follows:

#### **5.2.3.1 In terms of organizational form**

- A. Firms with a central pattern and sole nationality (FIRME ETHNOCENTRIQUE): They are companies of a single nationality (bearing nationality), have production branches abroad, with central management, all decisions are made in the company's headquarters in the country of origin, and its branches are run by native citizens .
- B. Decentralized companies (FIRME POLYCENTRIQUE): These are companies with decentralized management, which means that there is a high degree of independence in decision-making.

Whereas, the degree of control of the parent company over its branches in foreign markets is low, as there is a multiplicity of nationalities that owns the company that owns the company (Macharia, 2014).

- C. Geographical style companies (Firme Geocentrique): Companies that enjoy the geographic spread and branches also participate with the top leadership of the company in taking decisions for the group as a whole. They are large companies with huge financial, human, and technical resources, however; these companies are affected by the characteristics of the cultural environment of the country of origin (Shila Mishra<sup>1</sup>, et.al, 2017).

In this pattern, there is no adaptation of companies to the requirements of the environment in the host country, and companies impose their cultural and economic standards in force in the country of origin (Mustaf Sakr & (Mustaf Sakr & Andre Jordaan, 2017).

### **5.2.3.2 According to the sectors in which they are active**

- A. The first group: It includes vertically integrated companies, with a high level of technology, whose activities are confined to the strategic and industrial industries.
- B. The second group: It includes the integrated companies horizontally, and with a high level of technology, but it is less sensitive from the political side, that is, less nationalization of the host country.
- C. The third group: Companies that transfer obsolete technology to the host countries are formed through direct investment, by establishing production and marketing branches that are exported to the global markets exploiting (wages, raw materials), and this is what you do not find in their country of origin (Abdel Gawad G M & Muramalla V S S R, 2013).

### **5.2.3.3 Depending on its commitment abroad**

The degree of internationalization of the company can be known from its size (its annual sales volume is more than \$ 100 million), the number of countries in which it operates (more than six countries), its position in the global economy, the number of their branches around the world, and their obligations abroad compared to their activities in the motherland (Kersan-Skabic I, 2013).

This company is a giant economic entity with wide investment activities, penetrating the national borders of countries, and trying to enhance its competitiveness through its control of the world by investing in the market and the economy.

It controls production, exchange, distribution and pricing, and the stability of manufacturing centers in several geographical regions of the world, and controls the movement of capital between countries, thanks to its various strategic decisions it takes (Accuracy & I Ozturk, 2012).

It has many characteristics of independent countries such as its possession of enormous financial resources, and great loyalty to all its employees, and it represents an integrated relationship between the industrialized mother country and its host countries and constitutes the link between them (Gedikli A, 2011).

#### **5.2.3.4 In terms of size and type**

- A. Small and medium-sized companies.
- B. Major companies (less than 100,000 workers)
- C. Giant companies (more than 100,000 workers) (IFC, 2012)

#### **5.2.4 Motives for setting up Multinational Companies (MNC's)**

There are many reasons and conditions for the emergence and superiority of these companies, as each company is distinguished from others, and the most important of these reasons is the following:

- A. Natural resources and energy sources, as the goal of these companies, is to ensure the provision of raw materials and energy sources, and they search for and exploit them (Joanna Tochman Campbell, et.al, 2012).
- B. Enjoying the global market structure, and distributing its products in different regions of the world to expand and achieve returns, open foreign markets, protect export markets, and open new branches, and gives them the status of global demand for their products (Fathi A Ali, et.al, 2010).
- C. Rationalizing costs, increasing revenues, and reducing production, transportation, and labor costs (Mustaf Sakr & Mustaf Sakr & Andre Jordaan, 2017)
- D. Distributing or reducing the risks facing companies, such as the risks of competition in the home country, and the risks of seasonal fluctuations, as companies resort to searching foreign markets using their offensive or defensive methods to protect their share in those markets (Hirsch S, 2012).

### **5.3 Determinants of Foreign Direct Investment**

There are several basic determinants to attract foreign investment that must be available in the host country. One of these determinants is macroeconomic policies, which are represented by the domestic trade policy of the trading partners of the host country (tariffs, customs regulations, national protection, protection of the rights of owners and foreign investors). Improving the investment climate and providing infrastructure services in the host countries (Cheong Chia Sin, et.al, 2017).

Financial policies such as tax policies (utilities, concessions), efficiency factors are important determinants as they relate to production profits, competitive costs, cost of assets and human resources, cost of intermediate production inputs, and investment services. The effectiveness of the host country in entering into international gatherings and bilateral agreements is also considered an important matter for foreign investment to enter a host country without another.

Legislation and laws: which are important to the investment climate for the foreign investor, such as labor market policy, laws, and regulations related to it, market structure (competition, ownership), entry to work, setting standards related to dealing with foreign branches, and securing economic frameworks in terms of skill and knowledge to manage Investment. (Crespo N & Fontoura M, 2007).

In addition to the importance of local market factors represented in the market size measured in terms of GDP at current prices, the rate of market growth, the ability to access local and regional markets, consumer preferences, market structure, and market liberalization that helps to benefit from economies of scale and increase the added value. Average per capita income is measured by the average real GDP per capita, the rate of economic growth, and the rate of real GDP growth of the host countries. (Eduarda Martins Correa da Silveira, et.al, 2017).

Factors related to raw material resources and availability in the host country, volume, cost and types of labor, availability of technology, communication infrastructure, roads, sea, land, and airports, among others.

These determinants require the provision of the necessary pillars to enable foreign direct investment to enter the host country's economy, which is economic, political, and social stability (Kalpathy Ramaiyer Subramanian, 2018).

Ensuring the necessary services for foreign investment is important to attract the flow of this investment so that the host country must remove the measures that hinder foreign direct investment due to its positive economic results, and ease the restrictions imposed on the national requirements of the host country that investors use as a percentage of production costs.

It affects the foreign investor's profits and leads to losing part of his investment, which leads to the reluctance of foreign investors to invest in a particular country. Provide the necessary information on the local market and the nature of the investment to foreign investors, ease restrictions on profits, and allow the transfer of profits of investors.

Determining the sectors necessary for investment in them that contribute to the process of economic and social development, ensuring the role of these investments in developing the geographical areas in which they invest, and changing government restrictions in favor of investment. Reducing constraints on project structure, such as the size of foreign ownership and local partners, because this restriction leads to inflexible project management and weakens the project structure (Hayakawa K, et.al, 2013).

### **5.3.1 Economic Factors**

The phenomenon of this foreign direct investment depends on the integration of the host country's economic system with the global market. It is a phenomenon linked to globalization and has an impact on the country's economic factors. These factors play an important role in attracting inflows of this investment, and these factors are the main drivers for it. There are many of these factors, and each factor has a different influence in attracting foreign investment flows, and their impact differs from one country to another due to the different systems, policies, and economies in these countries (Goswami G & Haidar S, 2014).

### **5.3.1.1 Economic Stability**

The stability of economic factors is important for achieving a stable economic environment and a good economic climate. This environment can be created by implementing structural economic reform programs in host countries, removing obstacles facing foreign direct investment (Cheong Chia Sin, et.al, 2017).

Allowing foreign investors to enter the local markets of these countries, participate in their economies, and contribute effectively to the economic development of the host countries. Economic stability leads to social stability, helps to improve the standard of living of the host population, and has great potential to transform the economy from a poor economy to a rich and developed economy. Economic stability is related to the stability of the political system, the degree of democracy it enjoys, the political relations between countries, and the degree of the country's openness to the economies of the countries of the world. e (Mihaela Simionescu, 2016).

Moreover, it will help liberalize trade and ease tariff barriers, privatize activity, reduce or eliminate budget deficits, and find solutions to control and mitigate the problem of inflation (Jesper Karlsson, 2014).

### **5.3.1.2 Economic growth**

The goal of basic economic policies is to achieve economic growth, which is the continuous increase in income per person over time, and it is an indicator of an improvement in the individual's standard of living, that is, an increase in his share of the national income. The growth of the economy influences the structural factors of the economy, leads to efficient use of resources, increases the productivity of total factors, and increases the growth of per capita income in the host country. Economic growth should be continuous, not temporary, or episodic, because it is a composite result of a long period of economic development, and the goal of every economy is to achieve economic growth that results from an increase in the size and quantity of economic variables in the country (Kariuki C, 2015).

It is a continuous increase in the country's productivity, gross national product, capital, natural and human resources, and technological capabilities, with economic, social, political, and cultural factors stabilizing for a long time within the state (Iamsiraroj S & Ulubaşođlu M A, 2015).

An equation can be developed to measure the growth rate of the economy and it is as Economic Growth Rate = National Income Growth Rate - Growth Rate.

Economic growth must be real, so the increase in per capita income must be a real increase, not monetary, in this case, we must exclude the rate of inflation.

Therefore, real economic growth rate = the rate of increase in per capita income - The rate of inflation (Mohamed Ibrahim Mugableh & Mohammad Salem Oudat, 2018).

Economic growth has three types that are realized within the country, which are as follows:

- A. Growth of the automatic economy: Real national income increases continuously at rates higher than the rate of population growth. This process takes place automatically, as the economic variables interact without there being economic plans or national planning (Calin- Adrian Comes, et.al, 2018).
- B. Transient economic growth: growth is temporary and not continuous. It occurs due to the presence of temporary factors most of the time that are external and which end when these emergency factors end. This growth does not occur by itself, it is possible to observe this growth in many developing countries, due to the development of foreign trade.
- C. The growth of the planned economy: This type is similar to natural growth in that it occurs through self-movement, but growth is at a faster rate as the state intervenes in this growth as it sets a strategy for economic planning for the host country and works to affect growth (Elma Satrovi, 2019).

Therefore, economic growth is an economic phenomenon with different dimensions indicating the presence of overlapping and complementarity in groups of economic activity. It is considered a social phenomenon because of its important social effects on the structure of society (Buthiena Alyan Kharabsheh & Ahlam Abdullah Aldaher, 2020).

Three cases can be identified for the rate of economic growth, and each case has a different effect on the level of per capita domestic income and has an impact on the individual's standard of living.

The first case: The rate of economic growth is achieved when the rate of growth of the gross domestic product (national income) is higher than the rate of growth of the state's population, the average per capita income is higher, it achieves a higher standard of living and achieves the welfare of society (Emmanuel O N, 2016).

The second case: Stability and lack of economic growth when the rate of national income growth is equal to the rate of population growth, the average national income per capita are stable, and the individual's standard of living is stable. (Gammoudi Mouna, et.al, 2016).

The third case: lagging behind the rate of economic growth achieves a negative rate if the rate of national income growth falls below the rate of population growth, and the average national income per capita will below, and the standard of living will deteriorate.

The level of economic growth is a determining factor for foreign direct investment, as an economy that grows at a high rate attracts foreign direct investment, as there is a positive relationship between them, which directly affects the host economy. (E Amoah E N Yarko & K Asare, 2015).

The impact of this investment on economic growth in economically backward countries is very small, due to the obstacles facing investment. As it is affected by social and institutional factors, administrative systems, stable government, and an effective production system. (Kariuki C, 2015).

### **5.3.1.3 Inflation**

Inflation is a global crisis, and it is associated with a degree of global inflation, as the country is affected by international and regional factors of the state's conditions, and plays an active role in the decision-making process regarding foreign direct investment by foreign investors (E Amoah E N Yarko & K Asare, 2015).

The high inflation rate is an indication of the macroeconomic instability of the country, and the inability of the government to control the macroeconomic policy creates an uncertain investment environment and causes confusion in the macroeconomic situation (Sana Naseem, 2018).

Inflation causes uncertainty about achieving profits that investors seek in their investment projects, does not encourage attracting this investment to the country with high inflation rates, increases production costs, and directly affects pricing policies, wages, and costs of the production process (Patrick Enu & Emmanuel Dodzi K Havi, 2014).

A high inflation rate is associated with increased price volatility, and this calls for the development of conservative investment strategies and leads to a decrease in the level of investment and a reduction in economic growth.

Besides, it causes high prices of final goods, and the rise may be higher in production costs, so the country is not attractive to this investment, and the high rate of inflation increases the fluctuation of the national currency (Ali, Heba, 2011).

Inflation arises for many reasons, the most important of which is the increase in the prices of goods and services within the country, the increase in aggregate demand over total supply and demand, and the increase in per capita income, which increases purchasing power. Economists believe that inflation is an important component of a country's economy and it is often a major problem for a country.

Inflation may arise because of a high degree of economic openness of the state to the global market, which is measured by the ratio of foreign trade to national product, and the level of inflation rises in the outside world. (Nazer Y, 2016).

Whenever the country's degree of openness is high, and it is expected in such a case that increases in commodity, prices will leak foreign services to the country, and through foreign trade to meet consumer and investment needs. It is possible that the reason for this inflation is the government's policy to reduce the currency. The reduction offers more units of the national currency against the foreign currency and this carries the national (local) importer additional burdens, because of this reduction, meaning that the local importer after the reduction must pay units (Khan M R, 2012).

Increasing cash than before to obtain the same amount of goods and services from the outside world, and the financial burden on the importer increases and this is reflected in the country's internal price level when importing goods and services. Inflation affects income if the increase in prices is greater than the rate of increase in the income of individuals, especially those with low and fixed incomes. Therefore, higher prices reduce their purchasing power (Nazer Y, 2016).

The high rate of inflation leads to a rise in the prices of domestic goods, which leads to a decrease in exports and an increase in imports of foreign goods whose prices are considered low compared to domestic goods. This leads to more imports than exports, which leads to a deficit in the trade balance and thus a deficit in the balance of payments (Adhikary B K & Mengistu A, 2008).

Another negative impact is the trend of consumer investments in the national economy, as investor's aims to achieve the profits provided by consumer goods and inflation increases the prices of these goods. Therefore, the foreign investors resort to consumer projects that achieve quick and large profits and they stay away from projects that achieve economic development. Inflation has social effects that can lead to a redistribution of income at the expense of the fixed income group and its inability to keep pace with inflation, which is due to the rise in the prices of goods and services, which increases the wealth of high income, and reduces the owners of fixed income and low-income people who pay large sums due to higher commodity prices And services, and all this increases the gap between two groups (Ayyoub M, 2011).

**Table 5.1:** several policies that reduce inflation can be included in the following table (Source: The work of the researchers: 2021).

Politics	The expected degree of impact	Effects and consequences
Reducing current government spending	Strong	Its negative impact on growth is strong, but it has undesirable living effects
Reducing government investment spending	Strong	Its impact on economic growth and on expanding the economy's capacity is very high
Subsidies	Medium to strong	The public budget bears high financial burdens in the long run and encourages excessive consumption if it is not guided
Reducing bank lending	Medium to high	Profit rates imposed by non-bank Institutions finance facilities increase, and small investments are affected, some of which are financed through personal loans
Increase interest rates	Weak	Linking the Iraqi dinar price to the dollar greatly limits the effectiveness of monetary policy
Raise the value of the Iraqi dinar	Weak to medium	This policy is not recommended because it expects more harm than its benefits, especially in the long run

Inflation creates a deficit in the state budget, and it is an indicator of the imbalance between supply and demand in the economy. Most countries define a percentage that was 5% which they considered natural inflation. The phenomenon of inflationary stagnation, which occurs when inflation increases and production decreases or stabilizes. The level of inflation remains constant, with output remaining at its normal level (Fredrik N G Andersson, 2011).

Explosive inflation is the continued rise in prices significantly and continuously for consecutive and uncontrollable periods, and it is an important determinant of economic growth. Inflation is caused by the continuous increase in the money supply (Watling Jack, 2017).

Inflation is one of the factors that have an impact on foreign direct investment flows, and it is often a measure of the level of macroeconomic instability. Therefore, countries are working on setting a monetary policy that aims to stabilize prices in the end, and that economic growth is really at the end. This relationship is negative and can be seen in the economic environment with strength and clarity (Vikesh Gokal, &Subrina Hanif, 2004).

#### **5.3.1.4 Balance of payments**

FDI affects positively the host country's balance of payments, creating a surplus in the balance of payments, and reducing the balance of payments deficit in the short, medium, and long term (Shoukat Ali, et.al, 2015).

FDI has a positive effect on the trade balance, as most investments increase productivity, which in turn achieves self-sufficiency in goods and services, and in many cases, there is a surplus in production and the country turns on exports, meaning that increasing investment reduces imports (Mehman Karimov, 2019).

One of the components of the balance of payments is the balance of trade: the balance of trade consists of imports and revenues, and the difference between them determines the existence of a surplus, deficit, or parity (Carol S Carson, 2003).

If the value of exports is higher than the value of imports, then there will be a surplus in the trade balance of the host country or the deficit will be erased, but if the imports are greater than exports, then this balance will be a deficit or the surplus will decrease (Mohammed Ershad Hussain & Mahfuzul Haque, 2016).

FDI has a strategy directed towards increasing exports, reducing imports, and substituting substitutes for imported goods, both strategies positively affect the trade balance of the host country (Masoud Albiman Md & Suleiman NN, 2016).

The increase in this investment leads to an increase in the value of exports, which have become cheaper in the foreign markets, and to reduce imports, which have become more expensive in the domestic markets, thus stimulating foreign direct investment (Iqbal Mahmood, et.al, 2011).

That is, there are a strong complementary relationship and a strong link between foreign direct investment and the host country's exports and imports. In some cases, foreign direct investment has a negative effect, creating a deficit, or reducing the balance of payments surplus in the host country (Guennouni Habib Tsabet Abderrahmen & Adouka Lakhdar, 2014).

#### **5.3.1.5 Exchange rate**

The effect of the exchange rate on this investment varies according to different countries and periods, and political and economic factors in them. The exchange rate is a macroeconomic factor, and exchange rate fluctuations in the host country are an institutional and political problem. It is a measure of the level of competition between domestic and foreign goods, and it is the number of units of currency that must be paid to acquire a unit of another currency (Matthias Busse, et.al, 2010).

The policy of lowering the real exchange rate (low value) encourages export activity and increases foreign trade on condition of combating inflation, and this is a major tool for liberalizing foreign trade. Also, lowering the exchange rates is considered a way to eliminate or reduce the balance of payments deficit because it causes a decrease in tariffs and customs duties on imports (Roland J Sparks, et.al, 2014).

The effect of a constant and positive (real) exchange rate level on FDI, in developed countries, the same does not apply to developing countries. Companies aim to limit the risks of exchange rate fluctuations and to establish production plants in developed countries with large markets. Multinational companies take advantage of low prices in the host country to invest to buy assets to invest in the host country, or to re-export their production to a third market and make profits for the country of origin. (IMF, 2016).

That the fluctuation or stability of the exchange rate has an impact on FDI, as the decrease in the real exchange rate in the host country leads to an increase in FDI, as it reduces the costs of establishing a foreign company in the host country in the same currency, but in most cases, the real exchange rate is on the contrary (Olusuyi E A Samuel, et.al, 2016).

There is an indirect effect of the exchange rate on FDI, and there is a difference between the nominal exchange rate and the real exchange rate, which affects FDI . Foreign direct investment flows do not generally depend on the actual exchange rate in the host countries. Real exchange rates are the prices of foreign goods in a local currency, and this is equal to the nominal exchange rates multiplied by the price of imported goods in foreign currency, divided by the price of domestic goods in the national currency (Okafor E I, et.al, 2015).

#### **5.3.1.6 Tax policies and incentives**

Taxes are considered one of the most important macroeconomic factors; because they play a fundamental role in programs to improve services provided by countries, achieve economic stability, control consumption, encourage savings, and direct investment. In the past, the form of tax was called forced labor, but at present, it has developed and imposed a monetary nature, and it consists of monetary and non-monetary elements. Taxes are defined as compulsory transfers received by the general government sector. A characteristic of a tax is that when it is paid, it is not expected to be recovered (Jones C & Temouri Y, 2016).

Taxes include fees, which are compulsory confiscation of cash in favor of public authorities to ensure financing of the general burden of the state, local institutions, and public administrations. High tax rates in the host country reduce foreign direct investment flows, and tax collection requires the approval of the country's legislature. There are exceptional cases for taxes of this mandatory type, according to specialized laws. Such as the taxpayer's application exemption system, which includes persons subject to tax under common law (Schilirò Daniele, 2012).

That people can request temporary or partial exemptions due to the existence of explicit provisions that allow and specify the possibility and conditions for benefiting from the exemption. So are government investment benefits as an exemption system for taxpayer demand. This includes persons subject to tax within the framework of public law, they can request temporary or partial exemptions due to the presence of explicit texts that allow and specify the possibility and conditions for benefiting from the exemption, as well as the advantages granted by the government to investment (Jan Svejnar & Evzen Kocenda, 2003).

There are many taxes, methods, and mechanisms for their collection, such as income taxes on the income of natural and legal persons. Taxes on business corporate profits such as corporate profits tax and professional activity fees. Taxes on capital or wealth, taxes on movable and immovable values, and spending taxes, which are taxes levied when income is used, taxes on products, and personal taxes that take into account the capacity, condition, and family burden of the individuals. Direct taxes, meaning the absence of an intermediary between the taxpayer and the tax administration, whose burdens are borne by the taxpayer and cannot be transferred to others, and are characterized by stability and regularity of their revenues. Indirect taxes, which are taxes whose burdens can be transferred by the taxpayer to others (Jones C & Temouri Y, 2016).

This means that I am not a legal taxpayer, and it is levied on many goods and services and is largely compatible with the economic structure of developing countries due to poor income. There is also a tax in kind imposed on an economic component without regard to the personal status of the owner, such as real estate taxes and special registration rights (Zigong An, 2012).

Taxes negatively affect foreign direct investment flows. As the goal of this investment is to achieve the largest possible return, but the tax is an element that affects the size of profits, meaning that the number of tax cuts off corporate profits. For this reason, the level of tax in the host country is a major component of the investment climate. Therefore, the host country offers tax exemptions or reductions from these taxes to foreign investors to motivate them to come to the country and practice their investment activities (Schilirò D, 2012).

### **5.3.1.7 Labor costs (wages) and productivity**

Economic growth depends on human resources, capabilities, and the efficiency of their operation, as sustainable and equitable economic growth contributes to improving human development, and thus reduces and reduces poverty and unemployment. The workforce consists of all residents who are able and willing to work (except for children under the age of fifteen, students, the elderly, the disabled, and housewives). Wage is a relative concept that varies according to the viewpoint of it by the worker or the employer. Concerning the worker, it is what he receives net at periodic intervals in return for selling the work power that he does not own. As for the employer, the wage is what must be paid in exchange for work that the worker spends (Bandita Sijapatii, 2014).

The wage is all that is paid to the worker in exchange for his work] in cash or kind, in addition to all allowances determined for the worker under individual work contracts, group work contracts, or basic work, whether the wage is daily, weekly, monthly, seasonal or annual. Unlike employment, there is unemployment, which is a dangerous phenomenon that threatens societies. Unemployment is an economic phenomenon that began to appear tangibly with the prosperity of industry, as unemployment had no meaning in traditional rural societies (Therese F Azeng & Thierry U Yogo, 2013).

Unemployment is one of the challenges of human development, an obstacle to achieving and sustaining stability and social peace, it is a burden on social progress, and one of the most important factors in the expansion of the problem of poverty, and it works to deprive people of the complete or partial possession of human capabilities (Matthew A O & Ogunlusi T, 2017).

Unemployment in the structure of the economy results from a change in the structure of demand for products, technological progress, or the relocation of industries to other countries in search of better conditions for exploitation and higher profits The unemployed is everyone able, willing, and looking for work, but without success, that is, not everyone who does not work is unemployed.

Unemployment has types, such as cyclical (structural) unemployment resulting from the cyclical fluctuations of the capitalist system, which always shifts between boom and expansion, between depression and economic crisis that leads to stopping employment and layoffs (Mahfoudh Abdul Karem Al Musali & Ku Nor Izah Ku Ismail, 2014).

#### **5.2.1.8 Infrastructure**

Infrastructure is important to the entire country's economy, and its availability is the responsibility of the state. These structures are complimentary and beneficial to the economic activity as a whole, especially the productive and commercial activity in the country, and provide what suits them.

These structures are important and essential determinants of investment, and the existence of modern and advanced services for a network and transmission lines of all kinds compatible and available at low cost, and facilitate movement within the country and with other countries (Eduarda Martins Correa da Silveira, et.al, 2017).

The existence of a highly efficient communication system allows easy communication between countries and helps facilitate the process of exchanging information and data between them. It is a basic and specific incentive that must be available in the host country to attract foreign direct investment.

It helps, the infrastructure affects all activities, and it has a positive impact on the flows of this investment to the host country, as these investments flow to the country that has a strong and developed infrastructure. Infrastructure is one of the basic incentives and determinants that must be available in the host country to attract foreign direct investment (Sharma K & Bandara Y, 2010).

The investor is interested in the availability of infrastructure and public facilities and the quality of these facilities, as it contributes to reducing the cost of business for the investor and thus raising the rate of return on investment (Kok & Ersoy, 2009).

Having a highly efficient communication system and tools allow easy communication between branches of a multinational company in the host country and the head office in the home country. Advanced communication networks provide information and data quickly, accurately, and easily. It complements the infrastructure and facilitates the productive and commercial activity of the investment project and the multinational companies (Khachoo Ab Quyoom & Khan Mohd Imran, 2012).

### **5.3.1.9 Openness**

Economic and financial openness and trade liberalization are important in light of globalization that has made the world a small village. As the trend of liberalizing trade relations between the countries of the world led to the adoption of the free trade view, and it shows the degree of integration with global economic powers.

The degree of openness of the economy can be measured in terms of imports and exports to and from that country. In other words, openness is the ratio of the volume of foreign trade (total exports and imports) to GDP.

Openness helps remove economic, financial, and trade barriers between countries. It is noted that many countries unite in groups to overcome these barriers, which in turn facilitate and accelerate the transfer of capital, goods, and services between the countries of these groupings (Mensah Kojo, et.al, 2014).

Firms with foreign investment benefit from opening up, liberalizing trade, and bypassing trade barriers by building production sites abroad, which increases foreign direct investment inflows.

These investments also benefit from the increasing openness in various sectors, such as international trade flows in intermediate and imported capital goods for their production.

It is a measure of trade restrictions, increases export and import activity, and achieves trade integration, which is important in attracting foreign direct investment inflows (Abimbola Babatunde, 2011).

### **5.3.1.10 Natural resources**

Natural resources are renewable energy in themselves, they are elements born in nature such as water, air, plants, and soil, and they are renewable and necessary for life, and they help human resources to survive because they provide food, water, and air (Richard Cronin & Amit Pandya, 2009).

Life has no meaning without these basic elements, as it works to develop human civilizations, develop economic activity, increase the production of what is necessary for life, raise the level of an individual's income and improve his living conditions, which is the raw material that the earth provides to man (Christian Nellesmann & Emily Corcoran, 2010).

These resources are formed naturally, meaning that man cannot form and shape them himself, and man uses them to manufacture new, more complex products to take advantage of them and modify them in proportion to the effective and beneficial use of them, meaning that the user in the industry is the natural resources extracted from the womb of nature.

Distribution of natural resources according to the geographical configuration and event or the so-called spatial arrangement of these resources on the surface of the globe. So having these resources somewhere, that place was rich in resources that people wanted to have, which is essential for population growth (Anar Ahmadov, 2012).

There are multiple types of resources, such as land, the value of this resource increases with the increase in land area, and forests are among the most important of these resources, especially in some countries, and their importance appears through the products that can be extracted from them, as forests also play a vital role in sustainable development. Likewise, water resources, which are a basic type of these resources, especially in countries with high rates of rainfall during the year as they take their share of the annual rainfall. Besides, fish wealth is an important resource, there are economic zones for fishing, and people in obtaining food use this resource (Steven Poelhekke & Frederick van der Ploeg, 2010).

Finally, mineral resources, in which the industrial development and prosperity of any country depend greatly on the development and management of its mineral resources necessary for the development of modern industries, which are a major factor in the development of countries (Kalpathy Ramaiyer Subramanian 2018).

#### **5.3.1.11 Human capital**

It includes human competencies, technical, administrative, organizational, ethical, and social capabilities.

Therefore, attention must be paid to human development and raising the efficiency of human capital through education, training, and health, so that trained workers can deal with production and economic factors efficiently and effectively, and then improving the standard of living (Cleeve E A, et.al, 2015).

As well as adherence to moral values, social justice, and economic equality, with an interest in developing and encouraging the majority of the population, the characteristics of the country's population are among the most important sources of human capital, and these include academic education, experience and skills, the average age of the population, and cultural and social customs. These characteristics affect the country's general economy, human development, labor force growth (Zhuang H, 2017).

The population is a major and important factor in attracting foreign investment inflows, the degree of population education, the rate of labor force growth, and the human development of the host country have a positive impact on the flows of this investment, as there is a reciprocal interaction between the human resources development of the host country and the flows of this investment (Sehnbruch K, et.al, 2015).

Human development is an important determinant to attract this investment, so necessary arrangements must be made to improve human resources, including training and courses that achieve the improvement of these resources and the achievement of human development (UNDP, 2019).

### **5.3.1.12 Transportation cost**

Distance is a measure of the transaction costs of companies engaged in investment activities in a foreign country, and it can be assumed that the costs of obtaining information about institutional and legal issues will increase with increasing distance in many service sectors, multinational companies must be in the same place with the consumer to provide their services. Proximity to markets is an important determinant factor when making foreign capital investments, as the distance between places of production and the market increases. Transportation costs increase, so it is better to place products with costly transportation near main consumption areas, which reduces transportation costs and achieves economies of scale used in the production process (Steven Poelhekke & Frederick van der Ploeg, 2010).

There is an inverse relationship between foreign direct capital investment decisions and the costs of bringing the products the company produces to the market. The greater the distance between companies and the markets, the greater the transportation costs, which leads to a reduction in investment in parallel with this increase in costs. That is why, for the investor who will make decisions to invest foreign direct capital in another country, the price difference in the country in which he intends to produce the goods and sell them to the country in which he will sell these goods (Sehnbruch K, et.al, 2015).

That the transportation costs that must take place in the country, during the delivery of manufactured goods to the local markets, if the transport costs face an increase for the investor, this will lead to a negative situation for foreign direct investments. Because the cost of the goods produced will be more expensive than importing the same product from abroad, i.e. importing the same product from abroad is more attractive. This situation will negatively affect the competitiveness of the country vis-à-vis other countries on the one hand, and negatively affect the foreign investor who wants to expand his markets, due to the increase in transportation costs for shipping products produced abroad, and it will negatively affect the competitiveness of these companies (Kalpathy Ramaiyer Subramanian, 2018).

### **5.3.1.13 Market volume (size)**

The size of the country's domestic market in addition to the markets of neighboring countries that can be exported without hindrance is an important factor in attracting foreign direct investment to the host country. The state's accession to regional and economic unions and the formation of a unified entity from a group of countries contribute to removing restrictions on trade exchange. It increases the flow of investments and expands the size of the local market to include the markets of the regulated unions (Gaber H Abugamea, 2015).

The size of the market affects the attraction of foreign investments of all kinds, as well as the purchasing power of individuals, the level of government spending, inflation rates, the current economic situation, potential growth or contraction in the future, and other indicators that affect the demand for the products of the related investment project (Güngör Turan & Bernard Karamanaj, 2014).

The size of the market is measured by several important factors that affect the success of the market in competition with the markets of other countries. One of the important measures by which market size is measured is the number of consumers and users of the product now and in the future. In most cases, this factor has a positive impact on the economic situation of the country in general and on the two streams of foreign direct investment flows, which is an important incentive that has an impact on the decision of the foreign investor (Douglas P S & Craig S C, 2011).

The size of the country's market is affected by the extent of its association with the unions or not, as it affects the attractiveness of this country's market to new investors, and the greater this size and expansion in the future, the more it contributes to improving the country's investment climate (Bibi Youcef, 2007).

### **5.3.2 Political Factors**

The political elements are important to the overall economy of the host country, as the ruling political system, the country's relations with other countries, and the political environment are important elements (Goswami G G & Haidar S, 2014).

The stability of the political system and the political environment is one of the most important determinants of the overall economy of any country, which has a positive impact on foreign direct investment flows. This factor is one of the main concerns of foreign investors in making an investment decision in one country without another. Whereas, the government's interference in setting policies, plans, and laws for the economic sector directly affects the economic activity and the activity of the multinational companies (Lee H, et.al, 2014).

The political component may stimulate or reduce the presence of these companies in the local market if these policies encourage economic and commercial openness and provide many incentives to attract foreign investment. It will have a positive and significant impact on the entry of foreign direct investment into the host country (Anar Ahmadov, 2012).

The political infrastructure provided by the host country government, such as e-government and governance, has a significant and positive effect on attracting this investment. The government has adopted a policy of encouraging this investment, providing support, and interfering in commercial operations when disputes arise. This is while preserving the rights of foreign investors, facilitating the entry of foreign companies, and achieving economic development in the areas in which they operate within the host country (Aguiar S Aguiar-Coraris, et.al, 2012).

The risk of political instability is one of the important factors that have a significant negative impact on the country's economy and the decisions of both the foreign investor and the multinational corporations regarding foreign direct investment in the country (Jawaher Abdulrahim, 2015).

And as these companies prefer to reduce uncertainty, when the proportion of these risks decreases, foreign direct investment flows rise, from these risks, wars, revolutions, strikes, and conflicts. Another important factor is the level of government corruption, which negatively affects the flow of this investment, as the high level of corruption reduces the inflows of foreign direct investment (Kalotay K, 2010).

### **5.3.3 Technology**

Technology is the set of knowledge and skills necessary to manufacture a product and create the appropriate mechanism for production, and all the inventions and innovations necessary for economic and social development during the various stages of growth. The process of creating and applying the invention is a laborious, long and costly process that requires a huge investment of funds, the availability of a large number of scientists, researchers, technicians, and skilled workers, and the provision of appropriate resources and environment (Heri Bezić & Petra Karanikić, 2014).

This potential is available in foreign direct investment that possesses this modern technology and all these. There are several ways in which new technology can be transferred from one country to another, such as importing capital goods and licensing them by the technology owner's capabilities. Foreign direct investment is one of the most important methods of technology transfer, and a complete package is provided that includes planning, organizing, production, and marketing systems and methods (Mesut Eren & Hong Zhuang, 2015).

Thus, foreign direct investment stimulates local investors to increase research and development activities, to allow the adaptation and stability of imported technology, and encourages the production of local technology, thus increasing the degree of technical knowledge of the host country. It stimulates the use and development of modern technology by domestic companies, training of workers, increasing the total productivity of factors of production, and stimulating economic growth in those countries. Foreign investors offer a form of job training, which cannot be achieved or provided at local companies or by purchasing technology from abroad (Hiep Ngoc Luu, 2016).

### **5.3.4 Institutional Organizational Factors**

The organizational institutional factor is the policies, methods, laws that help in managing institutions in the host country, these factors are important and interrelated with foreign direct investment, and each affects the other greatly.

The presence of a commodity and the strong institutional environment leads to economic, financial, and commercial openness that helps attract this investment and affects the investment decision, the costs of the foreign investor, and the protection of his interests. The important institutional factor is also material property rights and intellectual property rights, and these rights are important for multinational companies and foreign direct investment (Kariuki C, 2015).

Therefore, the institution that grants protection for these rights encourages the flow of foreign investment into its country as these companies maintain their innovations and patents. Organizational structures are one of the defining and important factors for quality institutions that greatly influence the flow of this investment. It helps to make rational decisions that lead to the increased economic growth of the host country. These structures change and are modified, and this change and development affect the foreign investment decision. And helps to achieve the maximum benefit from investment, which brings benefits and profits and reduces costs, and this is what encourages foreign investors to invest (Eduarda Martins Correa da Silveira ,et.al, 2017).

It is possible to measure the environmental organization distance of the organization, which explains the difference between the institutional systems of countries and the size of investment in the host country compared to the other country. Where there is a negative relationship between environmental distance and the regulation and attraction of foreign direct investment. Despite the importance of this factor, many countries, especially developing ones, ignore the importance of this factor. As the governments in many countries control the activities of these institutions and impose unfair restrictions and conditions on them. This oversight of institutions and their activities greatly harms the flow of this investment.

Where it represents a risk on this investment and one of the negative effects that limit the flow of foreign direct investment to these institutions. Likewise, when many restrictions are placed on capital account transactions for foreign direct investments, this leads to a limitation of the flow of these investments to the host country (Hayakawa K, et.al, 2013).

### **5.3.5 Cultural Factors**

Cultural factors are important determinants of foreign direct investment flows, and foreign direct investment works to achieve interaction between different countries, and thus different cultures interact. The intercultural distance can directly affect the spending of money and time in starting and developing businesses abroad and can play an important role in investment success (Bhardwaj A, et.al, 2007).

Language is considered one of the most important cultural factors, as the similarities between language and culture positively influence foreign direct investment flows. The other factor is equality, which is a basic cultural dimension, such as equality between all people and the belief that they are equal in value and must be treated on an equal footing in society, and gender equality on the level of institutional harmony between markets (Tang L ,2012).

The greater the sense of equality, the greater the flow of investment, which means that there is a positive relationship between them, integration, independence, mastery and harmony, psychological factors, community formation, the degree of democracy, provision of education, health services, and housing, and the absence of hostility towards expatriate workers. However, these factors are complex factors whose impact on foreign direct investment is difficult to measure (Lee S-H, et.al, 2008).

### **5.4 Effects of Foreign Investments on Economic Structures**

The economic structures of countries are similar and different in different economies, due to the difference in economic resources and the different effectiveness of the development policies pursued by these countries. Foreign direct investment helps to provide cash and foreign funds needed to finance regulatory, marketing, and investment activities, import machinery, equipment, and technical expertise needed for the development process, and provide advanced technology, and this helps the transformation of developing economies into advanced economies (Gammoudi Mouna, et.al, 2016).

#### **5.4.1 The Effects of Foreign Direct Investment on Elements of the Economic and Financial Implications of Foreign Direct Investment**

Foreign direct investment achieves economic liberalization, encourages openness to the outside world, and leads to a stable economic and financial environment, which is one of the basic requirements for the growth and development of the host country, and economic liberalization has an impact on the flow of this foreign investment (Ghaith Alzaidy, et.al, 2017).

The objectives set for foreign investment must be clear and specific to the appropriate type of investment to achieve the goal of the host country and foreign companies and help their flow under the economic goal declared by them (Fadhil & M K Almsafir, 2015).

The host countries provide incentives for investment, and they represent an economic and financial burden, therefore the economic return of this flow must be greater than this financial burden, as these burdens are exempt from taxes and fees and from providing other financial facilities, and they are part of the financial and economic losses of companies (Iamsiraroj S & Ulubaşoğlu M A, 2015).

##### **5.4.1.1 Effects of foreign direct investment on economic growth macroeconomic structure**

Increasing the flow of this investment to the host country plays an important role in increasing the rate of growth of the host country's economy by attracting physical capital and modern technology. Since it positively affects the GDP, the meager inflow of this investment dampens economic growth (Calin- Adrian, et.al, 2018).

The economic structure of the host country is very important, so it must be flexible and suitable for rapid global developments, and the host country and countries of origin foreign companies must follow appropriate practices towards flexibility and work to achieve macroeconomic stability and develop appropriate legal and regulatory frameworks for development and rapid change in the global economy (Al Khathlan K, 2014).

Structural stalemate in the host country's economy leads to economic backwardness and a shortage of strong foreign institutions to aid in economic development and generates very slow labor markets in situations where domestic legal frameworks, competition, and the environment are weak (Elma Satrovi, 2019).

Often, economic growth is the growth of a country's GDP, which is the amount or value of goods and services produced by members of a particular community within one year and those who live within the geographical region of that country regardless of nationality whether they are citizens or foreigners, that is, the product Local is a geographical concept defined by the geographical region of that country. Foreign direct investment is concerned with the gross domestic product of a country, as it is a measure of economic activity that is based on the territory of a particular country, and it is a measure of its economic growth (Imad A Moosa & Buly Cardak, 2006).

#### **5.4.1.2 Effects of foreign direct investment on capital movements**

Foreign direct investment has a positive effect on the balance of capital movements as a result of the foreign exchange flow required to complete this investment, that is, the source of financing that the foreign investor uses within the host country. When the foreign investor uses his own money, and in hard currency, the foreign currency will flow into the host country, there will be an impact on the balance of capital movements (Ang J, 2008).

The currency used to pay for construction or purchase costs if the foreign direct investment is to establish a new project; It is known that the costs of its completion will be fully or partially paid in either local or foreign currency, if the costs paid are in a local currency, then there will be no negative or positive impact on the balance of capital movements. If the cost of importing machinery and equipment and investing foreign workers' wages is partial or paid in foreign currency, this will harm the trade balance and reduce or eliminate the potential positive effect on the balance of capital movements resulting from the investment financing method (Badi H Baltagi, 2008).

Besides, this balance will be negative in the case of payment for the use of patents and the payment of dues of foreign aid, in addition to remittances of the profits that this investment achieves from the host country to the country of origin, especially if these payments are in foreign currencies. In some cases, the financing needed for the needs of branches of multinational companies operating in the host country is obtained from local sources of financing for that country. The parent company finances part of the operations with its money to protect it and not expose itself to risks arising from every investment abroad (Sebastian Tocar, 2018.)

This will improve this balance temporarily upon receipt of funds, but the effect will be negative in the future when these loans are repaid together with their interest. If the foreign direct investment purchases existing investment projects, the implementation costs will be zero (Olusuyi E A, et.al, 2016).

In the case of rehabilitation, necessary improvements for the current project, the currency that will be spent to make these improvements, and what profits will be achieved from this project, all determine whether there is an impact on the balance of capital movements or not, and determines the importance of the value of these costs. The size of the gains from foreign direct investment decreases with the number of domestic loans obtained by the foreign-owned company, so the number of loans is at an acceptable level (Manuchehr Iradoust, 2016).

If investment project financing is relied upon by borrowing from the host country's market for investment, foreign currency will not flow to the host country, and there will be no impact on the balance of capital movements (Anis Omri, et.al, 2015).

From the foregoing, we conclude that the host country for foreign investment must determine the method of financing this investment, in a way that does not affect its economic situation and the balance of payments (Byun H S, et.al, 2012).

When the external payments resulting from this investment in the host country increase in the future, it may negatively affect its balance of payments, and if the available foreign exchange is insufficient to meet these payments, the host country will borrow from abroad, and there will be a passive foreign direct investment (Mahran H A, 2012).

The effect of the foreign direct investment may shift from the balance of payments to the exchange rate and cause its fluctuation, according to the difference between the supply and demand for foreign currencies, causing a deficit or surplus in the balance of payments of the host country. Likewise, many multinational companies resort to foreign direct investment, which gives this investment to its subsidiaries in the host country at very high-interest rates, without the need for these branches to obtain these loans, but rather obliges them to borrow for some purposes. This inflates the burdens of the branch and its external payments, and then the foreign currency will exit instead of entering the host country (Beck T, 2002).

Finally, foreign direct investment transfers capital easily from one country to another, which contributes to the development of the economic wheel (Ghassan F Hanna, et.al, 2014).

#### **5.4.1.3 Effects of foreign direct investment on the balance of payments**

The balance of payments is the statement that indicates the total commercial and financial transactions that take place between a country and the outside world, which leads to the demand for foreign currencies or the supply of foreign currencies in a certain period. Those inflows of foreign direct investment into or out of it constitute movements of long-term international capital (Mohamed Ibrahim Mugableh & Mohammad Salem Oudat, 2018).

The state must record all different transactions that constitute an important part of economic operations, and the process of estimating incoming or outgoing foreign direct investment flows is part of the general estimate and everything that enters the balance of state payments. This investment achieves positive effects on the balance of payments and creates a surplus in it or reduces the deficit (Mishra P K, 2011).

This investment provides funds from foreign currencies that are used to import equipment and supplies and provide all the requirements of investment projects from abroad without the host country that pays money in foreign currencies or is not available in sufficient size to provide all of that (Blecker R A & Razmi A , 2010)

Foreign direct investment offers some partial exemptions to the host country from some external payments, and this investment is used as a source of financing due to its advantages. Foreign direct investment does not obligate the host country to pay external sums of money in the future unless the foreign investment project achieves profits, and the increase is represented in imports of final investment goods or imports necessary for the internal production of goods, and intermediate consumptions of the investment sector producing goods. The negative effects of foreign direct investment when it creates a deficit in the balance of payments or reduces its surplus (Güngör Turan & Bernard Karamanaj, 2014).

#### **5.4.1.4 Effects of foreign direct investment on the trade balance**

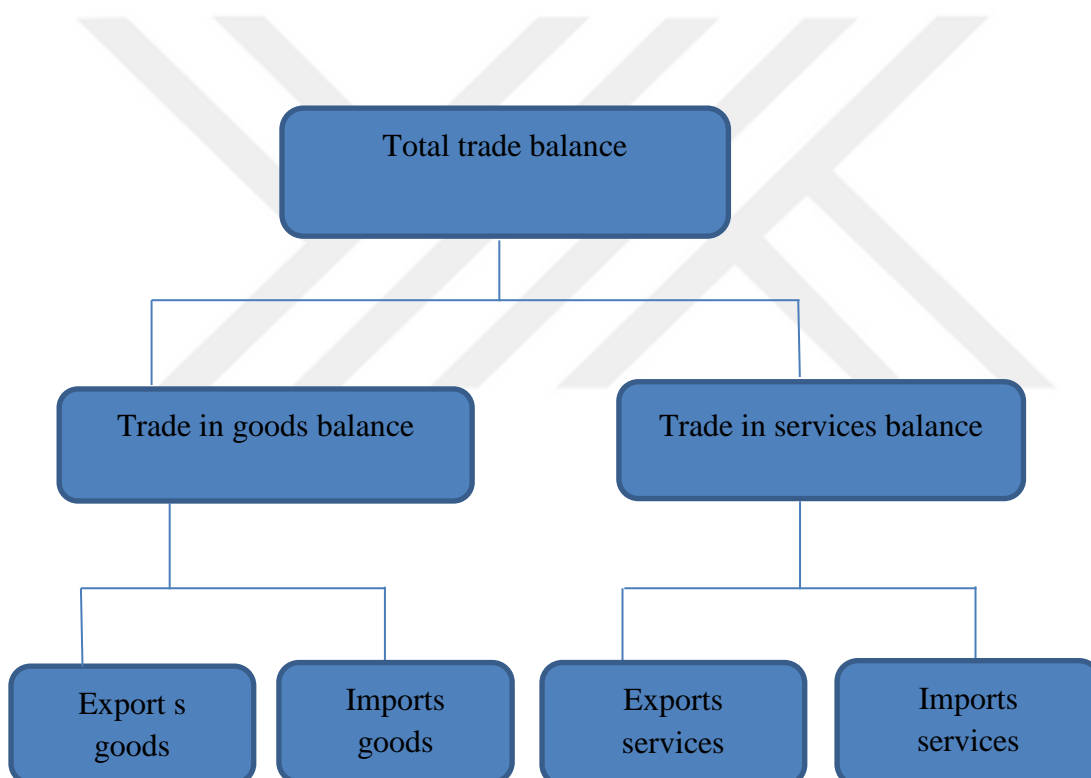
In light of globalization, the economic bloc and groupings have become a necessity imposed by international developments, with the existence of a group of countries linked to the common elements. And that trade between them is free, freedom of movement of people, goods, and services, and the freedom to transfer capital between the countries of the same bloc (Mounir Belloumi, 2014).

The goal of international exchange is to achieve economic growth, which is the most important economic indicators and the goal of any economic policy and a measure of the reality of performance, and the economic situation in general, in any direction, and reflects the improvement of the welfare of members of society. Imports and exports are among the most important components of international trade and are the components of the balance of trade (BOT) (Yahiaoui Mohamed Salah, 2011).

This is the difference between the value of a country's exports and imports for a given period; it is one of the largest components of the balance of payments and a measure of a country's economic strength. If the value of imports is greater than the value of a country's exports, then the balance of trade is negative (BOT), which is economically known as the trade deficit. But this trade surplus or deficit is not always a measure of the health of the economy, but rather it is measured in light of other economic indicators (K Miankhel, et.al, 2010).

Economic growth is an economic phenomenon that achieves overlap and integration in a group of economic activities, and a phenomenon that has important social effects on the structure of society (Buthiena Alyan Kharabsheh & Ahlam Abdullah Aldaher, 2020).

Foreign trade is significant for any country and it is a major artery connecting the countries of the world, and it contributes effectively to the country's economic growth and economic development, and it is part of the country's national economy. A major channel enables any country to obtain the resources it needs that are not available locally from another country (Khan M S & Hossain M, 2010).



**Figure 5.1:** Total trade balance (Source: The work of the researchers: 2021).

It has a role in benefiting from surplus production and sending it outside the borders to a different country or countries, and long-term trade has an important role and a positive relationship with economic growth Trade plays an important role in creating a balance between supply and demand and bridging the gap between production and consumption.

It has been found that the presence of foreign direct investment in the production sector positively affects the productivity of local labor and that the diversification of the production structure will enhance trade (Menyah Kojo ,et.al, 2014).

Despite the importance of foreign trade, it suffers from obstacles, the most important of which are the existence of political differences between countries, disruption of economic structures and various development options and economic policies such as customs protection policies, the absence of unified customs laws, the existence of a closed system, border and customs barriers and exorbitant fees imposed on international trade (Musibau Adetunji Babatunde, 2014).

Foreign trade also faces many problems, such as the presence of restrictions on this trade, the lack of openness of the market, the absence of infrastructure to facilitate the movement of goods, and the absence of a unified trade law for countries.

The absence of concessions that encourage and stimulate the movement of trade, the nature of the prevailing situation in the production system, the weak diversification of production, and the weakness of transport networks between countries, which impedes the free movement of goods and services (Masoud Albiman Md & Suleiman N N, 2016).

Finally, foreign direct investment contributes to increasing financial revenues from abroad in the host country when it adopts an export production strategy and reduces external payments. If it adopts a productive strategy to replace imports, the effect of this investment in the two strategies will be positive on trade and the host country's balance of payments (Khan M S & Hossain M, 2010).

#### **5.4.1.4.1 The effects of foreign direct investment on exports**

Exports were the sale of produced tangible goods that meet the needs of different countries, but at present, they include the sale of physical goods and intangible services, which are produced in one country and purchased in another country, and they are shipped and sent to countries and these goods and services have in-kind values (Gaber H Abugam, 2015).

Exports occupy great importance in the external balance, as their revenues represent an important source of financing the import of capital and intermediate goods required by the economic development processes in any country. The government encourages increasing exports, increasing the country's competitive advantage, gaining experience in producing quality goods, and increasing knowledge of how to sell them to foreign markets (Ajmi A N, et.al, 2015).\

This investment plays an important role in facilitating and accelerating the integration of the host country into the international market and providing foreign companies with an international marketing experience for the host country. It accelerates the process of global trade, increases the openness of the economy, enhances its growth, and achieves economic development by encouraging the promotion of exports and creating a competitive free market in the host country. Integration into the global market is measured by the host country's exports and imports (Masoud Albiman Md & Suleiman NN, 2016).

The increase in exports resulting from this investment pushes local companies to improve their production, take advantage of their capabilities, and reach economies of scale. This investment opens up markets for them, increases exports of goods and services, and helps in rapid expansion and follow-up of financial liberalization, exchange policies in the global economy and financial markets, and an increase in commercial marketing and the movement of this investment by multinational companies in the host country (Özcan Karahan, 2016).

The liberalization of commercial transactions between countries and the liberalization of the policy of dealing with this investment is an important factor in attracting huge flows of these investments, which increases the growth of the economy. The foreign investor plays a strong role in supporting growth, and exports help transform the host country's economy into a modern industrial economy. Foreign direct investment plays an important role in foreign trade, as it enters into the export activity to extract raw materials, manufacture spare parts, and medium industries (Sahoo Auro Kumar, et.al, 2014).

It contributes to the production of final local goods and services, then sells them to the recipient country, reduces the cost of exporting these goods to another country, and is an alternative to imports. The size of the local market and the state's trade policy is one of the most important determinants of this investment as it aims to maintain the market share and increase this share and work to sell goods at low prices, as it seeks to develop the local market (Accuracy & I Ozturk, 2012)

This investment exists in large quantities in the least developed countries, reduces unemployment, reduces state payments, and works to reduce inequality between regions of the host country. For the host country, foreign investment increases the country's imports in the short term, and obtains many benefits, such as technology transfer and elimination of unemployment through job creation and other benefits, while exports increase in the long term (Babatunde, 2011).

Moreover, this investment stimulates the host country's exports, and products can be created that increase the proportion of its exports. The pressure on local investment may increase to provide sufficient production to meet the needs of the local state with appropriate quality and price. Increasing and encouraging productivity growth and creating an appropriate export surplus that is more competitive with foreign products and increases the host country's exports. Local companies can act as suppliers to multinational companies, export products, and share their brands with multinational brands, and this is beneficial for local companies because they use international market channels and can export their products with their brand (Rui Moura & Rosa Forte, 2013)

#### **5.4.1.4.2 Effects of foreign direct investment and imports**

Import is the process of producing goods in one country, to be bought in another country because there is a country that cannot provide these goods within its borders with the presence of demand and need for them. An import is the purchase of goods and services of a country from another country and bringing them to his country for the consumption of individuals (Güngör Turan & Bernard Karamanaj, 2014).

They are goods and services that are produced in a foreign country and purchased by individuals from another country, and there will increase, leading to a deficit in the trade balance of the receiving country (Khaled R M Elbeydi, et.al, 2010).

## **5.5 The Effects of Foreign Direct Investment on Non-Economic Variables**

These companies possess modern technology, and some of them possess environmentally friendly technologies, and their introduction will contribute to reducing environmental risks. The host country should lay down rules for the activities of these companies in a way that preserves the environment (Echandi R, et.al, 2015).

Besides, these companies contribute to restoring the infrastructure of the area in which they invest, such as paving the streets, establishing a hospital for the people of the area, and other services. The social impact is one of the most important non-economic effects, as foreign direct investment helps improve conditions and address part of social problems, such as contributing to poverty reduction by providing job opportunities for the host country with industries that need labor (Kersan-Skabic I, 2013).

### **5.5.1 Effects of Foreign Direct Investment on Competition**

Competition is a system of economic relations that includes a large number of sellers and buyers, and each of them works independently from the other to reach the maximum profit, and it is how prices and quality are monitored by the market, which is characterized by a high degree of similarity between goods and services. Competition is the multiplicity of marketers to win the customer according to different methods such as prices, quality, the timing of the sale, and method of distribution. It is important to allocate resources and the sustainable economic growth provided by the foreign investor, which stimulates the local investor and works to compete with integrity without governmental bias (Jurcau A S, et.al, 2011).

Local companies must develop their activities to be able to carry out their activities compared to foreign companies. Competition: it is a form of economic organization that defines the mechanisms of action within the market and the various relationships between the economic dealers within it, and affects the determination of the price. The role of the state is limited to providing security and imposing respect and the obligations of all concerned parties (Auzina Emsina A, et.al, 2018).

As for competitiveness, it is the ability to withstand competitors to achieve the goals of profit, growth, and stability through innovation and innovation. The institution can introduce new products to the market, to increase and maintain its market share. Likewise, it is the ability to create a special competitive advantage and face competition in the target market, if any, if the institution undertakes to enhance this capacity (Calin Adrian Comes, et.al, 2018).

When multinational companies come to invest in a specific sector and establish a new factory with all its parts. Alternatively, if a local establishment buys an existing plant, it works to raise the production capacity of this facility, as it has great financial capabilities that allow it. Thus, it provides high-quality products, and benefits from the volume of savings, due to these advantages enjoyed by the multinational companies, their returns are high and thus competition will intensify (Olusuyi E A, et.al, 2016).

Most of the time, multinational companies produce at lower costs, so they dominate other enterprises in the sector. It leads to the disappearance of non-profit institutions and the emergence of more effective institutions working to revive them again (Elma Satrovi, 2019).

Multinational companies have great financial means in this sector that allow them to overcome barriers compared to other institutions. It has funds that enable it to conduct research and development to adapt the product to the demands of the host country market, as well as incur advertising expenses to introduce new products (Irandoust, 2016).

There are many competitive indicators such as profit maximization, market share, market share rising, and average manufacturing cost compared to the cost of competitors in a homogeneous and active production branch (Rui Moura & Rosa Forte, 2013).

The productivity index means the ratio between the results obtained and the means assigned to achieve them. That is the efficiency that transforms the organization into a set of factors of production into products. Partial productivity is the ratio between total output and one of the inputs such as worker productivity and capital productivity (Mehdi Behname, 2012).

### **5.5.2 Effects of Foreign Direct Investment on Cost Factor and Labor Wages**

Countries of the world, especially developing ones, are seeking to attract more foreign direct investment, and with the expansion of this investment base, its geographical spread increased and its attractiveness increased to stimulate small and medium investors. One of the important drivers for the host country when attracting this investment is to reduce or eliminate unemployment, and to create additional job opportunities in the host country for the investment (Mateev M, 2009).

This investment creates new projects, which leads to an increase in the workforce, and this is important for the governments of developing countries, especially those suffering from unemployment. As it affects positively, directly, and indirectly on employment in the countries and this depends on investment in the sector, types, and branches of foreign companies that have contributed to creating job opportunities in the country (Khachoo Ab Quyoom & Khan Mohd Imran, 2012).

This investment contributes to reducing unemployment if the resident enters into new projects that depend on employment and not on advanced technology, and local workers are used in addition to foreign workers. As for the purchase of already existing local projects and institutions and the introduction of modern technology, the foreign investor tries to reduce production costs by replacing labor with advanced machinery (Bandita Sijapatii, 2014).

This will not create new opportunities, but rather lead to a decrease in employment in these branches, and many workers may lose their jobs. In most cases, there is a negative relationship between foreign direct investment and the level of wages. It is one of the incentives that attract this investment, as the low cost of labor wages contributes to reducing production costs for foreign companies, which is what companies are looking for (Therese F Azeng & Thierry U Yogo, 2013).

As lower prices are an advantage for these companies, this investment was able to absorb a portion of the workforce in the host countries. In 2010, the employment rate for these companies was around 68.13%. This investment has a positive effect on the phenomenon of brain drain and skills depletion because it reduces it (IFC, 2013).

Where appropriate terms and conditions are provided for this type of work, such as high wages, appropriate labor relations, and incentives. With all the advantages provided by this investment, but some defects permeate it, as it may negatively affect the local investor and local company's innovation (Nelson Johnny, et.al, 2018).

Where the foreign investor provides higher wages for his workers compared to the wages of workers in local companies, and this leads to the transfer of workers with expertise and skills in local companies to foreign companies, which negatively affects the local investor (Khachoo Ab Quyoom, & Khan Mohd Imran, 2012).

Foreign direct investment also contributes to the poor distribution of income among the working class, due to the high level of wages it gives compared to wages in local companies (Matthew AO & Ogunlusi T, 2017.)



## CHAPTER 6

### EFFECT OF FOREIGN DIRECT INVESTMENTS OF MULTINATIONAL CORPORATIONS ON MACROECONOMIC VARIABLES OF IRAQ ECONOMY: COMPARISON WITH SELECTED MIDDLE EAST AND NORTH AFRICAN (MENA)

#### 6.1 The Purpose of the Analysis

The developments that occurred in recent years and the increase in global competition over foreign capital movements have highlighted the importance of foreign direct investment.

Foreign capital movements contribute to the rapid progress of developing countries, especially in the countries of the Middle East and North Africa, including Iraq.

The impact of foreign capital investments on the macroeconomic indicators of the destination country has important implications for policymakers.

The conclusion in most of the studies on capital flows shows that countries' foreign capital investments will have a positive effect on the country of origin and the host country (Laura Barbieri, 2005).

The main purpose of the analysis that will be performed in this part of the thesis is to clarify the effect of foreign direct investment for multinational companies (the independent variable) on GDP, inflation, exports, and imports (dependent variables) on a selected group of countries from the Middle East and North Africa. The dataset covers the period 1960-2019, and variables are a foreign direct investment, GDP, inflation rate, and trade flows which are represented by imports and exports.

For the analysis of variables, the Panel Vector Auto Regression method is used. This method utilizes the cross-section series and the time dimension together to predict economic dynamics (Carol S Carson, 2003).

Because the panel data analysis combines cross-section and time-series observations, the number of observations using this method is larger (Catherine M Castellan, 2010).

These features permit econometric analysis to be made even in cases where the observations are in the form of insufficient cross-sections (data collected from different places at a given time are called cross-section data) and/or short time series (Jushan Bai & Serena Ng, 2004a).

Panel data methods can have fewer problems compared to an analysis based on a polynomial linear relationship (Goswami G & Haidar S, 2014).

In recent literature, panel data analysis has been increasingly used for various purposes (Arindam Banerjee, et.al, 2005).

We can briefly list the advantages of panel data analysis as follows.

1. Heterogeneity between units can be controlled using the cross-section data.
2. The cross-section or time series is more informative and variable.

Besides, the linear relationship between the variables is lower, but the degree of freedom is higher) Badi H Baltagi, 2008) .

3. In panel data analysis, it is possible to measure and test effects that are indistinguishable in cross-section or time series analysis.
4. The aggregation error found in macroeconomic time series can be eliminated by accurate panel data collected across units such as households and firms.
5. In unit root tests in time series analysis, while the t-test is not nearly as close to the standard t-test, the panel unit root tests have standard approaches (Moon H.R.Hyungsik Roger & Perron, Benoit, 2004b).

Panel data can contain group effects, temporal effects, or both, as these effects are fixed and random, and are analyzed using models.

The panel data set contains observations of  $n$  individuals, each measured at the time point  $T$ .

The total number of observations becomes  $N \cdot t$ .

A panel data model can be expressed in the most general form as follows (Robert A. Yaffee, 2005).

$$Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 X_{2t} + \dots + \beta_k X_{kt} + u_{it} \quad (1)$$

In the model,  $i = 1, 2, N$  is the cross-section unit, and  $t = 1, 2, T$  is the times series index.

Also, it is assumed that the error term is independently and normally distributed for all periods and units of time (Phillips P C B & D Sul, 2003).

The general form for the Panel VAR model of order  $p$  with panel-specific fixed effects used in this study is represented as follows,

$$Y_{i,t} = \alpha_1 Y_{i,t-1} + \dots + \alpha_p Y_{i,t-p} + \mu_i + u_{it} \quad (2)$$

Where  $Y$  represents the variables of interest. Notice that lags of variables are included in the analysis.

The error term is assumed to be serially uncorrelated.

The list of the countries included in the sample is provided in Table 6.1.

A list of variables used in the analysis is presented in Table 6.2.

All data used in the study were data generated on an annual basis and obtained from the databases of World Bank WDI and UNCTAD databases

**Table 6.1:** Shows the sample countries and periods used for the analysis (Sours the work of the researcher, 2021).

Countries	Period
Algeria	1960 -2019
Bahrain	1960 -2019
Egypt	1960 -2019
Iran	1960 -2019
Iraq	1960 -2019
Jordan	1960 -2019
Kuwait	1960 -2019
Lebanon	1960 -2019
Libya	1960 -2019
Morocco	1960 -2019
Oman	1960 -2019
Qatar	1960 -2019
Saudi Arabia	1960 -2019
Syria	1960 -2019
Tunisia	1960 -2019
Turkey	1960 -2019
United Arab Emirates	1960 -2019
Yemen	1960 -2019

Table 6.2: The variables used in the analysis (Source: The work of the Researchers, 2021)

Variable Name	Abbreviation for Variable	Unit of Variable
Foreign Direct Investment	FDI	Ratio to GDP.
The gross domestic product growth rate	GDP	The annual percentage growth rate of GDP at constant local currency.
Inflation	CPI	Percentage change.
EXPORT	EXP	Ratio to GDP.
IMPORT	IMP	Ratio to GDP

## **6.2 Gross Domestic Product (GDP)**

Gross Domestic Product (GDP) is the market value of all final goods and services produced in a country during a specified period (Qaiser Abbas, et.al, 2011).

GDP consists of government and private consumption spending and capital formation. There is a close relationship between economic growth rates and the rate of investment, which is an important indicator that affects GDP (Carlos & V Z Eddie, 2015).

GDP is one of the most used measures of economic performance, it can be determined for a specific country through its calculation in easy ways, as each country uses different methods according to the nature of its economy (Shobhit Seth, 2019).

There are basic types of GDP, classified according to their constituent components as Nominal GDP is the measure that includes measuring the gross domestic product with the calculation of changing market prices at present, and it includes all changes in market prices during the current year due to inflation or deflation, and this output is often higher than the real GDP (Vinita Denisia, 2010).

Concerning the real GDP, it is used to compare economic output from one year to the next, where the effects of inflation are eliminated and reflect the actual change in production excluding the price increases. GDP per capita is measured by the standard of living and individual well-being in a country and can be obtained by dividing a country's GDP by the population (Al-Khatib, M A, 2011).

## **6.3 Inflation Rate**

Inflation is the general level of prices in a country (Fredrik N G Andersson, 2011).

Inflation indicates a continuous rise in prices, the continuous decline in the value of the local currency, and the continuous decline in the purchasing power of the monetary unit (Emmanuel Amoah, et.al, 2015).

Likewise, every increase in money in circulation leads to an increase in the general level of prices (World Bank, 2013).

Inflation can be analyzed as a monetary phenomenon, which is an increase in the amount of money that leads to an increase in prices through the money supply (issuing money or expanding credit creation) or the demand for money (money spending), assuming other elements remain stable at least in the long and short term (Ahmad Battal, 2018).

The increase in money supply above the rate of economic growth is an important determinant of economic growth resulting from the continuous increase in the money supply, and money growth can be used as a measure of the rate of inflation in the short, medium, and long term, and taking advantage of this growth to develop economic policies in general (Patrick Enu, et.al, 2014).

#### **6.4 Exports**

Exports are goods or services which are produced in one country and sold in another country.

Policymakers encourage exports because it indirectly increases the production of local goods and services, increases sales, reduces export costs, opens new markets for the company or factory for its products abroad, and increases profits, which is what the owners of factories and large companies want only, preserves the quality of commercial products, and does good marketing activity (Barka Ahmed Barka Kashtu, et.al, 2019).

Foreign direct investment contributes to the development of the country's exports by ensuring the country's integration with international trade.

As foreign direct investment leads to an increase in exports, it is an important resource in the development process, especially if the manufacturing sector is export-oriented and does not impose any obligation on the country of origin (Fuad Rashid Bullo, 2013).

## 6.5 Imports

Imports are the purchase of goods or services from one country and selling them within the host country. The lack of appropriate technology for its production or the raw materials or labor necessary for production might lead to import decisions.

Imports contribute to the introduction of new products into the local market and reduce the costs of manufacturing the local product inside the country if the cost of production is high within the country, and provides high-quality products at a lower price than the local product (Yilmaz Bayar, 2016).

It provides an opportunity for excellence and leadership in a particular industry, as importing a specific product before competitors gives the advantage of importing that product first; making this product over time a pioneer, especially if this product is unique (Barka Ahmed Barka Kashtu, et.al, 2019).

Despite these advantages, the import has disadvantages, including the increase in demand for foreign currency, and this certainly affects the country's economy and the price of the currency, as the price of the foreign currency will increase against the local currency (Khan Zakir Saadullah & Hossain M Ismail, 2010).

Moreover, the tendency to consume instead of production, as this point is harmful, especially in developing countries, including Iraq, where the country becomes a consumer leads to a decline in economic growth, and turns Iraq into a non-producing country, and it falls under the weight of many countries that export their products to it, and the value of its local currency increases against foreign currencies (Hatem Hatef Abdulkadhim Altaee, et.al, 2016).

The application of this study to investigate the effects of foreign direct investment in Iraq, in comparison with selected countries from the Middle East and North Africa region, on GDP growth, inflation rate, and foreign trade transactions (exports and imports) for these countries consists of three stages.

In the first stage, the datasets are identified and basic values of investments (FDI), gross domestic product (GDP), inflation, exports (EXP), and imports (IMP), are examined.

In the second stage, panel VAR-Granger causality tests are utilized to analyze the causal relationship between the variables. In the third and final stage, the relationships between the independent variable, foreign direct investment, and dependent variables GDP growth, inflation rate, exports, and imports were estimated using a fixed-effects procedure.

The procedure uses Driscoll–Kraay standard errors considering the cross-sectional dependency issues of the panel data used.

The following are hypotheses tested regarding the foreign direct investment variable used in the models developed within the scope of

Hypothesis (1):

An increasing volume of foreign direct investment in the economy of any host country leads to an increase in the economic growth of the host country, that is, there is a positive mutual effect between the two variables.

Hypothesis (2):

The increase in foreign direct investment inflows leads to a reduction in the inflation rate, meaning that the expected relationship between foreign direct investment flows and the inflation rate is a negative relationship.

Hypothesis (3):

An increase in foreign direct investment in the economy of the host country will increase the country's exports. That is, the relationship is positive between the two variables.

Hypothesis (4):

The increase in foreign direct investment towards the country's economy will have a negative impact on imports.

Foreign direct investment is the home of the initial investment and the operational stages. If foreign direct investment in the host country uses that country's resources to produce them in the country of origin, this situation will reduce the import of the host country.

Bringing in the equipment, machinery, facilities, experts, and managers necessary from abroad for production and activities in the host country can increase the import balance for the host country.

Table 6.3: Descriptive Statistics (Source: The work of the Researchers, 2021)

Statistic	FDI/GDP	GDP Growth	Exports/GDP	Imports/GDP	Inflation Rate
Mean	1.67	4.97	42.00	37.11	8.89
Standard deviation	3.21	7.85	22.16	19.27	13.24
Minimum	-13.60	-42.45	3.28	3.67	-16.12
Maximum	33.57	58.65	130.86	125.71	105.21
Number of observations	784	778	576	765	777
Number of cross-section units	18	18	18	18	18

Table 6.3 reports the descriptive statistics used for the estimation. Growth rates are quite high but a significant amount of growth volatility is observed. A similar observation holds for the inflation series.

Due to the oil-exporting countries, the export to GDP ratio exhibits a high mean value for the sample.

The amount of FDI inflows are 1.67 percent of the GDP on average, with a substantial amount of variance.

The unit root was tested in the panel data, using a non-parametric Fisher test that adopted a set of p-values for test statistics for the unit root in each sectional unit (ADF test-T).

The advantages of Fisher's test does not require a balanced panel, Fisher can be performed for any unit root derivative test (Ananda Banerjee, et.al, 2005).

Table 6.4: ADF-Fisher Panel Unit Root Tests (Source: The work of the Researchers, 2021)

	FDI/GDP	GDP Growth	Exports/GDP	Imports/GDP	Inflation Rate
$H_0$ : All panels contain unit roots					
Chi-square	119.5651	169.4541	92.0154	121.4791	132.0609
p-value	0.0000	0.0000	0.0000	0.0000	0.0000
Number of cross-sections	784	778	576	765	777
Number of observations	18	18	18	18	18

To test the hypotheses summarized in the previous section, bivariate panel VAR models are estimated using FDI to GDP ratio and the other variables.

To test the causality, Granger causality tests are conducted for these models. 1969 Granger causality test was proposed by Granger, CWJ, and is a statistical hypothesis test to determine if one time series is useful in predicting another (Granger C W J, 1969).

Granger explained that causality can be tested by measuring the ability to predict future values for a given time series by way of past values of a second-time series. Granger's causality tests say that Y can predict X, instead of whether Y causes X (Hamilton James D, 1994).

The time series X for Granger-reason Y, through a series of t-tests and F-tests on the subsequent values of X, that is, the X values provide statistically significant information about the future values of Y (Clive Granger W J, 2004).

Three separate cases can be cited in the Granger causality test. These are;

- 1 One-way causality: It is the existence of a causality relationship from one variable to another variable.

- 2 Bidirectional causality: This causality refers to mutual interaction between variables due to the presence of a bidirectional relationship between variables.
- 3 Absence of any relationship: It means that the two variables are independent of each other. In other words, both variables do not affect each other and there is no relationship between them.

Table 6.5: panel VAR-Granger causality Wald test on the growth rate (Source: The work of the Researchers, 2021)

Equation \ Excluded	chi2	df	Prob > chi2
fdi_GDP			
growth	0.362	1	0.547
Growth			
fdi_GDP	7.704	1	0.006

Table 6.5 presents the Granger causality tests of the bi-variate panel VAR model with FDI to GDP ratio and growth rate.

Results indicate a one-way causality. FDI to GDP ratio Granger causes growth, but growth does not Granger cause FDI/GDP ratio.

Next, Granger causality test results of the bi-variate panel VAR model with FDI to GDP ratio and inflation rate are reported in Table 6.6.

Results exhibit a one-way causality among these variables. Inflation Granger causes FDI to GDP ratio, but FDI to GDP ratio does not Granger cause inflation.

Table 6.6: panel VAR-Granger causality Wald test on the inflation rate (Source: The work of the Researchers, 2021)

Equation \ Excluded	chi2	df	Prob > chi2
fdi_GDP			
inflation	5.474	1	0.019
Inflation			
fdi_GDP	0.003	1	0.957

Next, Granger causality test results of the bi-variate panel VAR model with FDI to GDP ratio and export performance results from Granger causality tests are reported in Table 6.7.

The test results show that export to GDP ratio does not Granger because of FDI to GDP ratio, but FDI to GDP ratio Granger causes export to GDP ratio.

Table 6.7: panel VAR-Granger causality Wald test on the export to GDP ratio  
(Source: The work of the Researchers, 2021)

Equation \ Excluded	chi2	df	Prob > chi2
fdi_GDP export_GDP	2.426	1	0.119
export_GDP fdi_GDP	7.465	1	0.006

Next, Granger causality test results of the bi-variate panel VAR model with FDI to GDP ratio and import results from Granger causality tests are reported in Table 6.8.

Using the import to GDP ratio, results from Granger causality tests are presented in

The test results indicate that FDI to GDP ratio Granger causes import to GDP ratio.

On the other hand, import to GDP ratio does not Granger causes FDI to GDP ratio.

Table 6.8: panel VAR-Granger causality Wald test on the import to GDP ratio  
(Source: The work of the Researchers, 2021)

Equation \ Excluded	chi2	df	Prob > chi2
fdi_GDP impport_GDP	0.941	1	0.332
import_GDP fdi_GDP	4.624	1	0.032

To examine the nature of the relation between FDI and growth, fixed effects regression is estimated.

The results are reported in Table 6.9.

The model indicates an insignificant coefficient for FDI to GDP ratio.

Table 6.9: FDI and GDP Growth (Source: The work of the Researchers, 2021)

```

Regression with Driscoll-Kraay standard errors   Number of obs   =   712
Method: Fixed-effects regression                Number of groups =   18
Group variable (i): IFS_code                   F( 1, 49)      =   0.00
maximum lag: 3                                 Prob > F       =   0.9544
                                                within R-squared =   0.0000
    
```

growth	Drisc/Kraay		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
fdi_GDP	.0071281	.1240041	0.06	0.954	-.2420675	.2563237
_cons	.0479554	.0071368	6.72	0.000	.0336134	.0622974

Next, in Table 6.10 the same exercise with the inflation rate is conducted.

The results also exhibit an insignificant relationship between FDI and inflation rate.

Table 6.10: FDI and Inflation Rate (Source: The work of the Researchers, 2021)

```

Regression with Driscoll-Kraay standard errors   Number of obs   =   651
Method: Fixed-effects regression                Number of groups =   18
Group variable (i): IFS_code                   F( 1, 49)      =   2.09
maximum lag: 3                                 Prob > F       =   0.1548
                                                within R-squared =   0.0015
    
```

inflation	Drisc/Kraay		t	P> t	[95% Conf. Interval]	
	Coef.	Std. Err.				
fdi_GDP	-.1395503	.0965796	-1.44	0.155	-.3326343	.0545337
_cons	.0963245	.0109841	8.77	0.000	.0742512	.1183978

Table 6.11. Regarding the export to GDP ratio, the findings suggest that export performance can be improved by FDI inflows.

One point increase in FDI to GDP ratio is associated with an increase of 0.71 point increase in export to GDP ratio.

Table 6.11: FDI and Exports (Source: The work of the Researchers, 2021)

```

Regression with Driscoll-Kraay standard errors   Number of obs   =   575
Method: Fixed-effects regression                 Number of groups =   18
Group variable (i): IFS_code                    F( 1, 48)      =   3.79
maximum lag: 3                                  Prob > F       =   0.0574
                                                within R-squared =   0.0384
  
```

export_GDP	Drisc/Kraay			P> t	[95% Conf. Interval]	
	Coef.	Std. Err.	t			
fdi_GDP	.7113406	.3653325	1.95	0.057	-.0232096	1.445891
_cons	.4067554	.0114486	35.53	0.000	.3837364	.4297743

Table 6.12. Considering the developments in import to GDP ratio, the results show that there is no significant relationship between FDI and imports for the sample countries.

Table 6.12: FDI and Imports (Source: The work of the Researchers, 2021)

```

Regression with Driscoll-Kraay standard errors   Number of obs   =   696
Method: Fixed-effects regression                 Number of groups =   17
Group variable (i): IFS_code                    F( 1, 49)      =   0.21
maximum lag: 3                                  Prob > F       =   0.6527
                                                within R-squared =   0.0012
  
```

import_GDP	Drisc/Kraay			P> t	[95% Conf. Interval]	
	Coef.	Std. Err.	t			
fdi_GDP	.1246857	.2753844	0.45	0.653	-.42872	.6780914
_cons	.385768	.0136973	28.16	0.000	.3582422	.4132938

## 6.6 Conclusion

Since the nineteenth century, liberal economic policies began to emerge, and the era of non-economic intervention began with the removal of barriers to the movement of trade and capital between countries, and the emergence of multiple forms of international trade. Foreign capital investment has also emerged as an important type of investment that has a positive impact on developed and developing countries.

Globalization has created this situation, as it pushed countries to integrate with the outside world, and increased interest in foreign direct investment. Most countries, especially developing countries, resort to external borrowing to provide the funds needed to achieve economic growth and economic development and to bridge the gap between savings and the need for funds.

This is because these countries suffer from many problems such as savings deficits and capital accumulation, as they allocate a large part of their public resources to current expenditures, debt payments, and interest. As external borrowing is carried out with high interest, which must be paid from the profits of investments, and these funds are paid with interest, and this constitutes a heavy burden on the economy if the state does not allocate these funds properly. As it is often that this borrowing is expensive and risky for the borrowing country. At present, the economic, trade, and technological borders are gradually disappearing.

Therefore, foreign investment of all kinds has emerged, and it is an important tool for financial expansion and integration into the international platform. Foreign direct investment in developing countries, the Middle East and North Africa region, and Iraq in particular, is an important tool in achieving sustainable growth. Foreign investment is important for economic growth and the sustainability of this growth, so countries need to have sufficient savings to maintain sustainable growth. Developing countries with a savings deficit, in particular, can avoid this savings deficit from other countries or institutions and can cancel their debts and obtain foreign investment.

Foreign direct investment continues to be restricted by many administrative, political, and regional factors, in addition to the fact that the private sector's potential to contribute to foreign direct investment is still weak, and the skills of local labor are weak.

And if foreign capital turns into the real sector, as is the case in general, the services sector in these countries is higher than the industrial sector. It is important to direct these foreign investments to the industrial sector rather than the services sector, which will have a greater impact on the country's economic growth.

The growth of the industry in these countries will increase the production in the country, and the volume of trade in the country will increase and accelerate economic development. This investment leads to long-term growth and development of the economy.

Due to the importance of foreign investment as an important resource for countries, it causes a lot of competition among countries that want to obtain more shares from these resources. It brings many positive advantages.

Therefore, radical solutions must be found to the difficulties that control the rate of flow of this investment, and to increase it in the future and direct it to important industrial sectors. Foreign direct investment contributes to bridging the domestic financial and human resource gap, meaning that it contributes financially to bridging the gap between the required domestic resources and the size of the actual domestic resources, as well as bridging the gap.

The gap of technical skills and training for workers and administrators and the transfer of modern technical and administrative methods in production. Contributing to bridging the deficit in the balance of payments. The increase in capital flow and the increase of physical capital will have a positive effect on the capital account in the balance of payments as a result of foreign companies selling currencies to obtain the national currency to contribute to production and operation. In this research, several countries in the Middle East and North Africa, and Iraq as one of them.

Iraq is a developing country that suffers from many problems that have caused foreign investment not to go to it, as the foreign share of investments in Iraq since 2006 is considered small and does not meet the real need of the country, and it does not exist in many sectors, but most of it is limited to the oil and extractive sector. It is necessary to make the best use of attracting foreign capital, converting this advantage in its favor, and making efforts to gather investors from Europe and Asia to it.

Given the importance of these investments for Iraq to strengthen its technological infrastructure, it is in the ranks of countries that possess many resources, and Iraq, which occupies an important position in the world, especially in the location of oil and natural gas producers and sellers, enjoys these advantages that allow more foreign capital to enter the country. Iraq is the owner of an important geopolitical position to attract capital and work to find a real bridge for Iraq from Asia to the markets of the Middle East, Africa, and the rest of the world. Laying out plans and strategies to attract this investment to Iraq and the various sectors and its contribution to economic growth.

Also, Iraq lacks a developed economic structure favored by these foreign direct investments in the country. Likewise, the investment climate in Iraq is not prepared enough to attract foreign capital to it. Iraq lacks a technically and professionally trained workforce. Most of the countries in the region suffer from high rates of inflation, which is one of the important reasons for the weak direction of this investment to the countries of the Middle East and North Africa.

Since the high rate of inflation leads to a rise in the prices of goods and services in the country, and this leads to a loss of the national currency and a decrease in its value, this weakens individuals' confidence in it. As for the countries of the Middle East and North Africa, they are countries that suffer from political, social, and economic problems. It suffers from a lack of local financing and a gap between the available and actual funds and the need for economic opportunities in it. All these problems threaten the chances of attracting foreign direct investment inflows.

Therefore, it needs to implement major reforms and measures for its economic structure. Most of the foreign investment is concentrated in oil-producing countries and on this resource, as the growth of their economy depends on this sector, which constitutes a high percentage of their GDP.

The countries of this region should focus on building regional relations and groupings with each other and then go to other countries in the world. As foreign investment is important for economic development, providing incentives for multinational companies, developing local companies in line with the development in the world in other countries, and developing and opening their markets.

Internationally, liberalizing its financial policies, reducing entry barriers, opening new sectors, and providing various forms of incentives to encourage foreign companies to invest in these countries. This investment should be directed to the real contribution to the GDP and the various sectors, as it is an important indicator to measure the strength of the country's economy.

Achieve the integration of this investment activity and encourage trade between the countries of the region. And the formation of a unified bloc for him, setting a unified financial and economic policy for him, and setting appropriate laws and legislation for this group.

From what was discussed in this study was a conclusion regarding foreign direct investment in Iraq the following:-

The investment environment in Iraq lacks security, political and economic stability, and the government's political and economic process is unclear.

Unstable economic conditions had a clear effect on stock returns and stock market value, as they were unstable and even fluctuated between high and low periods. According to the research, foreign direct investment is important for Iraq in general and macroeconomic variables in particular.

Therefore, the appropriate investment climate and good international relations between Iraq and other countries must be provided.

Finding radical solutions to the difficulties that control the proportion of this investment to increase it in the future and direct it to the important sectors. This is due to the presence of investment opportunities in the Iraqi economy in various sectors such as agriculture, tourism, transportation, communications, and services.

It is considered at present the best type of investment in private sector banks if the market value is the largest among the market values of the private sector. The rest of the companies' shares are located in other sectors, and this corresponds to the high overall risk of this investment group.

## **6.7 Recommendations**

Based on the results and statistical analyzes that were made in this thesis on the impact of foreign direct investment on several macroeconomic components of Iraq and the Middle East and North Africa region.

Several recommendations have been developed that help increase the flow of this investment to this region in general and Iraq in particular, and they are as follows:-

- 1 Encouraging direct foreign investment in a way that guarantees the rights and sovereignty of the country, developing the economic sector, and working to increase the ability of the Iraqi economy to obtain better investment opportunities and help it to deal with the new global economic changes.
- 2 Accelerate the integration of the Iraqi economy and the region's economy in general with the global economic system, and create an appropriate investment environment that supports innovation and scientific research, supports foreign direct investment activity, develops the public and private sectors, and attracts this investment through traditional or modern channels.
- 3 Conducting economic and financial feasibility studies to find out the available foreign investment opportunities and to identify the sectors that the country wishes to attract and diversify foreign direct investment into, the objectives of each sector, the necessary means, and the investment attraction strategy.

- 4 Linking the foreign direct investment policy with the state's general economic policy to achieve macroeconomic goals, while adopting the economic reform policy, creating favorable environmental investment conditions to encourage investment, reforming the monetary system and the financial sector, setting up a new monetary policy framework, and allowing foreign investors to open bank accounts and provide investment financing facilities.
- 5 Conducting economic and financial feasibility studies to find out the available foreign investment opportunities and to identify the sectors that the country wishes to attract and diversify foreign direct investment into, the objectives of each sector, the necessary means, and the investment attraction strategy.
- 6 Developing the infrastructure, providing the legislative environment, amending investment laws, providing legal attraction factors such as tax guarantees due, especially in safe governorates, and providing a procedural environment to improve the procedures and aspects required to attract investors and foreigners.
- 7 Based on the results of this study and according to the Panel VAR-Granger causality tests, There is a one-way causal relationship and influence from FDI to GDP and growth, but it is not important in Iraq, the Middle East, and North Africa, and this is in line with previous theories and opinions of other economists. The lack of an impact of growth on foreign direct investment, most of the foreign direct investment in This region's oil sector is concentrated in a few countries.

As for the rest of the sectors, the percentage of this investment is very small, so it is better to create the appropriate conditions and investment climate with all its components, to direct this investment to all sectors, at fair rates, especially the production sector. And the industrial sector works to increase the efficiency of production factors, applying the latest methods and modern technologies in production, introducing the concept of total quality in management and production in pursuit of global competition, and establishing modern and long-term investment projects that lead to investment and returns to the state from foreign direct investment abroad.

- 8 The study also showed Based on the results of this study and according to an analysis panel VAR-Granger causality Wald test, that there is no effect of foreign direct investment on inflation, but the presence of an effect of the rate of inflation affects the attraction of this investment, that is, the existence of a one-way relationship between inflation and the direction of investment, so It is necessary for those responsible for financial and economic policies in Iraq and the countries of the region to follow a fiscal and monetary policy that tries to reduce the rate of inflation to an acceptable level in every country. Those responsible for the financial and economic policies in Iraq. And the countries of the region should follow a fiscal and monetary policy that tries to reduce the inflation rate to an acceptable level in every country.
- 9 For export, based on results analysis panel VAR-Granger causality Wald test, there is a strong one-way causal relationship and the impact of foreign direct investment on exports in Iraq and the countries of the region, but most of the exports were in the oil sector, so these countries should diversify their production and encourage This investment provides many facilities and incentives in their countries, liberalizing some sectors from foreign investment, liberalizing foreign trade, establishing a system of customs tariffs, facilitating customs procedures, and reducing fees and taxes on goods to encourage this investment to come to the region.
- 10 Also, concerning imports based on the results of the VAR-Granger causal test from the Wald analysis panel, found a one-way causal relationship from the impact of investment to imports, so Iraq and the rest of the countries should reduce imports, and limit themselves to only strategic and important goods and services, and not rely on luxury goods. Not important, and at the moment, Iraq is a country that imports all goods and services at a very high rate.
- 11 Finally, To promote the fair distribution of foreign direct investment revenues, to achieve justice and social protection for all members of Iraqi society and the societies of these countries, and to address unemployment and reduce its percentage.



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## APPENDICES

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**Appendix-A:** List of countries covered by the research (Sours: The work of the researcher, 2020)

	Countries	Period
1	Algeria	1960 -2019
2	Bahrain	1960 -2019
3	Egypt	1960 -2019
4	Iran	1960 -2019
5	Iraq	1960 -2019
6	Jordan	1960 -2019
7	Kuwait	1960 -2019
8	Lebanon	1960 -2019
9	Libya	1960 -2019
10	Morocco	1960 -2019
11	Oman	1960 -2019
12	Qatar	1960 -2019
13	Saudi Arabia	1960 -2019
14	Syria	1960 -2019
15	Tunisia	1960 -2019
16	Turkey	1960 -2019
17	United Arab Emirates	1960 -2019
18	Yemen	1960 -2019

**Appendix-B:** Total oil and non-oil exports, total imports, and annual growth rates for them in Iraq for the period from 1998 to 2016 Value: million dollars, growth rate Gr (OPEC, 2016).

Years	Oil Export	Oil Gr	Oil Gr	Goods & serves Export. Gr	Agg. Export	Agg. Export Gr	Agg. Import	Agg. Import Gr
1998	*5111	19.416	389	20.807	*5500	19.513	4986	35.38
1999	12104	136.823	963	147.558	13067	137.582	9097	82.45
2000	15685	29.585	3057	217.445	18742	43.430	11009	21.02
2001	10400	-33.695	2472	-19.136	12872	-31.320	11152	1.30
2002	8627	-17.048	3591	45.267	12218	-5.081	9817	-11.97
2003	8970	3.976	741	-79.365	9711	-20.519	9934	1.19
2004	17700	97.324	110	-85.155	17810	83.400	21302	114.44
2005	24077	36.028	218	98.182	241954	1258.529	23532	10.47
2006	30299	25.842	230	5.505	30529	-87.382	22009	-6.47
2007	39336	29.826	254	10.435	39590	29.680	19556	-11.15
2008	63418	61.221	308	21.260	63726	60.965	35012	79.03
2009	39311	-38.013	115	-62.662	39426	-38.132	41512	18.57
2010	51589	31.233	174	51.304	51763	31.292	43915	5.79
2011	79408	53.924	273	56,897	79681	53.934	47803	8.85
2012	93779	188.098	430	57.509	94209	18.233	59006	23.44
2013	89350	-4.723	418	-2,791	89768	-4.714	59349	0.58
2014	83539	-6.504	442	5.742	83981	-6.447	53177	-10.40
2015	43059	-48.456	383	-13.348	43442	-48.272	39045	-26.58
2016	40494	-5.957	265	-30.809	40759	-6.176	34280	-12.20

**Appendix-C: Direct investment net (BoP, current US\$ in Iraq) (Source: IMF, Iraq, 2016).**

Year	Value
2006	0.468
2007	0.009
2008	0.026
2009	0.064
2010	0.090
2011	0.197
2012	0.225
2013	0.097
2014	0.103
2015	0.082
2016	0.17

**Appendix-D:** Direct investment, net inflows to Iraq (BoP, current US\$) (Source: IMF, Iraq, 2016)

Year	Value
2006	(\$78,000,000)
2007	(\$963,900,000)
2008	(\$1,822,100,000)
2009	(\$1,526,400,000)
2010	(\$1,271,300,000)
2011	(\$1,716,000,000)
2012	(\$2,910,000,000)
2013	(\$4,904,300,000)
2014	(\$4,540,300,000)
2015	(\$3,168,600,000)
2016	(\$157,900,000)

**Appendix-E:** (User "data file)

Panel variable: IFS\_code (strongly balanced)

Time variable: Year, 1960 to 2019

Delta: 1 unit

```
. *drop if (Year<=1980)
```

```
. gen fdi_GDP = 1000000 * FDI/GDP_current
```

(304 missing values generated)

```
. gen export_GDP = (Export/GDP_current)/1000
```

(314 missing values generated)

```
. gen import_GDP = (Import/GDP_current)
```

(314 missing values generated)

```
. gen inflation = Inflation/100
```

(295 missing values generated)