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DEPARTMENT OF ECONOMICS



**THE IMPACT OF FOREIGN DIRECT INVESTMENT ON
ECONOMIC GROWTH: IRAQ CASE STUDY FOR THE
PERIOD (2004-2019)**

MASTER DEGREE

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Araz Waleed HUSSEIN

ABSTRACT

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH: IRAQ CASE STUDY FOR THE PERIOD (2004-2019)

MSC THESIS

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The main aim of this study was to investigate and estimate the impact of foreign direct investment (FDI) on Iraqi economic growth that depending on data from 2004 to 2019. We determined Gross domestic product (GDP), an alternative to economic growth as a dependent variable. FDI inflows and Oil Revenue are independent variables of this study obtained from World Bank various database resources.

According to this research, the low-level FDI to GDP ratio for our study period is just 1.12% in 2012, a very modest ratio. FDI inflows grew dramatically with the passage of the Investment Law of 2006. In Iraq's economy, the oil and gas industry contributes the most to the government's budget.

In addition, numerous tests such as unit root are used to evaluate GDP, FDI, and Oil Revenue, which are all stationary at the first difference and significant at 5%. The Johansen Cointegration tests were performed to examine the relationship between GDP, FDI, and Oil Revenue. We found that all variables are cointegrated, with a P-Value of 0.0001, indicating that the variables have a long-run relationship. Another finding according to least-squares revealed that the prob f-statistic 0.002516 was significant at 5% or lower, indicating that FDI and oil revenue have a positive impact on economic growth.

KEYWORDS: Economic Growth, Foreign Direct Investment, Gross Domestic Product, Iraq.

ÖZET

DOĞRUDAN YABANCI YATIRIMLARIN EKONOMİK BÜYÜME ÜZERİNDEKİ ETKİSİ: IRAK ÖRNEĞİ (2004-2019)

YÜKSEK LİSANS TEZİ

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BOLU ABANT İZZET BAYSAL ÜNİVERSİTESİ

LİSANSÜSTÜ EĞİTİM ENSTİTÜSÜ

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Bu çalışmanın temel amacı, 2004-2019 yılları arasındaki veriler yardımıyla doğrudan yabancı yatırımların (DYY) Irak'ın ekonomik büyümesi üzerindeki etkisini araştırmak ve tahmin etmektir. Bu çalışmada, Dünya Bankası veritabanından elde edilen Gayrisafi Yurtiçi Hasıla (GSYİH) bağımlı değişken, DYY girişleri ve Petrol Geliri bağımsız değişkenler olarak kullanılmıştır.

Elde edilen bulgulara göre, DYY'nin GSYİH'ye oranı 2012 yılında % 1,12 gibi düşük bir oranda gerçekleşmiştir. DYY girişleri, 2006 yılında Yatırım Kanununun yürürlüğe girmesiyle önemli ölçüde artış göstermiştir. Irak ekonomisinde, hükümet bütçesine en fazla katkıyı petrol ve doğal gaz endüstrisi sağlamaktadır.

GSYİH, DYY ve Petrol Gelirleri arasındaki ilişkiyi ortaya koymak amacıyla yapılan birim kök testi ve diğer test sonuçlarında değişkenlerin düzeyde durağan ve % 5 düzeyinde anlamlı olduğu görülmüştür. Johansen Eşbütünleşme Testi değişkenler arasındaki ilişkiyi ortaya koymak amacıyla uygulanmıştır. Analiz sonucunda değişkenlerin eşbütünleşik, P-Değeri'nin 0.0001 olması uzun dönemli ilişkinin varlığını göstermiştir. En Küçük Kareler Yöntemi yardımıyla %5 anlamlılık düzeyine göre F istatistiği 0.002516 olarak bulunmuştur. Bu sonuç DYY'nin ve petrol gelirinin büyüme üzerinde olumlu etkisini ortaya koymuştur.

ANAHTAR KELİMELELER: Ekonomik Büyüme, Doğrudan Yabancı Yatırım, Gayri Safi Yurtiçi Hasıla, Irak.

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LIST OF ABBREVIATIONS AND SYMBOLS

ADF	: Augmented Dickey-Fuller
AIC	: Akaike Information Criterion
ARCH	: Autoregressive Conditional Heteroskedasticity
BRICS	: Brazil, Russia, India, China, and South Africa
CUSUM	: Cumulative Sum
EG	: Economic Growth
FDI	: Foreign Direct Investment
FI	: Foreign Investment
FIL	: Federal Investment Law
FPE	: Format Preserving Encryption
FT	: Foreign Trade
GATT	: General Agreement on Tariffs and Trade
GDP	: Gross Domestic Product
GNP	: Gross National Product
HFDI	: Horizontal Foreign Direct Investment
IBBC	: Iraq Britain Business Council
IMF	: International Monetary Fund
ISIS	: Islamic State of Iraq and Syria
LM	: Little Mix
LR	: Light Reflectance
MNC	: Multinational Company
MNE	: Multinational Enterprise
OECD	: Organisation for Economic Co-operation and Development
OLS	: Ordinary least Squares
OR	: Oil Revenue
PP	: Phillip-Perron
PPP	: Purchasing Power Parity
SC	: Shading Coefficient
UNCTAD	: United Nations Conference on Trade and Development
UNDP	: United Nations Development Programme
US	: United States
US\$	: United States Dollar

USAID	: United States Agency for International Development
VAR	: Value at Risk
VFDI	: Vertical Foreign Direct Investment
VIF	: Variance Inflation Factors
WTO	: World Trade Organization
WWII	: World War Two



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INTRODUCTION

International capital flows were aided by the globalisation process, which reduced trade barriers between nations. Foreign Direct Investment (FDI) to developing nations grew after the 1990s due to developing countries' open policies, which accelerated FDI flow.

FDI expenditures increased dramatically in all areas worldwide in the 1980s and 1990s, and the advantages and costs of FDI flows were debated. In past years, authorities and decision-makers have attempted to find as many constructive ways as possible to increase FDI flows into their countries, along with industrialized nations. The basic idea of FDI is to maintain reasonable policies and rates of growth, hence the potential of these flows to perform a crucial role in improving the economic situation by attempting to bring in capital and managerial exodus.

Following World War II, FDI had a significant influence on global growth. Governments must employ FDI to build their economies. FDI is a mechanism in which citizens of the source nation acquire property to control, distribute, and engage in various operations of a firm in the host country (Moosa, 2002, pp. 1-2). Nevertheless, because FDI is among the most important channels for knowledge transfer, there is strongly believed that FDI must contribute to technological advancement and raise the long-term capital growth rate (Neuhaus, 2006, pp. 44-45).

Furthermore, many nations have been worried about FDI as a potential resource, modernisation, income, and job possibilities. Within a national strategy aimed at adjusting local policies to maximize direct and indirect advantage paybacks, the nations have liberalised their rules, devised, and executed several strategies to encourage these investments. FDI also influences the Economic Growth in host countries at the fundamental level because it saves money on technology transfer, human capital development, and global commerce integration contributing to a more competitive environment for firms and organisations to grow. Economic growth has been the only option to lift people out of poverty in developing countries. FDI can greatly stimulate firm expansion in the host country (Hassan, 2020).

As the fast increase of international trade in inputs has fueled total world commerce growth in recent years, the function of FDI in facilitating nations' access to international markets has grown in prominence (Goldstein, 2004, pp. 14-15). It has been reported that global FDI was \$1.39 trillion in 2019. In 2019, the United States had \$251 billion in foreign investments the world's largest country (Global Investment Trends Monitor, 2020, pp. 3-7).

International investment has always been an option for Iraq, especially since issuing the Investment Law No. 13 by the Iraqi Federal Government (FIL) in 2006 (Hanna, Hammoud & Russo-Converso, 2014). The Iraqi government maintains the authority to screen FDI under the (FIL). As a result, the law enhances the rate of FDI in Iraq, which promotes job possibilities, income, and the expansion of numerous industries. Because Iraq still demands investment in modernization and infrastructure development, it might be an intriguing location for FDI. Following the (Federal Investment Law), various firms came to Iraq to invest, and Iraq has benefited from FDI in industry, utility services, real estate, tourism, and other sectors over the years (Nordea Trade, 2021). Inflows of FDI surged in both emerging and developed nations, with Iraq receiving the highest rate of FDI in late 2004 (World Investment Report , 2006). In 2019, Iraq has received \$ 3076 million in international investments, as per the World Bank estimate (World Bank, 2021).

Problem of the Study

Capital accumulation is one of the available resources necessary for EG and growth in established, growing, and impoverished countries. The main justification for wealth generation is to supplement nations' resource demands, increase their competitiveness against other countries, and boost welfare levels. Globalization and rapid advances in communication, information, and transportation technology have broken down economic barriers, and the liberalisation of goods and services trade and financial markets has altered the emphasis of FDI. By driving domestic and international entrepreneurs across boundaries to generate greater profit, the growth of these borders has brought multinational corporations to the global economy. The capital flows that push investors across borders are split into indirect and direct.

Long-term FDIs are made by a corporation building a manufacturing plant in a nation other than the present company's investment or acquiring an existing

company. In this regard, when FDIs are made over a lengthy period, they have a varied influence on the economic structures of both the host and source countries. FDIs provide all production variables to the host nation, including technology, business expertise, knowledge, marketing abilities, and productivity increaser machinery, in addition to finance.

Several investors, notable foreigners, are concerned about Iraq's security situation. As a result, such misunderstandings arise as a result of the media's tendency to generalise Iraqi security, even though Iraq and several portions of Iraq, mainly the north, are among the safest destinations in the region and the Middle East, as per the Lenarz research, especially for doing business. To deal with the circumstance, the issuing government needed to provide more information to the outside world about the differences in political and economic security and stability between Iraq and other countries.

Hypothesis of the Study

The following hypotheses are included in the research:

1. This study hypothesizes, FDI has long-run relationship with Iraq's GDP from 2004 to 2019
2. FDI has a positive impact on Iraq's GDP from 2004 to 2019.

Importance of the Study

The transnational flows of globalisation have increased national frontiers and made it necessary to integrate globally. While developing nations have capital limits in their EG, the fact that developed countries are wealthier has resulted in an issue of passive assistance distribution in the international financial system. Increasing globalisation trends have ensured unfettered capital flow across countries; liberalization of the financial system and trade policies and global integration and FDIs have now been the sole way to alleviate capital shortages, particularly in developing countries.

Foreign investment projects should provide long-term benefits to the host nation; as a result, there are various critics of the project's quality and implementation system. Although certain industries are far more vital than others, the government has concentrated its efforts on a few key areas. According to the

research, the influence of FDI on GDP will be essential to investors, policymakers, enterprises, governments, and academics and its assistance in attracting foreign investors. This study will also serve as a means for international investors to locate Iraqi projects that require funding. Its infrastructure has deteriorated as a result of the ongoing several wars in Iraq. Increasing foreign investment in the host country's economy results in increased EG, increased infrastructure rate, increased employment, new technology, new goods, and so on. Consequently, this research might be valuable for anyone interested in learning more on Iraq's confluence of investment and EG, as well as urging academics to support the Iraqi government's efforts planned economic development programmes greater prominence.

Objectives and Research Questions

Recent FDI and scope changes have increased the need to learn more about this subject. The study's goals are based on what has been discovered in the economics and frameworks literature. As a result, the study's goals are as follows:

1. An examination of the relationship between FDI and Iraq's GDP.
2. From 2004 through 2019, impact of FDI on Iraq's economic growth GDP.

Following are the thesis's research questions:

1. How is the relationship between FDI and Iraqi GDP analysed?
2. From 2004 through 2019, how has impact of FDI on Iraq's GDP?

Limitation of the Study

Time limits: The study's term begins (from 2004 to 2019), with the time frame determined depending on work data availability.

Spatial boundaries: The impact of FDI on Iraqi EG is investigated in this study (2004-2019).

CHAPTER ONE

1. THE FOREIGN DIRECT INVESTMENT AND THE ECONOMIC GROWTH

1.1 The Foreign Direct Investment

1.1.1 Definition of Foreign Direct Investment

The following are some definitions:

FDI refers to a long-period collaboration between a country's direct investor and a country's direct investment business, as per the International Monetary Fund. Because the direct investor owns 10% or more of the firm's common stock or voting power, it has a big say in running the company (IMF, 1993, p. 86).

As per Kehal Harbhajan, FDI refers to establishing a distant operation (Greenfield investment) or the acquisition of a current firm located within another economy. FDI signifies that the investor has a large amount of control over the management of the host country's company (Kehal, 2004, p. 14).

FDI's are made in people or organisations transferring investible resources to another country. It varies from FDI portfolio investments in that it allows for the transfer of intangible assets like management and business knowledge and gives investors the ability to monitor and control their investments. In the context of global industrial networks, FDIs are progressively aiming to service worldwide and local markets (UNCTAD, 2006, pp. 110-112).

The goal of FDI, per the Organization for Economic Cooperation and Development (OECD), is to organise an ongoing interest across a company (a direct investor) on company (direct investment organisation) based in a economic plan other than that of a direct investor. A long-term connection between a direct investor and a direct investment organisation with a tremendous impact on the company's operations is referred to as permanent interest. Proof of this link is the direct or indirect utilisation 10percent or a greater number of votes of a business company located in one economy by an investor based in another economy (OECD, 2008, pp. 48-49).

The term "foreign direct investment" refers to the transfer of finances from one government to the other. FDI is distinct from financial capital in that the capital supplied stays in the host nation. This is referred to as financial capital flow when foreign investors invest in financial products. Foreign investors may become partners by allocating resources to current businesses in the owner nation or by establishing a new company or factory through FDI. Because FDI is a physical investment, it affects macroeconomic indicators, including development, current accounts, production, and employment. (UNCTAD, 2010). Because it offers more cash, organisational, new technology, management methods, and worldwide industrial networks, FDI facilitates the developmental process and economic progress in host nations (Ibrahim & Abdel-Gadir, 2015).

1.1.2 Definition of Investment

In general, understanding investment activities or activities that put funds in one period in order for these funds to generate profits or profits, (Reilly & Brown, 2002, p. 5) as well as to increase the value of the investment (Chowdhury & Mavrotas, 2006)

Three fundamental types of investment may be considered as:

- A. *Fixed investment* is related to company expenditure on equipment (trucks, computers, machinery, and furnishings) and constructions (shopping centers, factories, hospitals).
- B. *Inventory investment* indicates expenditure by firms on increased inventory holdings of raw materials and parts employed in manufacturing, and it is favorable if inventories are expanding but false if inventories are dropping.
- C. *Residential investment* shows company or household acquisitions of new houses and apartments, whether leased out or inhabited by the owners (Mishkin, 2014, p. 26).

1.1.3 Types of Foreign Direct Investment

Platform, horizontal, vertical, and conglomerate FDIs are among the four types of FDIs available.

1.1.3.1 HORIZONTAL FOREIGN DIRECT INVESTMENT

It is a kind of corporate consolidation in which businesses from the same or closely related industries join forces to create value (Sulemana, 2019). This form

of merger occurs when two or more companies want to use cost-based synergies, obtain a competitive edge, increase market energy and diversity, and take advantage of economies of scale (Behrens, & Picard, 2007).

1.1.3.2 VERTICAL FOREIGN DIRECT INVESTMENT

Vertical FDI implies cross-national trade in products and services. That differ significantly in terms of factor distribution, geographical fragmentation, and manufacturing capabilities (Elberfeld, Gotz, & Stahler, 2005). Which focuses on manufacturing and helps multinational corporations have expenses (Tanaka, 2011).

1.1.3.3 CONGLOMERATE FOREIGN DIRECT INVESTMENT

Conglomerate FDI entails putting money into a completely other business, i.e. a separate industry (Herger, & McCorriston, 2016). For instance, Walmart, a US store, might invest in BMW, a German automobile. To put it another way, it doesn't seem to have anything to do with investor relations. (BoyceWire, 2021).

1.1.3.4 PLATFORM FOREIGN DIRECT INVESTMENT

This sort of FDI comes from a source country to export to a third country within a destination country (Barry, 2004). On the contrary, the firm's product is exported to a third country (Ekholm, et al, 2007).

1.1.4 Effects of Foreign Direct Investments on the Economy

At the same time, FDIs influence both host and investing nations to varying degrees. The factors that drive these investments reflect which side of the direct investment spectrum has more weight. Both the host and investing nations are affected by FDIs. Direct investments have both beneficial and bad consequences for the host country. Multinational firms are the primary factor of this influence. Also, FDI has the potential to have a major influence on the economies of the source countries. The following is a list of them (Huyen, 2015; Shafaq & Eryigit, 2020).

1.1.4.1 FOREIGN DIRECT INVESTMENTS IMPACT ON ECONOMIC GROWTH

Economic growth is the actual increase in a country's manufacturing ability or actual gross domestic product GDP within a year. In other words, economic growth is defined as an increase in the production volume of an economy over periods. From the point of view of per capita income, growth refers to both the increase in the scale of the economic activities of the society and the increase in

income per capita. The increase in real income or income per capita should be continuous and long-term (Özel, 2012).

There is a broad scope of literature examining the impact of FDIs on economic growth. Studies in this context generally argue that FDIs have a positive impact on economic growth (GDP), but this effect varies according to the characteristics of the host country. These studies suggest that FDIs positively affect economic growth by ensuring the effective use of resources in the host country, accelerating the development of the industrial sector, and having the productivity of domestic companies discarded by the technology spreads of multinational companies. Therefore, FDIs can contribute positively to economic growth when they occur in the sectors needed by the host country. However, in the short term, importing the necessary intermediate inputs for production from abroad can also have a negative effect on the balance of payments.

In neoclassical growth models, FDIs contribute positively to economic growth by providing the capital needed in developing countries, while FDIs argue that foreign companies increase economic growth through technology expansions according to internal growth models. According to neoclassical growth theory, FDI is a kind of international capital movement and is carried out by multinationals in order to benefit from differences in profitability or interest rates between countries. In this theory, over time, all countries approach the same level of productivity. In neoclassical growth theory, economic growth is achieved by capital accumulation and externally determined technological progress. Accordingly, FDI and domestic capital have similar effects on economic growth (Moudatsou, 2003).

In the neoclassical growth model, the marginal return of capital is declining and therefore FDI have a positive effect on the economic growth just in the short term. In intrinsic growth theories, technology is an intrinsic variable. In these theories, FDI is more efficient than domestic investments. In internal growth models, FDI increases the skills of the workforce, increasing the stock of knowledge and contributing to economic growth (Kotrajaras, 2010). In internal growth models, it is accepted that FDI is also effective on economic growth in the long term. The most important assumption of internal growth models is the assumption that long-term economic growth is influenced not only by technological

change, but also by the institutional characteristics of a country. is also affected by the assumption that it is affected by. Accordingly, the FDI flow to the host country is affected by a wide range of factors such as economic growth, trade policy, political stability, legal regulations, size of domestic markets, the balance of payments restrictions (Asheghian, 2011).

According to the market size hypothesis, foreign investors pay greater attention to larger markets because they allow efficient use of resources and enable the benefit of economies of scale. In other words, the size of domestic markets is an important determinant of the FDI flow. The size of domestic markets is determined by economic growth (Borges, 2010).

To date, studies on FDI have focused on technology transfer from materialized countries to producing countries. However, most FDI's occur among the developed countries themselves. In Roy and van den berg's analysis of the influence of FDI's on economic growth in the United States, they supposed that FDI has an optimistic and significant impact on economic growth. Accordingly, the sustainability of the US current account deficit can be achieved by the positive impact of the GDP on productivity. Therefore, the United States should focus on following policies that attract foreign investors (Ghosh Roy & Van den Berg, 2006). According to Moran: "Factories established by foreign companies transfer technology to maintain their competitive position in the world market. This reveals direct and indirect spreads and externalities for domestic suppliers. FDI creates a strong interaction between foreign companies and the factories they have established and these factories and the host country (Bora, 2000).

FDI affects economic growth by increasing Total Factor Efficiency (TFE) and enables more efficient use of the host country's resources. However, although many studies have shown that FDI's contribution provides both factor efficiency and revenue growth in the host country, the magnitude of this contribution is not clear. Some studies claim that FDI's exclude domestic investments due to the crowding-out effect and therefore such contribution is exaggerated. By contrast, Borensztein, De Gregorio, and Lee calculated that a boost in FDI led to an increase in total investments (Borensztein, De Gregorio & Lee, 1998).

In underdeveloped countries, the impact of the FDI in growth is quite little. Because developing countries need a certain education, technology, and infrastructure improvement in order to start benefiting from the investments of foreign companies (Potterie & Lichtenberg, 2001).

For FDI to own a positive influence on economic growth, they need to be combined with other complementary factors. These complementary factors are catalysts for growth such as the level of human capital, integration into international trade, and the size of the infrastructure, banking, and financial sectors (Alaya, Nicet-Chenaf & Rougier, 2009).

Markusen and Venables argue that the link between multinationals and intermediate goods suppliers reduces the costs of domestic firms and that more multinationals are investing in the country's economy, working as catalysts for the development of the industrial sector (Markusen & Venables 1999).

The entry of more multinational companies increases the demand for intermediate goods produced in the host country, allowing more companies to enter the sector producing intermediate goods and reducing production costs. This attracts more foreign investors and increases the level of national income and prosperity (Blomström, Kokko & Mucchielli, 2003).

According to Romer, income differences between countries are due to differences in knowledge arising from human capital rather than physical capital differences. Therefore, it is in the interest of the host country to create an investment environment that will enable multinationals to make a profit by lending their high knowledge (Romer, 1993).

1.1.4.2 TECHNOLOGY SPREADS REVEALED BY FOREIGN DIRECT INVESTMENTS

Although the technology is partially excludable by temporary protection by patent and intellectual property rights laws due to its structure, it is not a competitive commodity (non-rival) (Romer, 1990). In other words, the fact that technology is being used by someone does not prevent others from using it. Compared to the cost of inventing technology, the cost of using existing technology is quite low. Not all the benefits of technology can be claimed by the inventive company, and once this technology is invented, it can spread internationally at a small cost. The main

channels of the spread of technology are international trade, migrations, foreign direct investments, and technology licensing agreements. In general, technology spreads through FDI are measured by the impact of the presence of multinationals in a particular sector (the share in total employment or sales) on the productivity of domestic companies (total factor efficiency of labor productivity) (Bottazzi & Peri, 2005).

Economic literature considers the positive impact of technology transfer on economic development by creating positive externalities in the host country as the most important result of the existence of foreign companies. This is because multinationals spend a lot of R&D, so they have a higher level of technology than the developing host country. This allows multinationals to produce the right technology spreads to host country firms when they perform FDI (Kemeny, 2010).

Due to its impact on technical improvement, FDI donates to economic growth by improving the whole capital accumulation in the host nation. The spread of technology is of central importance in the growth process. Therefore, high growth rates for developing countries are achieved by adapting the level of technology in developed countries. There are many forms of technology dissemination. Technology and knowledge can be spread in various ways such as importing high-tech products, adapting foreign technology, obtaining international working human capital. In addition, FDIs made by multinational companies is one of the most important tools for accessing advanced technology for developing countries (Korhan & Nigar, 2016).

FDI triggers technology spreads, helps the development of human capital, integrates the country into international trade, creates a larger competitive environment for companies, and pushes them to work effectively. All these factors contribute to the economic growth of the invested country. For this reason, many countries provide income tax reductions, income tax exemptions, customs duty exemptions for imports by foreign companies, and subsidies for infrastructure, encouraging foreign companies to invest in their own countries. The belief that technology transfer will take place thanks to the externalities of foreign investments leads to such applications (Bottazzi & Peri, 2005).

Apart from employment and capital flow, foreign investments provide technology transfer for domestic companies. In some cases, domestic companies can increase their productivity only by monitoring foreign firms. However, in some cases, workers who leave foreign companies start working in domestic companies over time, and this is how the spread occurs. Another way of spreading technology is for multinational companies with superior technologies to strive to increase their production technologies, which do not want to be eliminated in an increasingly competitive environment with the introduction of domestic markets. However, in some studies, it has been emphasized that the spread from foreign companies to domestic companies is very small. This is due to the fact that domestic workers are not hired in high positions, labor mobility between foreign companies and domestic firms is limited, and multinational companies do not want to spread their knowledge to domestic companies. Because multinational companies have efficient but intangible aids such as technical know-how, trade and management mastery, export communications, coordination between consumers and supplier. Since these assets are obtained by experience, they cannot be easily obtained by obtaining a license by domestic companies (Shaver, Mitchell & Yeung, 1997).

When domestic workers working in foreign companies stop working in these companies, if they start working in domestic companies as knowledgeable workers, this knowledge will be passed from foreign companies to domestic companies. On the other hand, foreign companies create demand for these companies by producing the intermediate inputs they use in domestic companies. In these cases, the presence of foreign companies increases the efficiency of domestic companies. However, especially in the short term, foreign companies can reduce the productivity of domestic companies. If under competition, companies are folding to fixed production costs, foreign companies can produce higher amounts than domestic companies with lower marginal costs. Therefore, the entry of foreign companies into the market can reduce the demand for domestic products and cause domestic companies to reduce their production. Positive productivity spreads reduce the average costs of domestic companies. However, increased competition forces these companies to reduce their production. As a result, the total net effect leads to increased production costs (Aitken & Harrison, 1999).

Although there is a view that FDIs have positive effects on developing countries with positive externalities, there is also a view that foreign companies with higher performance together with FDI are harming the domestic economy by excluding domestic companies in an increasingly competitive environment. Accordingly, FDI has negative effects such as increasing the country's technological dependence on foreign resources, delaying the innovations of domestic companies in production, harming domestic companies with increased competition and causing inappropriate product, technology, and consumer choices (Abdelmalki, Gbakou, Jallab, & Sandretto, 2012).

At this point, it is important to ask two questions. First, do foreign companies really work with higher efficiency than domestic companies? Secondly, if foreign companies are working with higher efficiency than domestic companies, does this reach domestic companies working in the same sector in the form of productivity spreads? Many studies accept that foreign companies are already more effective by arguing that there will be productivity spreads from foreign companies to domestic firms. Accordingly, domestic companies increase their effectiveness by imitating the operations of foreign companies or they are forced to increase their productivity as foreign companies increase competition (Lipsey, 2004).

The production efficiencies of multinational companies and domestic companies carrying out FDI on the industrial sector of developing countries have been compared in many studies. In Blomström and Wolff's 1970 industrial sector data, they concluded that workers in foreign multinational companies produced nearly twice as many outputs per worker on average as domestic workers. This difference is due to the difference in capital density rather than total factor efficiency. According to some economists, this is because foreign companies choose to work in sectors with high productivity. According to them, the multinationalism of the companies is more associated with productivity levels than size or other company characteristics (Blomström & Wolff, 1997).

Abramovitz argues that host countries must have "Social Capacities" that can absorb more advanced technologies in order to benefit from the technology externalities spread by FDI. Inadequate human capital, for example, causes many

developing countries do not benefit sufficiently from technology expansions (Abramovitz, 1986).

According to Görg and Greenaway, as the technological difference between foreign companies performing FDI and household corporations in the host country increases, the influence of the FDI in the economic growth of the host country will decrease. Accordingly, the smaller the productivity difference between domestic and foreign companies, the higher the rate at which domestic companies in the host country benefit from the technology externalities created by foreign companies (Görg & Greenaway, 2004). For example, the United States is the world's technology leader, but it attracts the most FDI. In theory, the country's capacity to absorb foreign technology determines the level of technology transfer of FDIs. Accordingly, the United States should benefit from FDIs quite well. However, since the United States is the world's technology leader, it is also a fact that FDIs do not make technological contributions to the United States. Therefore, it is difficult for the United States to say that the FDI has increased technological progress (Ghosh Roy & Van den Berg, 2006).

If resources are spent to learn the production techniques of foreign companies, in the short term the spreads will have a negative effect on the productivity of domestic companies. However, in the long term, these spreads will increase the efficiency capacities of domestic companies and have a positive effect on their productivity. There are two types of inter-industrial spreads. These are spreads between domestic companies supplying searched inputs and foreign firms with retrospective connections or forward-looking connections with the purchase of goods from foreign companies producing intermediate goods. With the supply of high-quality intermediate inputs to domestic companies, better products are produced and this positively affects the production efficiency of domestic companies (Liu, 2008).

In order to increase technology, transfer, the government should encourage local competition and support domestic companies to learn production techniques from foreign companies. The increasing competition of domestic companies indicates that the technology gap between them and foreign companies has started to close and therefore the demand for the foreign company's product has decreased.

Therefore, foreign companies will have to bring new technologies to maintain their pre-existing advantages in the market. The government needs to reduce the technology transfer costs of foreign firms, support the skills of the domestic workforce, and education policies that increase the learning capacities of domestic firms. As a result, using market forces according to the theoretical model is preferable to making technology transfer agreements with foreign companies and intervening to impose performance requirements on them (Blomström, Libsey & Zejan, 1996).

The first companies to enter the markets of the host country reveal spreads of information that can be used by subsequently entering firms, and these spreads are an important source of information for companies that will make foreign direct investments. A company can better manage resources, production, marketing, organization, and other activities by learning about the successes and failures of a company that has entered the market before it. Honda, for example, examined the reasons for the failure of Volkswagen's investments in Ohio in 1982 before investing directly in the U.S. auto industry. Accordingly, the problems of Volkswagen, the first foreign automaker to invest in the United States after the World War II, were observed as the choice of low quality, broken labor relations, and price-sensitive intermediate inputs. Honda has chosen to invest in a region where the U.S. combined auto workers union is weak to reduce potential labor problems. In addition, Honda has produced middle-class vehicles that are less sensitive to price changes than Volkswagen. In addition, Honda has modeled some of Volkswagen's successes, such as settling in the countryside, negotiating an incentive package with the host country, and employing a young and motivated workforce. The company can employ consultants to collect information about the host country and implement it by interpreting them. However, it is difficult for the consultant to overcome all the problems that the company will face. In general, information transfer between consultants and the company cannot be completed. Although the consultant offers useful information to the company, the final decision maker is the managers of the company with incomplete information about the host country. Therefore, the benefit of the consultant will be smaller than the benefit of spreading information that other companies will reveal by entering the markets of the host country (Shaver, Mitchell & Yeung, 1997).

As a result, foreign firms carry out operations in the host country, revealing information spillovers, which create a potential value for subsequent foreign direct investments. Two predictions were tested in Shaver Mitchell and Yeung's study of the information dissemination revealed by FDI. First, foreign direct investments of companies with experience with the host country are more successful than those that enter the country's markets for the first time. Secondly, the larger share of foreign companies in the industries where foreign direct investments take place increases the chances of success of the investor company (Shaver, Mitchell & Yeung, 1997).

1.1.4.3 EFFECTS OF FOREIGN DIRECT INVESTMENTS ON WAGES

There are many ways in which foreign companies influence wages in host countries where they enter or maintain their assets. One of them is that the foreign company employs workers at higher wages than the domestic company. In fact, although foreign firms pay higher fees, this may not have an impact on the overall wage level. The company may be paying high wages because it chooses between workers, factories, or production zones (Zhao, 1998). This choice can be made by hiring superior workers, purchasing factories that pay high wages or investing in sectors of the country where there are high-wage workers. If the labor markets are competitive enough, higher wages of foreign companies will cause domestic firms to increase their wages. When the demand for labor increases with the introduction of foreign companies into the market, all companies are forced to increase their wages equally (Tomohara & Takii, 2011).

Foreign firms achieve higher marginal productivity from the workforce thanks to their use of more advanced technology. Therefore, workers of the same quality can pay higher wages than domestic companies. Another reason is the regulations of the host country or the pressures of the central country. Workers generally tend to prefer domestic firms to work, and foreign firms need to compensate for the impact of this choice. For this reason, foreign companies pay their workers higher wages than domestic companies. Another reason why foreign companies pay higher wages is that they try to prevent the transfer of workers to domestic companies. Because there is a risk that the superior technology brought by foreign companies will be learned by rival domestic companies through the transfer of workers. Finally, foreign firms may be paying higher wages in order to

attract workers because they have limited knowledge of domestic labor markets (Lipsey, 2004).

Aitken, Harrison, and Lipsey examined the influences of FDI on salaries in Mexico, Venezuela, and the United States and calculated that wages were higher in sectors with high concentrations of foreign firms. According to Aitken, Harrison, and Lipsey, wage differences between foreign corporations and domestic enterprises are quite high in Mexico and Venezuela, and the impact of Wage Spillovers from foreign corporations to domestic companies is meaningless. However, they concluded that wage spreads from foreign firms to domestic companies occurred because of the lesser wage differences between foreign and domestic companies in the USA (Aitken & Harrison, 1999). Figlio and Blonigen's study of South Carolina concluded that the presence of foreign companies on industrial sector employment in the United States had a significant impact on the average wage level. Accordingly, Figlio and Blonigen calculated that the effect of employment growth in foreign firms on overall wage level increase was 7 times greater than that of domestic firms (Figlio & Blonigen, 1999).

As a result, the presence of foreign companies increases the average wage level regardless of the impact of the spread. This may be because the increased demand for labor with their arrival has raised the level of wages, even if foreign firms intend to pay the same wages as domestic firms. Countries with abundant and cheap labor are more advantageous in attracting FDI.

1.1.4.4 EFFECTS OF FOREIGN DIRECT INVESTMENTS ON EMPLOYMENT

In the literature, it is seen that FDI increases employment by creating jobs with new production units established in the host country in general. However, the FDI carried out by foreign companies through the acquisition of domestic companies has no effect on employment. It is a well-known fact that multinational companies are looking for cheap and skilled labor in the country where they will invest. However, when the host country does not have such a workforce, foreign companies producing with skilled labor import the qualified workforce they need in the host country from their own country. This limits the learning of advanced technology and knowledge brought by foreign companies by domestic workers and reduces the contribution to the country (Rozen-Bakher, 2017).

The effects of foreign investment on employment vary according to the activity carried out. Companies originating from developed countries can produce intensively in the workforce in their offspring companies in underdeveloped countries, while in the central country they can produce capital intensive or skill-intensive. In this case, the level of employment in the host country increases. However, there is a view that FDIs reduce the employment of central countries. For example, according to the OECD, investments within Europe has a positive impact on employment and the economic growth, while Europe's investments in far eastern countries with cheap labor have a negative impact on European economies because they cause "Employment Exports" (Lipsey, 2004).

In the work of Aussilloux and Cheval on employment, they argue that U.S. firms often carry out FDIs that will be a substitute for exports, which reduces employment in the United States, while France has carried out FDIs to establish a network of intermediate trade branches to integrate into the world market, thus increasing the net exports of FDIs made by France through in-house trade (Aussilloux & Cheval, 2002).

1.1.4.5 FOREIGN DIRECT INVESTMENTS 'S IMPACT ON THE HOST COUNTRY'S BALANCE OF PAYMENTS

According to IMF standards, FDI is recorded as "Foreign Direct Investment" in the Capital and Finance Account of the Payments Balance Sheet and " Foreign Direct Investment " in the Recent Transactions Portrayal (Güven, 2005). The main components of direct investment in Capital and Finance Accounts are Capital, other Capital, and Real Estate. Capital includes stocks, capital contributions and profits converted into reinvestment, which meet the 10% voting rights criteria in the company's management. Other capital refers to the borrowing and issuance of funds between businesses with direct investment relationships. Debt securities, bonds, loans, and commercial loans are examples of such funds (Dülger, 2012, p. 23). The real estate item covers the acquisition of real estate in the country where the foreign yachtsman invests. In the current account, profits from direct investments made abroad are recorded as "Income" and profit transfers made abroad due to direct investments made at home are recorded as "Expense". In addition to the profits distributed in the "Expense" item, the participation of the profit in the capital is also included (Razmi, 2009).

The effect of FDI on the balance of payments depends on the preferences of the companies between performing FDI and exporting. If it is difficult for the company to enter the country's markets through exports due to the presence of high trade barriers, the company can adopt direct foreign investment as a strategy. When companies choose to carry out FDI instead of exporting abroad, the export amount of the central country will decrease and naturally, the current account of the central country will be negatively affected. Therefore, if most of the production is moved from the central country and its exports are carried out from the host country to the rest of the world, the FDI will have a negative effect on the foreign trade balance of the central country. Renault, for example, was the second-largest car company to export from foreign countries to the rest of the world in 1989. This has negatively affected France's current account (Vincent, 1990).

On the other hand, there is a belief that by increasing the diversity in production, FDIs will have a positive effect on the balance of payments by increasing the exports of host countries. However, the reason for the negative effect of the FDI on the balance of payments of the host country is that the multinational companies that invest transfer their profits out of the country and import intermediate goods in order to produce in the host country. In order for FDI to have a positive effect on the balance of payments, in a long period, FDIs need to focus on the production of intermediate goods and investment goods that will increase exports (Rahman, 2016).

1.1.4.6 EFFECTS OF FOREIGN DIRECT INVESTMENTS ON THE EXPORTS OF THE CENTRAL COUNTRY AND HOST COUNTRY

There is a view in the literature that there is a substitute between Foreign Direct Capital Investments and the exports of the central country. Accordingly, the realization of FDI by multinational companies in the central country is a substitute for the exports of that country. One reason for this situation is that companies in the central country prefer FDIs to exports, as transportation costs will increase with the increase in geographical distance. However, there is also an opinion that suggests that there is a complementarity, not a substitute, between investment and exports abroad. Many studies examining the relationship between FDI and exports in different countries found a positive relationship between these two, while a small number found negative correlations. Fontagné and Pajot, for example, have

identified complementarity between FDI flow and exports for France. Diarrasouba found a positive relationship between the two in a study of 24 OECD countries using FDI and export data (Diarrasouba, 2013; Fontagné, L. & Pajot, 2001).

When the multinational company shifts the production of a commodity to a foreign country in order to meet the demand of foreign markets with horizontal integrations, FDI is a substitute for the exports of the country of origin of the multinational company. Because in horizontal integrations, the same goods are produced in different countries and the demand of these countries for the product is met. In other words, the multinational company prefers production in those countries instead of exporting to foreign markets by performing horizontal integration. However, when the multinational company extends its production process to different countries to take advantage of the cost advantages with vertical integrations, FDI is complementary, not substituted, for the exports of the central country. Therefore, as FDIs strengthen competition in foreign markets and increase the trade of intermediate goods and final goods between branches, FDI and foreign trade will be complementary to each other (Lipsey, 2004).

The idea that companies have different comparative advantages from the countries of origin has been expressed in various ways. One is the contrast between the U.S. export share and U.S.-based multinationals. Between 1966 and 1987, the share of the U.S. in world industrial products exports decreased from 17% to 11%. By contrast, U.S.-based multinationals and their offspring in foreign countries for companies, this rate remained the same during the period mentioned. This is because although the exports made by the company in the central country have fallen, exports from baby companies abroad have increased and offset this decline. The same situation has been encountered in studies for Sweden. Therefore, FDI does not allow multinationals to use only their specific advantages. It also allows the central country to maintain its market share despite negative developments (Blomström, Fors & Lipsey, 1997).

After world war II, the U.S was the most FDI country in the world. During this period, it has been one of the most discussed issues that the production of the U.S. abroad will be a substitute for exports. For this reason, investments abroad in the 1960s are a great criticism of the labor unions established to protect

employment. has been the subject of. For this reason, investments made abroad in the 1960s have been the subject of great criticism for the labor unions established to protect employment. However, the production that the United States shifts to developing countries today is usually done by using the unqualified labor-intensive production factor, while the remaining products in the United States are made by using capital-intensive or skilled labor-intensive production factors. Thus, the production process is spread to different countries in order to provide a cost advantage and complement the exports with its FDIs. According to Lipsey, U.S. multinational companies in the Far East have changed the composition of production and strengthened their ties with world trade by enabling exports to shift from labor-intensive sectors such as food and textiles to sectors such as machinery and chemistry in the early stages of their development (Lipsey, 2004).

The effect of trade and industrial policies on the FDI raises two questions. First, do countries' import substitimate policies attract more FDIs than they follow export-based growth policies? Secondly, what is the impact of FDI on development processes for these two groups of countries? Countries that have followed import substifull policies in the past, such as Brazil, Argentina, and India, have now attracted a large part of the world's FDI stock. However, it is not easy to distinguish the impact of the protectionist policies pursued by countries from the influence of other factors affecting the FDI, such as market size, growth potential, and political stability. Other factors may be more important in attracting foreign investment than the impact of protectionism policy. But protectionism alone is not a factor that attracts foreign investment. Export-based policies allow underdeveloped countries with low-wage workforces to attract more FDIs. Between 1967 and 1978, countries with a higher ratio of GDP to the domestic product were not countries that pursued import substitimate policies (Brazil, India, Ghana, Argentina) but countries that pursued export-based growth policies (Singapore, Hong Kong, Taiwan, Malaysia, Kenya). South Korea is the exception. Although South Korea follows an export-based growth policy, it is unable to attract relatively much GDP. However, South Korea has established a wide network by signing licensing agreements with many foreign companies. The agreements signed between domestic and multinational companies in countries that follow an export-based growth policy are concentrated in the electricity, electrical machinery, and clothing sectors. Balasubramanyam,

Salisu, Sapsford argue that countries that follow a growth policy for foreign trade attract larger amounts of FDI compared to countries that follow a growth policy based on import substitimate (Balasubramanyam, Salisu, & Sapsford, 1996).

The relationship between FDI and foreign trade is quite complicated: on the one hand, FDIs are a substitute for exports, while on the other hand, they lead to imports of intermediate goods necessary for production from the central country to the host country, causing increases in the exports of the central country. maybe. Accordingly, FDI has different effects on foreign trade. Studies for Sweden have found that FDI is a substitute for some exports, but it causes the export of new consumption and intermediate goods for the central country (Fontagné & Pajot, 1999).

1.1.5 Motives for Foreign Direct Investment

MNEs' primary motivations are to maximise profits by using their resources abroad and taking advantage of ownership-specific paybacks through internalisation. It also relies on the types of changes they're looking for, as well as the obstacles and opportunities given by a variety of international activities (Dunning, 2000). From the standpoint of MNCs, the following are the reasons for investing.

1.1.5.1 RESOURCE-SEEKING FOREIGN DIRECT INVESTMENT

Resource-seeking MNCs can obtain access to factor endowment through FDI. In the host economy, commodities are created for export. Resource-seeking acts are aided by physical, technological, and human resources that are all examples of productive resources. Extractive sectors, such as oil or mineral-rich developing countries, get a lot of press (USAID, 2005, p. 9). The idea is to gain more plentiful resources at a lower cost unavailable in the home nation. Companies in the oil, crop-growing and mining industries must relocate to where the raw resources are accessible. Exxon Mobil, Total, and other companies built refineries in countries with large petroleum reserves, Nigeria, Iraq, and Kuwait (Wadhwa & Reddy, 2011).

1.1.5.2 EFFICIENCY-SEEKING OR RATIONALIZED FOREIGN DIRECT INVESTMENT

Vertical FDI (VFDI) is efficiency-seeking or rationalised FDI that arises from a company's ambition to achieve economies of scale and breadth by growing

internationally in order to boost productivity of its current domestic and international assets. MNCs shift their manufacturing plants by establishing affiliates in locations where they can function most quickly and productively, either near-shoring or off-shoring. Vertical FDI corporations obtain or pursue ownership of particular phases of value-added operations for product manufacture, selling, and delivery. Due to removing many natural and artificial trade and transaction costs, efficiency-seeking FDI is enabled among and between developed and developing countries. Among the specific motivations for efficiency-seeking are: lowering manufacturing costs by connecting to low labour and other low-cost manufacturing facilities. MNCs formed subsidiaries in Africa, China, Eastern Europe, India, and other regions too (i) reduce production costs; (ii) situate production or assembly methods near significant consumers, especially if the business is in a sector where client tastes are constantly changing; and (iii) By incorporating a subsidiary in a country or trade bloc, you can dodge tariffs and other trade restrictions. As a result, the businesses have the same advantages as domestic businesses (USAID, 2007, pp. 13-14). Enterprises may cooperate with local firms to meet the local content criteria; (iv) get access to government incentives including tax discounts or vacations, Zones for exporting processing, and other investment-related benefits (Eckel, 2003).

1.1.5.3 STRATEGIC ASSET-SEEKING FOREIGN DIRECT INVESTMENT

Asset acquisition on a strategic level FDI is designed to use a current firm's ownership-specific leverage by acquiring additional properties or pooling resources with foreign enterprises to protect or grow that advantage. Firms are encouraged to engage in FDI when discovering specific synergy between their processes and given foreign assets. It might be put to good use in achieving long-term strategic objectives, such as improving their international competitiveness. By concentrating value-added initiatives in a few regions to supply different markets, companies can take advantage of distinct thing assets, economic systems, government regulations, and market mechanisms. The natural conservancys are from global strategic alliances or domestic company acquisitions (Kurtishi-Kastrati, 2013).

1.1.5.4 MARKET-SEEKING OR DEMAND-ORIENTED FOREIGN DIRECT INVESTMENT

MNCs' goals to enter new markets, notice important suppliers and customers overseas to keep present ones, or develop a physical presence in a major market supplied by rivals as part of their worldwide strategy encourage this FDI type, also known as horizontal (HFDI). MNCs supply items to international markets by producing and retailing them in the host country. HFDI is expanded to create equivalent products in other countries, better serving consumers' demands than rivals, lowering manufacturing costs, and overcoming trade obstacles. Factors such as GDP, average income, Purchasing Power Parity (PPP), market potential, market structure, and market size development inspire markets to seek FDI. Companies often engage in demand-driven FDI to directly compete with current or future competitors in their home market (Asiedu, 2001).

1.1.6 Definition and General Characteristics of Multinational Companies

Multinational companies are the most important actors in the process of globalization, which has accelerated due to the developments in the post-1980 period. During this period, the increasing pace of technological change and the policies it pursued, and the aim of transnational institutions such as IMF, WB, and WTO to create a liberalization trend in the world economy caused multinational companies to be both affected by the globalization current and to have an impact point (Yıldırım, 2019, p 75).

To make a description of the multinational companies that are increasing their effectiveness in the world from the past to the present; The multinational company is a company that generates income in more than one country by investing directly in foreign countries, has active values within it or controls active values, and therefore produces goods and services outside the source country (Karluk, 1997).

According to the definition of the United Nations' Department of Social and Economic Events for multinational companies, multinational companies "In two or more countries, assets, factories, mines, sales offices, all attempts to control" (Gill & Law, 1988, p 191).

With the globalization experienced in the world, geographical boundaries become insignificant, capital gains the ease of circulation in the international arena, and transnational institutions come to the forefront and accelerate legal regulations, further bringing to the forefront multinational companies that increase their influence in the global flow. The main feature that distinguishes multinational companies from national companies is that they can transfer their resources across borders by establishing their own network of organizations. What increases the motivation of multinational companies to invest in other countries is that they will make more profits than their own countries (Görg & Strobl, 2002).

These companies evaluate the opportunities and risks in these countries before entering the countries they will invest in and take into account the benefits they will bring to them. While the national borders of countries are not important for multinational companies, the main thing for these enterprises is that they have access to the abundant and inexpensive production factors that can give them a global competitive advantage. One of the production factors that can give them this advantage is the labor factor. Multinational companies want to take advantage of this advantage by shifting the labor-intensive parts of their production to countries where labor is abundant and cheap and investing in foreign direct capital in these regions (Christmann, 2004).

Common characteristics of multinational corporations; can be listed as operating in more than one country, following a homogeneous policy that is compatible with each other in all parts of the company, centralized auditing, and having structures that control the work of baby companies operating in various countries. These companies can directly invest, transfer technology, transfer management, and transfer organizations by producing, distributing, and marketing one or more goods and services at an international level (Tokol, 2001).

1.1.6.1 BRIEF HISTORY OF MULTINATIONAL COMPANIES

Multinational corporations, as they are today, were founded in the 19th century. Although it is stated that it appeared in the 19th century; In fact, these companies have a history of 16th-century history. It dates back to the 19th century. During that period, large companies engaged in mutual activities with companies in foreign countries. The British East India Company was acquired in

1600 and operated as the most powerful and largest company in the world for almost 200 years. Most of the companies in this century have engaged in the trade in spices, tea, spirits, and fur. Since the companies that invested during this period had a colonial quality, they mostly invested in colonies affiliated with their own countries or in countries under the political influence (Özalp, 1986, p 144).

Multinational companies have reached their present characteristics and influence by going through various stages from the past to the present. These stages are categorized as follows:

- Commercial Capitalism and Colonialism (1500-1800): It was the period when state-owned companies used natural resources belonging to various colonies.
- Entrepreneurial and Financial Capitalism (1800-1875): Control is applied very little, including the producer and consumer sector, together with financial investments is the period during which the infrastructure is created.
- International Capitalism (1875-1960): It is the process by which investments increase rapidly to provide market supply and natural resources, and the number of CARTELS of US origin increases.
- Multinational Capitalism (1945-1960): This is the period when U.S.-based companies and investments formed the strongest force among foreign direct investments.
- Globalization of capitalism (1960 and later): This is the period when production optimization and productivity are tried to be increased. The proliferation of European and Japanese capital indirect investments increased joint entrepreneurship, and mergers are decisive (Narula & Dunning, 2000; Yu & Cannella Jr, 2007).

Although the historical development of multinational corporations has gone back to ancient times, their emergence in the modern sense of the world was made in the 19th century. It is stated as a century. In the 1900s, these companies began to compete fiercely for the division of resources that existed in the world and received support from their own states. In order to gain dominance in the market, they have accelerated their development processes by focusing on

obtaining cheap raw materials and cheap labor and trying to gain a competitive advantage by trying to improve themselves technologically.

After World War II, the United States tried to spread capital in its own interests. In addition, he carried out intensive R&D activities for the war industry and financed these studies. He also shared the results of the studies with his own companies. Due to these developments, the monitoring of activities by U.S.-based companies to increase their foreign investments has further increased the effectiveness of multinational companies and made their strength and presence apparent (Luyckx & Janssens, 2016).

1.1.6.2 THE EFFECTIVENESS OF MULTINATIONAL COMPANIES IN THE WORLD ECONOMY

In today's global economy, multinational companies are becoming more and more important as a result of increasing economic integration and the impact of the market economy, and the rapid liberalization of commercial and financial activities internationally.

The position reached by multinational companies in the world in terms of effectiveness affects the building blocks of the global economy. Through the policies pursued by multinational companies in the world, trade in the international sphere determines the quantitative and qualitative status of investments. Multinational companies are the actors that determine which regions or countries in the world to invest in, where to build new production facilities, which countries to take new technologies to, and the sustainability of competitiveness. it continues to grow rapidly and expands its industrial dominance and engraves it in the advanced economic lives of countries (Aktan & Vural, 2006, p 5-6).

When the developments that enable multinational companies to become the dominant power in the world and take such a large share of world trade are examined, it is seen that there are various factors that cause this. Factors that cause multinational companies to open up to the world outside their own countries and invest in other countries; to minimize the risks they may face by engaging in investment activities in other countries, to take advantage of arbitrage opportunities in the global field, to use the technological superiority against local

companies in the countries where investment is made, to reach the capacity level that they cannot reach in the central country by operating in other countries, to increase their profits (Aktan & Vural, 2006, p 36).

Technological developments are the leading factors that cause multinational companies to direct their production to other countries. Thanks to the acceleration of technological development, new methods and products have emerged, creating new opportunities for these companies. Especially in the field of transportation and communication, developments have facilitated the spread of the activities of multinational companies to the international dimension. Companies have the opportunity to reduce production costs by using the advantages of technological development, thus increasing their profit rates (De Mello Jr, 1997).

Another important issue that causes companies operating in their own countries to carry their products to the international field is that the domestic market reaches the saturation point. As a result of the growth of companies and the inadequate demand in the country, companies began to turn to foreign markets. Multinationals have tried to prevent the suppression of profit volumes by focusing on new markets and demand areas in order to sell their products (Görg & Strobl, 2002).

Another method that multinational companies use to increase their profits is to turn to geographies that can benefit them due to the difference in production factors and raw material prices in the global market. Achieving the cheap production factor and raw materials are among the most important ways to reduce costs for multinational companies. Therefore, multinational companies have intensified their activities in these countries (Görg & Strobl, 2001).

The funding bottleneck experienced by developing countries has also encouraged multinational companies to operate in the global sphere. As a result of the lack of financing for industrial investments in developing countries, as well as the current account deficit problem due to the resources they found with borrowing and their desire to realize their development moves, they wanted to attract the investments of multinational companies. Multinational companies, on the other hand, follow policies that adapt to new global realities and market

conditions. Thus, due to the competitive interests of the two sides, the importance of immobilized wealth in developed countries belonging to multinational corporations began to increase in the world. The attempt of developing countries to attract foreign investors due to their obligations has increased the international activity of multinational companies (Christmann, 2004).

The other factor that enables multinational companies to operate internationally is the increasing liberalization movements in the world. Countries that reduced the economic interventions of the state in the period after World War II accelerated their liberalization movements in trade and financial markets. Liberalization movements have given new opportunities for multinational corporations. Institutions established in this process and operating worldwide such as IMF, WB, WTO, and GATT are has prepared an environment for them to carry out their commercial activities in the field safely. For example, if you want to use The founding goal of the International Monetary Fund (IMF) is to facilitate the spread and balanced development of international trade. The General Tariffs and Trade Agreement (GATT) has enabled multinational companies to spread and increase their activities outside the country. Within the scope of liberalization policies implemented in the post-1980 period, multinational companies have been more economically active than ever before in the history of the world. These liberalization policies; liberalization of capital movements and domestic markets in the international sphere, and the production of many domestic and foreign enterprises within the scope of privatization practices by making non-long-term investments, due to the collapse of the social state concept, the decrease of the market and non-market income of individuals and therefore the enterprises create a significant cost advantage in terms of labor and prepare for the competitiveness of the world with the realization of these three conditions (Harzing, 2000: Kudritshini, 2008: Guillén & García-Canal, 2009).

Table 2.1: Ranking of Countries with the Top 500 Multinational Companies in 2018

Queue	Country	Number of Companies
1	US	125
2	China	112
3	Japan	52
4	Germany	37
5	France	28

Source: Fortune,2018

When we look at Table 2.1 , we show several countries in the home list. Prepared with 2018 data from the top 500 multinational companies, The U.S. topped the list with 125 companies, followed by China, which owns 112 of the 500 companies, and Japan, home to 52. In the light of this data, the point is that most of the countries on this list are developed countries. These results are important to show which countries are actually more effective in the process of globalization.

The other most important parameter that demonstrates the influence of multinational companies in the global economy is foreign direct investments. Foreign direct investments are carried out by multinational companies and their volume in the world is increasing from the past to the present. In parallel with the course of foreign direct investments, the number of multinational companies has increased and their effectiveness in the world economy has gained weight. As a result, in today's global economy, multinational companies can shape their economic policies according to their own wishes, such as the way and volume of production in the countries in which they operate, especially in developing countries, thanks to their large economic networks, superior technological infrastructures, and large capital structures.

1.1.7 Theories of Foreign Direct Investment

FDI theory explains the reasons and variables that inspire and encourage multinational corporations (MNCs) to invest outside of their home country.

These are the theories:

1.1.7.1 PRODUCTION CYCLE THEORY

In 1966, Raymond Vernon proposed the Production Cycle Theory, which outlines changes in investment and trade patterns and product stages resulting from a new product's discovery and maturation. The benefits of the inputs in relation to one another used in the manufacture of commodities, as per Vernon, vary from nation to country. Some nations should focus on manufacturing current items, while others should focus on manufacturing new things. In industrialised countries, introducing a new commodity and technical advancements are common. The merchandise comes from a new case of products. The product gets geographically relocated as it goes through life cycles and eventually becomes an old item (Vernon, 1966).

Product development, product maturity, and product release are the three stages of a product. In the form of standardisation, there is a life cycle with three primary stages. There hasn't been any standardisation in the product's development process. The firm is testing the new product to see any manufacturing issues. The product is meant for the domestic market and is not yet ready to be marketed abroad. Because of input from domestic users, ambiguities concerning the product, for example, circumstances that aren't entirely calculable in the supply chain and an absence of uniformity, are attempted to be rectified. Communication between producers, users, and consumers is critical at this level, and producing near to consumers is an unavoidable option at this point. During the product's maturation phase, the product progresses towards a higher level of uniformity as movement rises throughout. The product's domestic demand and consumption have begun to rise, and an overseas market for the commodities has arisen. The item is now being moved to geolocation. As the product is at the standardisation phase, the firm has decided to continue investing in other nations and establishing a manufacturing facilities located outside the area, in terms of economies of scale, taxes, labour expenses, and so on, this will be more beneficial to other nations. He realised that going would be more cost-effective. On the other side, licencing is advantageous to the producer. The innovative countries with low labour and manufacturing costs have a say in the product's market share, whereas the producer has no say with high labour and manufacturing expenses. On the other hand, keeps producing. This

phase concludes with the product's liberalisation and the manufacturer's exit from the market (Vernon , 1966).

While the theory is valuable for comprehending multinational businesses' strategies for expanding into new markets and wealthy governments' FDI in developing countries, it has been criticised for focusing too narrowly on technology-intensive commodities. Vernon added his two cents to the debate (Vernon, 1979), claiming that while the model was unable to describe direct investments between developed nations and hence desired to be updated. It was successful in establishing direct investments between wealthy and poor countries (Mullor-Sebastian, 1983).

1.1.7.2 THEORY OF MONOPOLISTIC ADVANTAGE

Hymer's work was elaborated upon by Kindleberger (1969), who applied his FDI theory to the idea of monopolistic power. Management skills, advanced technology, patents, and other types of intellectual property are expected to be among the rewards mentioned by Kindleberger. As a result, the advantages frequently motivate an agency to spend money in a foreign nation that will best use it in global market involvement and competitiveness. As a result, the greater the potential for monopolistic profits, the greater the incentive for firms to make direct investments (Nayak & Choudhury, 2014).

According to the theory, the theory has progressed in a global monopoly market, wherein small, medium-sized corporate entities specialise in technology-intensive issue work transmission, rather as the American version. This depends on the size and lowers the details of labour, and hostile gain did no longer explain why further to the competence of external production is the high-quality technique to exploit a monopoly marketplace (Saleh, 2018).

1.1.7.3 INTERNALIZATION THEORY

According to the internalisation hypothesis, which Buckley and Cason proposed and J.H. Dunning and A.M. Rugman added, overseas markets include numerous anomalies and hazards that motivates corporations to internalise these markets by undertaking FDI (Öztürk, 2004). To put it another way, corporations' efforts to transform market trades into intra-company trades, referred to as the internalisation process, acquire importance in theory. Coase's 1937 work serves as

the foundation for these 14 techniques. Coase claims that by forming a new company, part of the firm's marketing expenditures may be prevented (Moosa, 2002, p. 32)

In principle, imperfect competition marketplaces are linked to the causes for corporations' internalisation. MNCs buy intermediate products or firms that supply raw materials to avoid losses incurred by a faulty competitive market for resources for intermediate goods and raw materials. MNCs try to be self-sufficient in all sectors in which they operate, reducing their reliance on other businesses. Companies must absorb all of the marketplaces in the sectors they compete in to create a self-contained structure (Buckley & Casson, 2002, p. 33)

Internalization gives firms five unique benefits. Switch pricing reduces the impact of regulatory constraints, reduces time waste owing to postponements in intermediate items, maximises profit through price discrimination, avoids debate and customer confusion, and avoids negotiation and customer ambiguity (Buckley & Casson, 2002, pp. 37-38).

To give you an idea of how the market internalisation process works. The corporation may incur considerable shipping costs and supply unpredictability in this case. By internalising the market, the corporation will be able to minimise the uncertainties surrounding the transportation procedure and the supply of iron ore if it purchases the foreign mining company (Moosa, 2002, pp. 32-33)

As the example indicates, internalisation is carried out due to disturbances in the intermediate goods markets, not because of uncertainties or disruptions in the final product markets. By gaining control of the intermediate product's market or internalising it, the firm earns some advantages and eliminates different risks and uncertainties, preventing its activities' interruption. However, the corporation incurs certain expenses as a result of these operations. As a result, the value received by internalisation should outweigh the expense paid. The internalisation approach, as per Buckley and Casson, proceeds till the marginal cost equals the marginal benefit.

1.1.7.4 MARKET SIZE HYPOTHESIS

A quantity of FDI that enters the host nation is committed by the measure of the government's household market, as per the sales volume hypothesis. The

sales income of Multinational Company (MNC)s functioning in the nation or the country's Gross Domestic Product (GDP) hosting foreign investments governs the market size. If a country's market size is sufficient to allow for economies of scale, it will be a prospective target for FDI flows. According to Balassa's 1966 study, a corporation can accomplish cost reduction through specialisation in a nation with given market size, and so opt to invest in such a country (Moosa, 2002, pp. 26-28).

Based on Love and Lage-1967-1994 Hidalgo's study of FDI made in Mexico from the United States. In their 1982 investigations, Kravis and Lipsey found that the size of the host country's market directly influenced the FDIs undertaken by American multinational corporations. Schneider and Frey established in 1985 that real Gross Domestic Product (GDP) per capita is a significant determinant of foreign direct investment (FDI) in 54 less industrialized economies (Tunca & Batmaz, 2005, p. 20)

The market size theory is subject to criticism as the ideal competitive market. The claims regarding ideal competition in the model are distant from reality. Furthermore, the same causes explain both local and international investment. Another problem is that the country's market size theory only well describes domestic investments, whereas it is inadequate to describe FDI for exports (Agarwal, 1980).

1.1.7.5 RESIDENTIAL AREA HYPOTHESIS

As per the residential area theory, FDIs are created when foreign corporations choose to execute physical production in the host country since labour and natural resources are inactive in international markets (Moosa, 2002, p. 33).

The benefit derived from the factors of production is the goal of FDI. These benefits will stimulate investment since they will lower the foreign firm's manufacturing costs (Berkoz & Turk, 2010).

One of these benefits is that labour costs in the host nation are cheaper. FDI in many nations can be explained by low labour costs, especially in areas that do not necessitate professional workers. GU-based firms, for example, have made overseas investments in labor-intensive areas such as textile items and shoe manufacturing in countries like India, where labour is cheap. The incidence of

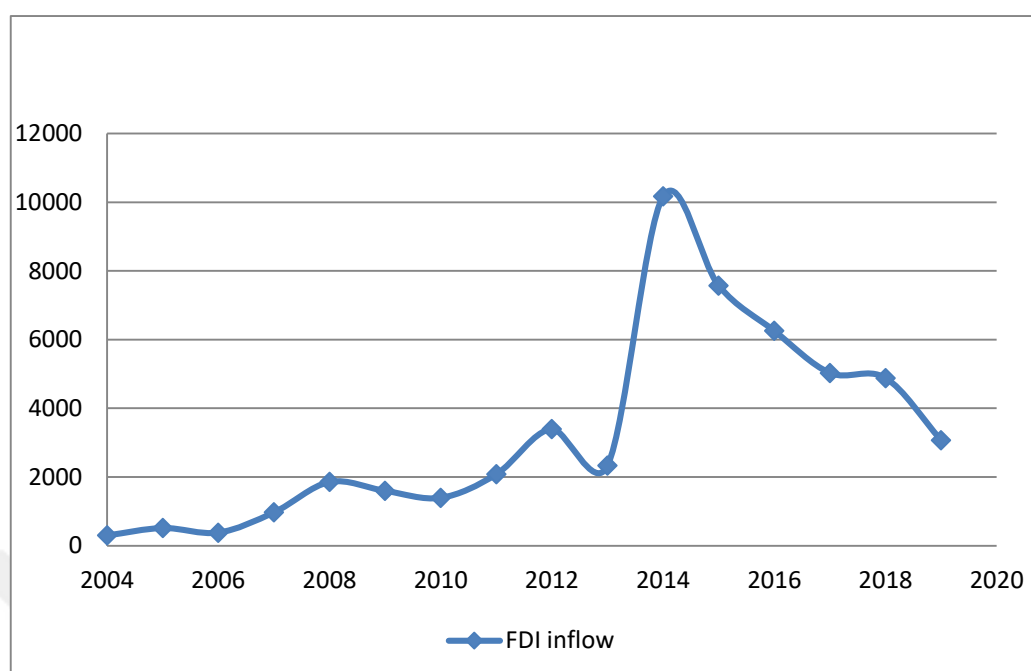
unionisation in the host nation impacts the investment choice in this setting. As unionisation grows, real wages and expenses rise, resulting in a decline in FDI inflows to the host nation (Moosa, 2002, p. 34).

1.1.8 Foreign Direct Investment in Iraq

FDI increases the productivity of hosteler governments and advances economic growth (Borensztein, De Gregorio & Lee 1998). Before 2003, data on FDI inflows to Iraq was lost since Saddam Hussein's administration forbade any organisations or governments from collecting FDI data and other official statistics. Iraq has not been a welcoming environment for FDI inflows in the past, including before 2003. The source of this difficulty might be attributed to the world's negative perceptions of Iraq, which include political and social upheaval, wars, famine, and economic failure, all of which have resulted in a lack of enthusiasm from international investors seeking to invest in Iraq. Even though this image cannot be denied, and catastrophic events happen in some countries, it does not represent the true image of most Iraqi countries. Many economic and financial studies have concentrated on the ratio of FDI inflows to GDP because of the vital role that FDI inflows play in the economies of host countries; however, in Iraq, the ratio of Foreign Direct Investment inflows to Gross Domestic Product (GDP) was only 1.12 % in 2011, that is a relatively a tiny proportion .

After Saddam Hussein's dictatorship's demise, due to the Iraq war, Iraq's infrastructure has been obliged to invest in various sectors. From 2003 to 2006, the key barriers to contemplating FDI in Iraq were the high level of political uncertainty, Iraq's absence of a legislative framework and bureaucracy, as well as its banking and tax systems (Hossin, 2009, pp. 10-11). Figure 2.1 shows that FDI inflows into Iraq totalled just \$1.198 billion between 2004 and 2006. Furthermore, in 2006, the Law No. 13 was issued by Iraqi Federal Government (Federal Investment Law), which established the groundwork for attracting international investment. The Federal Investment Act proposes several strategic measures involving tax motivations, investment securities, investor commitments, and the establishment of the Nationwide investment Committee, which will serve as a federal and strategic supervision body for assignments (IBBC, 2021). Following the federal investment law, Foreign Direct Investment inflows into Iraq increased, and international investors invested in Iraq.

Figure 2.1: FDI into Iraq from 2004 to 2019 by millions US dollars.



Sources: World Bank, World development Indicators, 2021

In figure 2.1 shows a mediocre rise in FDI inflows from (300) million US dollars in 2004 compare to 2005 was (515) millions US dollars, but in 2005 a substantial decrease in FDI inflows compare to 2006 from (515) million US dollars in 2005 to (385) millions US dollars in 2006. Nevertheless, the Iraqi Federal Government issuing and activated the Investment Law No. 13, in 2006 (Federal Investment Law), which resulted in a substantial rise in FDI inflows, as shown in figure 1.1, which was (971) million US dollars in 2007 and (1856) million US dollars in 2008. In addition, FDI inflows climbed from 2082 million US dollars in 2011 to 3400 millions US dollars in 2012, resulting in increased Foreign Direct Investment in Iraq, raising the level of employment chances and a growing GDP current price in the nation. Iraq was a favourable destination for international investors once the Federal Investment Law was passed.

Iraq has a decent score in terms of the company's environment, thanks to oil and gas, which is the country's largest source of revenue, and it's opening up to global business, but bureaucratic, political, and these concerns of safety are unlikely to alter very soon (Middle East Monitor, 2012). Iraq has a lot of oil and gas, which

is fantastic for the country. They are, nevertheless, a weakly dominating species that is likely to engage in violent conflicts (Kehl, 2010).

In 2014, it was obvious that FDI inflows had increased from (2335) millions US dollars in 2013 compare to (10176) millions US dollars in 2014. FDI inflows are down substantially in 2015 compared to 2014. The decrease is due to recent changes in the fragile political atmosphere, as well as the continued degradation of security and military operations against ISIS terrorism in various Iraqi regions, which has resulted in devastation and infrastructure damage. In 2014, FDI inflows into Iraq decreased dramatically from 2013 to 2015, indicating that Iraq was not a good location for FDI inflows during the fight on terrorism (ISIS). The cause of this issue might be linked to the world's negative perceptions of Iraq, including political and social turmoil.

Nevertheless, the adverse aspects of external shocks revealed negative FDI, signifying exodus or flow of thousands of millions of dollars out of Iraq during the fight on terrorism (ISIS) from 2013 to 2015, and this feature has had a detrimental impact on relative political, stability, and security. Following the terrorist group ISIS, Foreign Direct Investment inflows decreased from \$7574 million US dollars in 2015 to \$6256 millions US dollars in 2016. However, Foreign Direct Investment inflows decreased by \$4885 millions US dollars in 2018 compared to 2014.

1.2 The Economic Growth

1.2.1 Definition of Economic Growth

Economic growth, as per Kaynak, is described as a rise in the volume of production over a timeframe. More specifically, a country's EG is evaluated by the financial accounts of all completed products and services produced in the market by all local and international companies during a particular time period (usually a year), which is measured by the GDP or Gross National Product (GNP) (Kaynak, 2011, pp. 1-2)

EG is also characterized by increasing a country's economic output, the monetary expression of all services and goods generated over time. Maurice Dobb depicts this statement as such, with a focus on capitalist progress and industrialization in the modern world (Dobb, 1981, p. 117).

According to another definition of financial growth, they may be will increase in GDP expressed because the economic price of all very last items and offerings produced through citizens of a country within a year (Daly, 2005).

1.2.2 Types of Economic Growth

The nine forms of EG are explained here (Akıncı, 2014, p. 108-113) :

- A. **Planned Growth:** Planned growth is a type of growth that occurs following a schedule for transferring restricted (scarce) resources to create commodities. The goal is to maximise efficiency and output.
- B. **Closed Growth:** It realises the country's progress using its resources rather than relying on outside sources. The government is involved in every part of the economy. Its goal is to generate EG without relying on foreign aid or trade. The nations that entered a closed development process throughout these times include 18th century England, 19th century Japan, and 20th century Soviet Russia.
- C. **Open Growth:** The country has developed an adequate investment environment since overseas money is essential to the national economy. As a consequence, international investment will continue to flow into the country. It may be observed in countries that have adopted a free market economy. Large migrations, foreign exchange, and international trade, for instance, have accelerated the rise of nations like the United States, Canada, and Australia.
- D. **Steady Growth:** This type of growth happens when national income rises in lockstep with population expansion. The increase in national revenue will be absorbed by population growth; hence per capita, national income would not rise. As a result, the expansion will proceed at a rapid rate.
- E. **Exponential Growth:** It is the pace of an economy's growth; it is the sort of growth that is noticed in that economy, and it is proportionate to the elements that will help the economy flourish. This type, macroeconomic indices should remain constant when the pace of growth increases year after year. It uses the Chinese economy as an example of exponential development because of its high and rapid expansion.

- F. **Biological Growth:** EG is comparable to biological growth in that it starts fast and then slows down, and eventually ends. The economy will begin to decline from this point on.
- G. **Balanced Growth:** It is a growth in which sectors are mutually dependent. This relationship holds in both manufacturing and utilization. To avoid wasting resources, an attempt is made to balance home and overseas demand concerns. In balanced growth, a balance is Maintained among investment-intake goods, commercial products, raw materials, and food-apparel items (Taban, 2016, p. 23).
- H. **Unbalanced Growth:** A.O. Hirschman, A proponent of uneven growth, stated that the scarcity trouble faced through developing countries is caused not simply by a shortage of sources however additionally by a loss of the tools and skills required to convey sources altogether (Kaynak, 2014, p. 321).
- I. **Spontaneous growth:** It's a type of growth that engages production elements on its own. The government interferes with the economy to a minimum. In neoclassical theory, he accepted the physiocrats', classical's, and economists' theories.

In addition to these types of growth, it is feasible to debate the types of growth that will negatively influence society's present and future. The United Nations Organization (UNDP) identified five forms of EG that should be avoided in its 1996 Human Development Report (United Nations Development Programme, 1996, pp. 57-63).

- A. **Voiceless Growth:** This growth process is dubbed silent growth when a country's inability to achieve democratic reform while attaining EG leads to the erosion of individual rights and liberties. In many nations with rapid EG, the structure of a democratic society is acknowledged to be weak. If you wish to utilise it despite East Asian nations' rapid economic expansion, preserving workers' rights demonstrates quiet growth.
- B. **Ruthless Growth:** As the economy grows, the degree of inequity in income distribution also grows. The sort of growth that indicates the wealthiest have a bigger percentage of national income and the poor have a smaller part of

the income distribution known as relentless growth. Latin American countries may be used as an instance of unstoppable development.

C. **Rootless Growth** is described as the deterioration of a society's conventions, traditions, and customs while maintaining economic progress. The Soviets, for instance, introduced many tactics that limited cultural freedom while assuring Russia's economic progress.

D. **Futureless Growth:** Future growth is defined as the economic expansion that occurs without regard for environmental degradation, such as the destruction of forests, pollution of lakes and rivers, and the damage to natural elements to be passed down to future generations. For instance, suppose you wish to take advantage of It may be found in several East Asian nations.

E. **Unemployed Growth or jobless Growth:** Despite economic progress, unemployment will occur due to a shortage of jobs. Unemployment increases may be found in countries. Both developed and developing Unemployment growth is a type of growth in which unemployment arises while EG occurs.

1.2.3 Sources of Economic Growth

Various resources have an impact on a country's economic progress. Labor, capital, natural resources, and technical innovations are the four subheadings for these resources. To feel on these topics briefly (Özden, 2014, p. 16-17).

Labour: A workforce displays the percentage of a country's workforce. In a country with a large workforce, output rises and, as a result, economic revenue rises. Due to the obvious scarcity of labour in European nations following WWII, there has been a large influx of workers from emerging countries (Karakoç, 2020, p. 44).

Capital: The tools and equipment utilised and the intensity of the labour force are other components that contribute to the rise in output. The provision of these technologies necessitates the use of capital. It is relatively straightforward to get resources that the labour can handle in nations with substantial capital accumulation. Tools and equipment are critical in manufacturing goods and services (Karakoç, 2020, p. 44).

Natural Resources: The materials to be processed and produced are directly proportionate to natural resources in a country. Each country's natural resource reserves are distinct from one another. Countries with resources that want to be closely linked to the global economy are strategically important in this regard. Natural resources in plenty can help an economy thrive, but they cannot accomplish growth independently. Manufacturers, manufacturing facilities, and labour are all required to process them (Özden, 2014, pp. 17-18).

Technological Developments: Several scholars stress the significance of technological progress as the major source of EG. Technology may be described as the whole structure and procedures necessary for creating a thing or service. Technologically advanced countries have the advantage of being able to dominate the market by handling their raw materials. When it comes to the economics of industrialised countries, technological improvements are seen to be the most important factor in determining their strength. Technological advancements also significantly impact scientific research and promote the country's name in the international arena (Özden, 2014, p. 17-18).

1.2.4 Theories of Economic Growth

We explored five significant ideas on productivity expansion in this part.

1.2.4.1 HARROD-DOMAR GROWTH THEORY

As previously indicated, Keynes did static research. on his paper "Keynes and Traditional Theory," Roy Forbes Harrod criticised Keynes' realisation of static comment, and in his essay "An Essay on Dynamic Theory," he looked at a growing-dynamic economy by correcting Keynes' error of ignoring the influence of investment on capital accumulation. Following WWII, American economist Evsey Domar produced an analysis strikingly like Harrod's thesis, resulting in the idea being dubbed the Harrod-Domar theory (Unsal, 2007, p. 84).

Harrod-Domar growth theory, productivity, saving motive, capital-output coefficient, and investment efficiency coefficient are all important ideas. In this theory, the production function is a fixed rate production function, which posits that the good is produced at a constant pace using capital and labour inputs. The capital-output coefficient has a negative connection with the growth rate in an economy,

which is positive with a marginal rate of saving (s) (k). As a result, the rate of increase in Formula 1.1 or 1.2 is used to calculate it (Göktaş Yılmaz, 2005).

$$\frac{\Delta Y}{Y} = \frac{s}{k} \quad (1.1)$$

$$\Delta Y/Y = s/k \quad (1.2)$$

While assessing the equilibrium state, three growth rates are stated in harrod-domar theory. The natural growth factor is the growth fee, which corresponds planned investments with planned savings, the necessary growth rate, the growth rate permitted by technological advances, and the growth rate. It represents the end-of-period increase in productivity, the actual (current) growth rate, and population growth. In the equilibrium analysis, these three kinds of growth rates are contrasted (Parasız, 2008, pp. 89-96).

For developed economies, Harrod-growth Domar's hypothesis is well-established. The basic objective of the idea is to manage the economy without causing unemployment or inflation (Sato, 1964). This is not the primary aim; the economy must grow at a suitable rate. Perhaps the criticism of the Harrod-Domar theory stems from the fact that this circumstance is never highlighted in theory. Neo-Classical economists also questioned Harrod-growth Domar's theory, including fixed labour and fixed capital ratios (Acar, 2002, p. 92).

1.2.4.2 SOLOW GROWTH THEORY (NEO-CLASSICAL GROWTH THEORY)

The Neo-classical hypothesis, created by Robert Solow in the 1950s, is another name for this idea. Some of the reasons why Solow's theory is referred to be Neo-classical are as follows: preserving perfect competition, claiming that payments to production elements are based on marginal productivity, and permitting the flexible capital-output balance with full job (Parasız, 2008, pp. 141-144).

The Solow growth theory's assumptions can be summarised as follows:

- A. There is a fixed income production technology that descends to scale for production components for the production process.

- B. The pace of population growth is continuous, and it is factored into the concept from the start.
- C. Exogenous models are used to simulate technological evolution.
- D. The government's role in the economy is modest.
- E. There is a presumption of a closed economy.
- F. Human capital productivity changes are not considered (Atamtürk, 2007).

The goal of slow growth theory is to figure out how much of the product created will be used and how much will be preserved. Because savings equal investment, the amount of capital for future output is determined by the amount of savings in an economy (Durlauf, Kourtellos & Minkin, 2001). Capital (K) is one of the variables in the Solow growth theory, which also includes output (Y), labour (L), and labour knowledge or efficiency (A):

$$(0 < \alpha < 1) \quad (1.3)$$

$$Y = F(K, L) = K^{\alpha} L^{(1-\alpha)} \quad (1.4)$$

The Cobb-Douglas production function, stated in formula (1.4), assumes constant returns to scale. When L is used to divide both sides of the equation, the result is output per labor is written as $y=Y/L$ and the ratio of capital per labor, $k=K/L$.

$$Y/L = \frac{K^{\alpha} L^{(1-\alpha)}}{L} \quad (1.5)$$

$$Y/L = \left(\frac{K^{\alpha}}{L} \right) \quad (1.6)$$

$$y = k^{\alpha} \quad (1.7)$$

The equation presented in Formula 1.8 is based on the influence on the accumulation of growth in the Solow growth theory:

$$K = sY - dK \quad (1.8)$$

The total investment is (s), and the capital stock depreciation is (d).

From this perspective, the per worker and capital theories' equations are:

$$y = k^a \quad (1.9)$$

$$k = sy - (n + d)k \quad (1.10)$$

The population growth rate is represented by (n), while the investment or saving rate is (s). The impacts of these variables on the pace of growth will be transient, and they will have no long-term impact on growth. According to this idea, the economy stagnates over time as capital returns decrease. As a result, the assumption of $k = 0$ meets the stationary requirement of capital per worker. If the equality in Formula 1.9 is substituted by Formula 1.10,

$$K = sk^a - (n + d)k \quad (1.11)$$

Steady-state

As per Solow's theory, the cause for the expansion of real Growth Domestic Production per unit of work is the saving and investment of technical improvement, which increases capital per unit of labour. Despite the desire to save, technological advancement, defined as an external variable, is the single element driving the increase in income and the pace of growth in balance. The total technical advancement and population ratio equal the rise in the rate of economic expansion. As per Solow, developing nations will grow technologically and save at rates comparable to wealthy countries' savings. Solow's theory now includes technology, and the production function is stated as:

$$(0 < \alpha < 1) \quad (1.12)$$

$$Y = F(K, AL) = K^a(AL)^{(1-a)} \quad (1.13)$$

$$y = k^a A^a \quad (1.14)$$

The continuous pace of technological advancement is represented by A in this diagram (g).

In theory, the steady-state in which technology is included is:

- For production function:

$$k = \frac{K}{AL} \quad (1.15)$$

$$k = k^a \quad (1.16)$$

- For capital accumulation equation:

$$\dot{k} = sy - (n + g + d)k \quad (1.17)$$

It's this way (Jones & Vollrath, 2013, p. 21-38).

In overview, when using the Cobb-Douglas production function in neoclassical theory, the long-term and steady-state growth rate is equal to zero. When technological advancement is included as an external variable, in theory, the fall in capital's marginal efficiency and its negative impact on EG can be largely eliminated. In this case, a growth rate is theoretically possible, relying on the technical progress component. Meanwhile, the population variable remains constant, indicating that per capita income is genuine (Mishkin, 2014, pp. 65-66).

The following are some criticisms of the Solow theory:

- The Magnitude of International Differences: With little human and physical capital, emerging and underdeveloped countries cannot catch up to rich countries. Varied countries' factor equipment will lead to different capital's marginal productiveness (Bajo-Rubio, 2000) .
- The Rate of Convergence: According to the hypothesis, because impoverished nations' capital stocks are small, their marginal returns on capital will be greater, they will reach a stable condition in a shorter amount of time. However, studies have demonstrated that convergence could occur in cultures with similar growth rates, implying that economic differences between poor and affluent countries would continue to expand. Researchers have discovered that countries that start poor do not expand as fast as ones that start affluent. Distinct nations have different stable states, according to this method of locating. Return Rates: According to the hypothesis, because impoverished nations' capital stock is limited, the marginal return on capital will be larger, resulting in higher profitability and real interest rate. As a result, we must keep an eye on increasing earnings and real interest rates in developing countries. Furthermore, capital will need to migrate from affluent to impoverished nations. Nevertheless, country statistics reveal that in developed countries, the share of capital in national income is larger, and capital transfer is no longer possible (Mankiw, 1995).

1.2.4.3 ENDOGENOUS GROWTH MODELS

While technology determines long-run EG in the Solow-Swan growth model, this component is externally integrated into the manufacturing process. To put it another way, technology is a public good that all countries may benefit from. With their research published in the 1980s, David Romer (1986, 1987) and Robert Lucas (1988) tried to refute this fundamental premise of the neoclassical growth model. They were the first to recognise that the technological component is not external but intrinsic in the manufacturing process, and they highlighted that those long-term investments affect economic progress (Mütefekkir, 2020, p. 18). However, these economists believe that the idea of "investment" is significantly more extensive than that of neo-classical economists (Lucas, 1988).

According to these economists, human capital and R&D expenses are included in the idea of investment, in addition to physical capital. Furthermore, they claim that other variables of production, including labour and capital, do not result in declining returns over time. They have consistent and growing returns (Romer, 1986). As a result, it is impossible to understand why some countries have repeatedly had exceptional long-term growth rates with declining returns.

If we attempt to describe it using the neoclassical production function, the production function in endogenous growth models looks like this (Mütefekkir, 2020, p. 19).

$$Y = F(K, A, L) \quad (1.18)$$

Like other production variables, the technology component occurs internally to the production function in Equation (1.18). In endogenous growth models (like this one), the growth of the technology component is believed to be dependent on the growth of the capital element. As total capital (K) accumulates, the technology factor (A) rises, and manufacturing enterprises' productivity rises. As a result, when the capital stock is expanding, even if individual company production returns are declining, the characteristic of increasing returns to scale will emerge in terms of the economy overall because of an increase in output (Barro & Sala-i-Martin, 2003, pp. 61-68).

Because investments constitute the engine of EG in endogenous growth models, this model is comparable to the Harrod-Domar model. There is no argument for diminishing production variables in the Harrod-Domar model of endogenous growth models. EG will be boosted by expanding the capital stock. Depending on this data, if the rise in savings, depreciation, and population growth rate in a nation remains unchanged in both models, the country will expand faster than other countries. As a result, there will be a significant disparity between the country in question, which is consistently increasing through time, and other countries (Crafts, 1995).

Some significant criticism has been levelled towards endogenous growth models. As a capital element, it is believed that there are no decreasing returns on production variables in this model. Nonetheless, studies show that investments are always growing; however, this does not always assist EG (Jones, 1995).

Even though endogenous growth models have been criticised similarly, the economics literature has benefited greatly from this growth model. The capital factor in this model exceeds established criteria for the first time. Human capital and research and development are key components of capital, which is no longer limited to physical capital, including machinery and equipment (Yeldan, 2012). It would be unsatisfactory to describe the phenomena of economic expansion without considering these crucial factors. Another benefit of endogenous growth models is that they address the technology aspect inside the manufacturing process. All countries in a neo-classical state do not have unrestricted access to technology. Technological advancements, on the contrary, are the product of economic interactions inside a country and do not transfer swiftly to other nations. As a result, all nations will not be able to access the technological element concurrently or to the same degree (Mütefekkir, 2020, p. 20).

1.2.4.4 ADAM SMITH'S THEORY OF ECONOMIC GROWTH

The Classical School of Economics was the first to examine the notion of EG. With his idea that permits EG to rise, Adam Smith is considered the pioneer of growth theorists, even though it does not have a larger framework than contemporary growth theories (Saritas, 2020, p. 40).

At first look, Adam Smith's theory of economic progress seems notable. It's not like the Quesnay of the Physiocrats. According to their viewpoint, the business does not generate investable surplus and hence does not contribute significantly to growth; everything relies on the rural or agricultural surplus reinvestment. The Industrial Revolution was changing northern England when Smith published *The Wealth of Nations* in 1776, and he was more conscious of the consequences for industrialization and standard of living than many of his predecessors. In principle, every business and agriculture play a critical role in growth; nonetheless, the agricultural surplus has a disproportionately big influence on growth, and it appears to inherit key elements of Quesnay's reasoning, which he greatly reduces (Saritas, 2020, pp. 39-41).

Smith decided to establish a variety of arguments concerning the high-quality relation between capital accumulation and productivity increase that is just now being investigated by contemporary theory. The speed of investment is expected to have minimal influence on the economy's long-term growth rate or livelihoods in most twentieth-century growth theories. All neoclassical growth theories, and a lot of Keynesian growth theory, fall within this category. As per Smith's theory, the accumulation of capital leads to increased population and occupation, and if the market for manufactured goods expands, labour will follow, resulting in positive incremental fragmentation impacts on labour productivity. Suppose there is sufficient resistance and growth in capital increases opposition in general. In that case, item charges will fall in line with unit labour costs, allowing employees to purchase a greater variety and volume of produced goods. As a result, under Smith's growth equation, greater capital accumulation is associated with faster employment and production growth rates, as well as a faster rise in living standards (Eltis, 2001, p. 68).

Smith's thesis divides EG into three components. Smith's reasoning regarding the relationship between the labor department and economic expansion, technological advancement and capital accumulation, the size of the marketplace and the economic community's connection to the Smith growth process started it all. The high department of labour, technical progress, capital accumulation, and the economic status of industrialised countries, according to Adam Smith, are all dependent on the high department of labour (Andrea, 2003).

Per capita income, according to Smith, is the most important factor driving growth. The economy is the ratio of productive employees to unproductive employees. Smith points out that labour departments can be set up in various ways inside organisations, including reducing individual employee duties, forming new organisations and sectors, and adopting certain phases of production processes. Smith highlights three beneficial outcomes of the labour department's efforts to increase employee productivity. When employees specialise, their talents grow, they have less time to switch between activities, and they have the chance to build devices to make their works simpler (Letiche, 1960).

Smith's idea on the relationship between economic and social interaction structure, market size, and the hard-working division-based development approach; Trucks, barter, and the proclivity to swap one object for another are essential criteria for increasing the division of labour in society. According to Smith, people have an inherent predisposition towards broadly defined as social and economic relationships. This allows individuals to specialise and make the most of trade in their excess products, i.e. producing for purposes other than their consumption. Specialization has increased production, which has resulted in this redundancy. According to Smith, given the framework of social interaction, people choose to specialise depending on their knowledge of the method. Based on Adam Smith's thesis, the department of labour, we see three capacities of the EG process: EG is an endogenous, cumulative process that may be characterised as a disequilibrium procedure. Marshall and Young will expand on Smith's viewpoints in crucial ways, validating this categorization of economic progress (Kurz, 2003, p. 237).

1.2.4.5 KEYNES THEORY OF ECONOMIC GROWTH

As a conceptual system, classical economics had a favourable impact on the economy in its early application. Nevertheless, the greater supply is not reciprocal in the future; consequently, Say's law, which was upheld by the classics, states that "Every supply creates its own demand". His point of view is incorrect; as John Maynard Keynes argued, demand induced a shortage, which led to the Great Depression. The conviction in Classical economics eroded due to the crisis, and Keynes (The General Theory of Employment, Interest, and Money) released his work during this time. Although Keynes did not contradict the traditional view of economics, he condemned it for Say's law and state interference, as per his remarks

in this work (Setterfield, 2010, p. 95). According to Keynes, demand is determined by supply rather than demand being determined by supply. The economy will never be completely utilised, and government action will be necessary to get it closer to that goal.

Rather than focusing on a booming economy's challenges, it demonstrates how a sluggish economy may get the speed and begin to expand and purchase as Keynes predicted. As a result, Keynes' perspective on growth is stagnant. The key component in rebounding from a recession, as per Keynes, is the growth of demand (Özsağır, 2008).

In Keynes' theory, a country's revenue is calculated as the whole amount of expenditure individuals have made, not the complete number of commodities the country's economy can generate. When individuals would not spend all of their money and save some, Keynes refers to the net tax rate they pay and the whole of their savings as leakages. Leaks have an adverse impact on national revenue, and Keynes suggested that the government should spend to offset the negative impact in this scenario. He referred to the state's upcoming expenditures as total additions (injections). The equilibrium will be attained, according to Keynes, if the leakage equals the additions (Ünsal E. ,2017, p. 191).

Keynes' growth views are based on a notion called the revenue hypothesis. Keynes failed to consider the capacity-increasing effect of investments in this situation. Keynes failed to consider the capacity increasing impact of investments in this situation (Yılmaz, 2008, pp. 55-56). Also, when it comes to how an economy recovers from a crisis, the focus was on how the resources that fuel growth will gain traction. Also, when it comes to how an economy recovers from a crisis, the focus was on how the resources that fuel growth intention enlargement traction, leaving the challenges that an economy faces during the growth rotation and the facets that influence the growth procedure unaddressed. As a result, the idea grew stagnant and shaped in an inadequate manner (Acar, 2002, p. 81). The usage of rich nations in Keynesian development theory, while disregarding the growth processes of developing countries, is a major flaw. In this context, the Keynes growth theory, which describes unemployment in developed western nations owing to a lack of adequate demand, fails to explain the origins and removal of unemployment in

undeveloped countries with high unemployment. As a result, it has been inadequate to disclose how undeveloped nations' growth processes are established. Furthermore, justifying inflation based on demands is a critique (Aksu, 2013, p. 30-31; Kazgan, 1991, p. 285).

1.2.5 Gross Domestic Product in Iraq

We used GDP available to Economic Growth By examining the statistical data in table 2.2, our data started from 2004 to 2019.

In Table (2.2) displays demonstrates that there is a significant contrast between the rise in the GDP at today's costs in all of these years was approximated at (49.95), billions US\$ in 2005, reaching a gross domestic product growth speed of (1.67 percent) over the previous year, and the gross domestic product per capita was estimated at (1855.52 US\$, reaching an annual speed of (0.62 percent) over the previous year. In terms of the ratio for the year 2007, the statistical data in the tableland shows that the gross domestic product growth rate increased by 1.88 percent in 2007 compared to 2006. So, the GDP per capita increased by 0.195 percent from (2373.21US\$) in 2006 to (3182.95US\$) in 2007. (In addition, the gross domestic product at current prices increased substantially from \$B88.84to \$B 131.61 from 2007 to 2008, and the growth rate increased as well) (8.22 percent). In Iraq, oil and gas are the most important sources of revenue for the government.

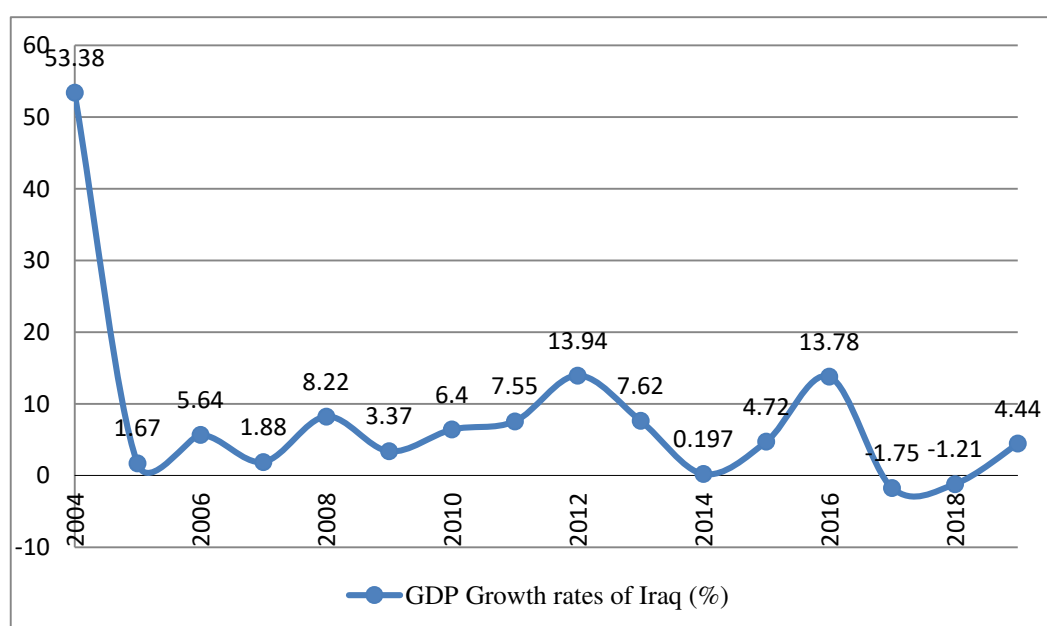


Figure 2.2: Growth rate of GDP in Iraq from 2004 to 2019 by (%)

Sources: World Bank, World development Indicators, 2021

The relative improvements in Iraq's security and economic circumstances and the rise in oil exports earnings because of rising global oil prices have contributed to this GDP growth. However, the Iraqi Federal Government passed Investment Law No. 13 (Federal Investment Law) in 2006, which resulted in a significant rise in FDI inflows to Iraq.

In 2009, statistical information showed a decline in the speed of gross domestic product at the current price of (111.66) billion US\$, comparison to (131.61) billion US\$ in 2008, with gross domestic product growth rate of (3.37 percent) in 2009, and per capita output lowered to (3853.94) US\$ in 2009, corresponded to (4636.61) in 2008, leading to a decline in oil prices owing to the global financial crisis' repercussions.

According to statistics, the gross domestic product climbed to (185.75) billion US dollars at current values in 2011, up from (138.52) billion US\$ in 2010, indicating a 7.55 percent increase in GDP growth rate, and GDP per capita increased to (6036.40) US\$ in 2011, up from (4655.42) US\$ in 2010, indicating a 4.10 percent increase in GDP growth rate. The impact of the global economic meltdown is responsible for the disparity in GDP growth rates.

GDP at current prices reduced in 2013 from (234.65) billion US\$ to (234.64) billion US\$ in 2014. The gross domestic product per capita current prices lowered from (\$ 7076.88 to \$ 6818.80) in 2013-2014, a decrease of (-3.45%). The drop is due to developments in the dangerous political scenario, the continued degradation of the security situation, and army operations against ISIS. Aside from the rapid drop in oil prices resulted in a drop in oil export earnings due to the Iraqi economy's reliance on oil export revenues. The lack of diversification of income streams within the Iraqi economy also contributed to the loss in oil export revenues. The lack of flexibility of the produce, as well as sabotage and damage to infrastructure in these areas, particularly given the existence of some significant oil areas possessed by provinces under ISIS control, as well as the rapid drop in oil prices, which resulted in a decline in oil export revenues due to the rapid decline in oil prices.

When comparing 2015 to 2016, the GDP per capita increased by 10.56 percent at current prices. At the same time, gross domestic product per capita decreased from (4989.80) US dollars in 2015 to (4777.19) US dollars in 2016. The value of the GDP at current prices grew to (224.22) billion US dollars in 2018, up from (195.473) billion US dollars in 2017, while the Iraqi GDP per capita share increased from (5205.29) to (5834.166) in 2018. The increase in GDP in 2018 is attributed to higher oil prices and a greater daily rate of oil exports than in 2017.



Table 2.2: For the Period (2004-2019), The Evolution of Gross Domestic Product (Current Price), Gross Domestic Product Per Capita (Current Price) US\$, and Gross Domestic Product Per Capita Growth (Annual Percent).

Years	GDP (current price) of Iraq Billion US\$	GDP per capita (current price) million US\$	GDP per capita growth (annual %)
2004	36.63	1391.96	49.48
2005	49.95	1855.52	0.62
2006	65.14	2373.21	3.62
2007	88.84	3182.95	0.195
2008	131.61	4636.61	6.41
2009	111.66	3853.94	1.28
2010	138.52	4655.42	3.65
2011	185.75	6036.40	4.10
2012	217.81	6829.96	9.77
2013	234.65	7076.88	3.51
2014	234.64	6818.80	-3.45
2015	177.50	4989.80	1.30
2016	174.89	4777.19	10.56
2017	195.473	5205.29	-4.21
2018	224.22	5834.166	-3.47
2019	234.09	5955.11	2.17

Sources: World Bank, World development Indicators, 2021

1.3 Literature Review

The literature is about Iraq in some ways since it concentrates on the negative consequences of investing in EG in many world regions. EG is now linked to expanding human capital and investment and the movement of capital and products. Countries are attempting to entice FDI into their countries. FDI has emerged as a key driver of EG. EG is defined as improving people's quality of life,

the nation's economic well-being, the pursuit of economic goals, a lesser jobless rate, more job possibilities, technology transfer, infrastructure development, and various other aspects. As a result, the literature emphasises the relationship between EG and FDI.

By investigating the impact of foreign direct capital investments on the maximising output of Mexico's industrial structure, Blomstrom (1986) attempted to discover the pathways via which foreign investments spread. Moreover, what type of structural changes FDI's produce in the sector has been contested. The implementing study, which spanned 1970–1975, revealed that having foreign capital in the Mexican manufacturing industry boosts productivity. From a professional standpoint, it was discovered that FDI's boost average industrial productivity, even though there is no causation between technical advancement and increased worker productivity. This is due to the disparity in output in developing countries among local and international companies. There is no proof that the productivity improvement found in the application is due to direct foreign investments that are mirrored in local producers (Blomstrom, 1986).

According to Fry (1993), the study aims to see if FDI's improve capital accumulation and fund the payment balance in developing nations. For this purpose, it was sought to demonstrate the effects of FDI on protection, assets, development, and the balance of payments. The study examined data from 16 developing nations and 11 developed nations (the management status). According to the conclusions derived from data from developing nations, the countries' original balance of payments deficit has not enhanced FDI. FDI's have been observed to lower domestic savings in industrialised countries. According to the study, FDI's boosted savings in five developing Pacific nations but did not replace other capital inflows, disrupting the current balance by increasing capital accumulation. Other findings showed that FDI's have a detrimental influence on growth in rich nations but positively impact developing countries within the study's scope. Although FDI's have a favourable influence on EG when all nations are considered collectively, it has been noted that this effect is harmed when they induce monetary tension and structural degradation in trade-off (Fry, 1993).

Barrel and Nigel (1997) noted that variables like trade openness, FDI, and innovation dictated the economic trajectory after WWII and analysed the causes driving FDI expansion and its influence on the host nations' economies. They discovered evidence of production reallocation on exports to various OECD nations. Technology transfer was also evident in new equipment introduced to host nations, which became the primary avenue for receiving and disseminating technology and concepts (Barrel & Nigel, 1997).

Değer and Emsen (2006) examined FD Investment and growth in twenty seven evolution economizing that switched to a market economizing behind the Soviet Union fell apart. The paper used panel data analyses to evaluate the FDI-growth link in transition economies from 1990 to 2002. FDI-growth relationships, and analyses of all twenty-seven transition economies, considering Central Eastern Europe and Central West Asia nation divide. It's finished. While FDI is a crucial component in the EG of transition economies, no substantial relationship between FDI and growth was identified in West Central Asian nations (Değer & Emsen, 2006).

In their research supporting the favourable impact of foreign direct capital investments on EG, Nair-Reichert and Weinhold (2001) examined data from 24 developed nations. The period 1971-1995 was examined, including data from Turkey. The model also contains variables such as gross investments, inflation rate, trade clearance rate, investment, and overall training time (Nair-Reichert & Weinhold, 2001).

Between 1960 and 2001, Bouoiyour (2007) used the least-squares approach to study factors impacting FDI inflows in the Moroccan economy, the largest major buyer of FDIs in the Middle East and North Africa area. The study looked at market size, regulatory policies, investment rates, inflation, wages, human capital, import-to-GDP ratios, export-to-GDP ratios, and real exchange rate factors. As an outcome of the study, it was discovered that variations in commercial openness and liberalisation are significant determinants of FDI. These characteristics increase human capital and domestic company efficiency (Bouoiyour, 2007).

Abudayya (2017) discusses the influence of FDI on Turkey's EG from 2000 to 2015. These impacts are focused on employment, EG, and other economy

elements. This study explores the impact of FDI on the host country and the danger that FDI poses to the host country. It also examines changes in FDI by geography and sector from 2000 to 2015. And, as previously noted, the service and industrial sectors in Turkey draw a substantial portion of FDI, whereas fisheries and agriculture receive the smallest share of investment. The effects of FDI on the Turkish balance of revenues throughout the exact time, when the consequences existed other (Abudayya, 2017).

Rajan (2008) used FDI flows from 15 emerging Asian nations between 1997 - 2005 to analyse the patterns and causes of foreign direct flows in Asia. As the distance between the host and source nations grows, bilateral FDI tends to decrease. The adoption of a single official language stimulates greater FDI from the source to the destination country. Similarly, the market sizes of the host and original nations are both optimistic and statistically influential. FDI and GDP per capita has a negative association. Exports from the source nation to the host country are weakening, which is a good indicator. Although currency appreciation in the source nation has a beneficial impact on foreign investments, it is not statistically significant. In the same way, exchange rate volatility has no impact on bilateral foreign direct capital flows. Political risk and FDI have an inverse connection, with lower political risk in the source nation leading to higher direct foreign investment inflows. The corporation tax rate and FDI have a negative association that is statistically significant but economically inconsequential (Rajan, 2008).

Yusuf (2020) examined and measured the link between FDI and economic development in African nations from 2000 - 2017. He employed the Unit Root Test and cointegration panel tests. His goal was to analyse and investigate the impact of FDI on EG. On the contrary, he briefly examined the history of FDI, particularly in Africa. FDI influenced the rate of employment and EG, as per the tests. This study proved that FDI and Africa's EG have a long-term association. In addition to this, studying Africa requires greater investment from other nations. Finally, creating free trade zones might be an effective way to attract FDI and boost EG (Yusuf, 2020).

With data from 69 emerging nations, Borenztein, Gregorio, and Lee (1998) developed a model in that the growth rate is viewed as a function of technical

advancement. Aside from a particular amount of human capital in the host nation for technological innovation deployment, it is highlighted that there ought to be human capital. The study discovered that investments in the form of FDI boosted growth faster than local investments. In addition, for FDIs to boost development, the rank of human wealth in the hosteler nation must exist higher than the stated brink. It was also investigated if foreign investments displaced local assets, and it wass shown that this was not the case; rather, it had an additional improving impact on FDIs (Borensztein, De Gregorio, & Lee, 1998).

Between 1986 and 1997, Soto (2000) examined the connection between growth and foreign investment in 44 developing nations. A favourable association between FDI and portfolio investments has been discovered for starters. On the other hand, the portfolio bonds variable did not correlate with EG. In addition, in nations with capital shortages, they found no positive association durig the study and was identified between capital inflows to the banking sector and growth rate. This conclusion holds true for both long- and short-term capital inflows. He concludes that emerging nations with a shaky financial system should not support foreign debt and instead focus on developing their financial systems based on the findings (Soto, 2000).

Carkovic and Levine (2002) looked at the link between direct investment and economic development with decreases in ordinary micro-squares in 72 countries between 1960 and 1995. (OLS). There was no indication that direct investment enhanced economic development as a consequence of the inquiry. The significance of human capital formation in the influence of FDI on EG was also emphasised. This relationship can only exist if the country has a specific human capital. In contrast to nations with low educational levels, there was no correlation between the two factors. Furthermore, the poor association between EG and direct investment remained the same with the inclusion of openness level factors to the level of financial development (Carkovic & Levine, 2002).

FDI and the host country's EG, according to Li and Liu (2005). They looked at the association between their investments for 84 nations from 1970 to 1999 and discovered a positive correlation between the two variables. A comparable association was not found in the research for a long time and nation group. The

association between EGs has appeared at a significant econometric level with direct investments since the mid-1980s; thus, sub-periods are constructed and analysed. Consequently, a link has been discovered between direct investment and EG in both emerging and established countries. Furthermore, direct investments have been found to stimulate EG via indirect channels, in the impacts of direct investments. The importance of the host country's technological capacity, market volume, and human capital was also emphasised (Li & Liu, 2005).

Hossin (2009) examined the factors influencing FDI in the northern Iraq region. Analyzed his view of Iraq as the world's second-largest oil exporter and provided appropriate procedure options for international investors. Foreign investors, on the other hand, have remained away from the nation due to the turmoil. Conflicts (the Iran-Iraq War 1980-1988, followed by the Gulf War in 1991), UN sanctions, and, most recently, the nation has become a battleground for predominantly terrorist and rebel areas of the country since 2003. Furthermore, he uncovered a unique mix of entities, including several UK and Turkey-based FDI organizations operating in Northern Iraq. Nevertheless, his educational finish trusted his previous research work to examine the drivers of FDI within the Northern Iraq Region by identifying the factors that influence established firms' funding. The last component of this research project examined a unique set of stakeholder viewpoints from both the United Kingdom and Turkey. These stakeholders were groups in each nation (the United Kingdom and Turkey) concerned about their MNCs' international market being sold. According to his analysis, the excellent necessities of UK Multinational Company s are very high, and as a result, they come at a lower price, while the fine of Turkish corporations is very low. As a result of lower standards and lower pricing than UK multinationals, according to his analysis, UK multinationals cannot compete with Turkish firms in the KRI market (Hossin, 2009).

Abdul Salam (2010) attempted to investigate the factors of the investment environment within the North Iraq Region, Dohuk Governorate, in 2007-2008, as per their study. Examine the objectives to uncover the factors that contribute to a favourable investment climate and the factors that may encourage investment inside the Dohuk province. The most crucial aspect of the studies' location is that the area is rich in natural resources. It has a sociopolitical and protection equilibrium, as

well as a legislative base, that will appeal to investors. Political changes and the security environment inside the area have also harmed economic operations within the area (Abdul salam, 2010).

Saleh (2018) analysed the state of FDI and EG in the northern Iraq region (2007-2012). The goal was also to scrutinize the link between FDI and regional EG. The study's goal was to examine the state of FDI and EG in the northern Iraq region. Results were gathered and analysed using percentage, frequency, curves, and graphs utilising two data types, primary and secondary, and data detection. According to the study, foreign investment contributed roughly 19 percent of the region's investments in all sectors, either independently or in partnership with a local investor with technical expertise in investing in the Northern Iraq Region, with an FDI rate of 14.63 percent and a joint investment ratio of 4.25 percent. As a result, housing investment outpaces agricultural, industrial, and tourism investment, and the housing sector is the most significant sector for foreign investors, with a 60.62 percent levy imposed across the board (Saleh, 2018).

The influence of FDI on EG in Iraq was investigated by Abdulkhaleq and Abdulqadir (2017). They compared two factors based on FDI and GDP data from 2004 to 2015, which they obtained utilising World Bank's Development Index. Nevertheless, those studies analyse both variables using an Ordinary Least Squares (OLS) regression model. According to their assessment of the expanding Iraqi economy, higher investment rates are necessary, which just entered a financial crisis due to the disruption of economic activity political unrest. FDI facilitates the transfer of competencies and technologies necessary for industrial operations and upgrade projects and provides extra-economic sources and cash flows. Based on the data, FDI appears to have a beneficial relationship with economic development. The disproportionate taxation of FDI in Iraq for more than a decade had a major influence on the phases of EG, owing to its favourable influence on GDP levels (Abdulkhaleq & Abdulqadir, 2017).

Alazawy (2016) used yearly observations over the period to try to figure out the link between FDI flows and industrial sector development (2003-2013). These funds are not being directed toward the development of the industrial sector. In the same year, another study (Almasudy, 2010) looked at the extent to which growth

rates help poverty reduction, given that the growth index favours the poor. The study indicated that the growth index has grown because of elevated growth rates in favour of the poor compared to the non-poor. Small and medium-sized businesses should be aided by small loans, according to the report, to boost their EG and so alleviate poverty (Alazawy, 2016).

Ustaoğlu (2021), the Study About Foreign Investment, Financial Development, And Economic Growth Relationship. The intention of the have a look at is to analyze the feasible results of overseas investments (overseas direct funding and overseas portfolio investments) and monetary improvement on monetary increase. The have a look at used information from 133 nations for the period (1990-to 2017) have been investigated with the machine generalized moments approach and multi-mediation analysis. In the have a look at, it became determined that overseas direct funding, overseas portfolio investments and monetary improvement growth monetary increase. In addition, it's been determined that FDI getting into the united states not directly growth monetary increase through affecting monetary markets and home investments, whilst FDIs assist monetary increase best via monetary markets.

Ibrahim& Ahmed (2019) is another study that focuses on the effect of FDI Inflows and Outflows on the EG of Iraq. The goal of the research was to look into the link between FDI inflows, outflows, and EG. This period of this study was 1980-2017. His study utilised a variety of statistical tests, but the focus was on OLS estimates to discover the association between FDI inflows, FDI outflows, and EG. The findings showed that FDI inflows and FDI outflows had good interactions in the study period of 1980-2017 also he recommended for government stability security is good for foreign investmen (Ibrahim & Ahmed, 2019).

Recepoglu, Doganay, and Değer,(2021) the study relations between foreign direct investments, exports, and economic growth: bootstrap panel causality analysis on BRICS-T countries (1992-2018). And the study shows that Trade globalization and regional economic agreements after World War II and the increase in trade relations between countries have led to a large increase in studies addressing the effects of foreign trade, mainly exports, on monetary boom. Likewise, the globalization of manufacturing thru Multinational Corporations has

made Foreign Direct Investments famous for economists. also, this observe goals to analyze the connection among overseas direct investments, exports, and monetary boom in BRICS-T nations and use statistics for the duration 1992 to 2018. The findings imply that horizontal sectional dependence and heterogeneity are concerned withinside the fashions used withinside the observe. On the alternative hand, in keeping with the bootstrap panel causality take a look at results, causal family members among overseas direct investments, exports, and monetary boom differed from country to country.

Salih (2016) investigated the link between crude oil prices and EG rates over time using a time series data model (1990-2013). The oil business, according to the research, Is one of the maximum essential additives of Iraq's GDP and a major contributor to the country's EG process. As a consequence, the study recommended that oil companies be reformed in order to boost productivity and exports by improving production efficiency (Salih , 2016).

Liang, Shah, and Bifei (2021), study the relationship among FDI and the economic growth of developing countries. The have a look at used data (2000 - 2019) for the thirteen growing and evolving countries and employed annual data. The outcome of the examination observed a fantastic affiliation among FDI and financial increase. Growth in FDI will end result from an upsurge withinside the financial increase of the growing country. The affiliation among unemployment and financial increase is visible as negative. The preferred effects show that FDI and financial increase have a fantastic affiliation in growing governments.

However, the current data is supplemented by various studies that show both positive and negative consequences of FDI on EG, while others provide limited or no evidence. An examination of the relevant extant research is provided in this part to envisage the effect of FDI on EG (GDP) and other variables that influence economic growth (GDP). In addition, most studies concluded that FDI inflows had a favourable and considerable influence on EG in both developed and developing nations. Change openness, monetary flexibility, and the composition of domestic capital inventories are therefore the key factors of FDI in developing nations. Political instability, safety concerns, and corruption have all impeded FDI inflows in Iraq, despite the country's huge capability to attract foreign investment.

Furthermore, the Iraqi economy no longer derives adequate benefits from FDI to justify selling its economic progress. Furthermore, according to some research, Iraq needs a well-developed financial system and adopt an open-door policy for FDI to contribute positively to EG.



CHAPTER TWO

2. METHODOLOGY

This chapter examines data sources, research techniques, study design, model definition, and many tests.

2.1 Research Methodology and Data Sources

The study's goal is to investigate and assess the impact of FDI inflows on Iraq's EG. The other goal of this study is to determine the relationship between FDI and EG in Iraq, as well as the impact of FDI on the country's EG. Also, the study used a quantitative technique. Data from 2004 to 2019 is based on yearly data. The World Bank Database is the main data sources. The suggested model incorporates variables including GDP, FDI, and oil revenue (OR).

2.2 Research Design

Since GDP is used to describe EG, gross domestic product (GDP) is a dependent variable, whereas FDI inflows and Oil Revenue (OR) are independent variables.

To evaluate the integration level and any co-integration factors, the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) are employed to assess the stationary test of the time series GDP, FDI, and OR

We also employ VAR Lag Order Selection Criteria findings to explore the long-run connection between variables under investigation using Johansen tests. In addition, we utilise OLS models to estimate the impact of FDI inflows and oil revenue on economic growth (GDP). As a result, a cumulative total control chart is required for the structural stability test of the projected long-run and short-run connection (CUSUM). In addition, for multilinearity issues, apply the Diagnostics and VIF tests.

However, Eviews10 was used to conduct all the testing.

2.3 Model Description

The inclusion of FDI and oil revenue in the model is informed by Sarbapriya (2012). The recursive relationship and impacts exist between economic growth and

FDI and oil revenue accruable to the country. The functional the relationship is described as:

$$\text{GDP} = f(\text{FDI}, \text{OR}) \quad (2.1)$$

Where: GDP is the Gross Domestic Product, FDI is Foreign Direct Investment, and OR is Oil Revenue. Especially, to gain the goal of this investigation and founded on the effects of the explanatory variables on dependent variables. Moreover, (Babatunde, Ibukun & Oyeyemi, 2017: and Immurana, Yensu, Ibrahim & Adam, 2015) they used the association and effect between the more two variables that can be modeled on the ensuing linear model. Also, several researchers like our research used GDP, FDI, and oil revenue variables for other country such as (Efanga, Ugwuanyi & Ogochukwu, 2020).

$$\text{GDP} = \beta_0 + \beta_1 \text{FDI} + \beta_2 \text{OR} + U_t \quad (2.2)$$

2.4 Tests

We'll look at a few tests in this part.

2.4.1 Unit Root Test

To avoid erroneous estimations, this study does a stationarity test of the data collection in each variable. Considering this, the study adheres to the most recent econometric literature on time-collection analysis. However, a stationarity test to determine the combination order is required to select the best estimator. The Augmented-Dickey Fuller (ADF) and Phillip-Perron (PP) tests were used in this investigation. The assessments' goal is to guarantee that the variables are all the same. The ADF was created in 1979 by Dickey and Fuller to identify the time-collection residences of variables in models. To avoid any erroneous findings, the ADF test was employed to define the combination order among the variables included in the model. The ADF test is written in the following format: (Without a temporal trend or a defined limit,)

$$\Delta y_t = (\rho - 1)y_{t-1} + \sum_{j=1}^k \rho_j \Delta y_{t-1} + E_t \quad (2.3)$$

(Without time trend), as well as in this format:

$$\Delta y_t = \alpha + (\rho - 1)y_{t-1} + \sum_{j=1}^k \rho_j \Delta y_{t-1} + E_t \quad (2.4)$$

(The fixed limit and time trend), like in the example below:

$$\Delta y_t = \alpha + \beta T + (\rho - 1)y_{t-1} + \sum_{j=1}^k \rho_j \Delta y_{t-1} + E_t \quad (2.5)$$

Where (α) denotes the constant term, (T) is the time trend, and (K) denotes the delay period.

Where, Y_t refers to the variable whose collection is being studied and t, Δ , j, and ε_t signifies the passage of time, the error term, the difference operator, and the optimal lag length. The r stands for the most certain number of differentiation, such as first-order, second-order, and so on. The opportunity hypothesis that the variable under inquiry is stationary or non-stationary is compared against the non-stationary null hypothesis. When the null hypothesis is rejected, the collection is stationary. On the other hand, accepting the null hypothesis implies that the variable's collection is non-stationary.

The Phillip-Perron (PP) test is a generalised version of the ADF exam. This test was created to address the concerns that might arise while utilising the ADF test. The ADF test needs uncorrelated residuals with a regular variance, but the Phillip-Perron (PP) test allows for modest assumptions in the residual distribution. The Phillip-Perron (PP) test may also check for econometric difficulties such as heteroskedasticity and serial correlation in the residuals. Consequently, the Phillip-Perron (PP) test modifies the Dickey and Fuller (ADF) test to avoid erroneous findings. The following is the Phillip-Perron (PP) test model's specification:

$$Y_t = \lambda_1 Y_{t-1} + \delta_0 + \varepsilon_t \quad (2.6)$$

The Phillip-Perron test does not specify the lag duration because it has already been controlled and managed. Like the ADF test, the PP test pits the null hypothesis of non-stationarity against the alternative hypothesis. The null hypothesis's rejection means that the tested series is not stationary. Acceptance of the null hypothesis also implies that the series may be nonstationary (Dickey & Fuller, 1979; Phillips & Perron, 1988; Sulemana, 2019, pp. 95-96).

2.4.2 Cointegration Test

The cointegration test may be used to evaluate and investigate the long-term co-movement of FDI influx and GDP growth. The co-integration analysis first establishes a long-term link by computing the long-run equilibrium variable. Before

the co-integration test, the correlations inside the error correction model are examined along with these regular stochastic patterns for a specific time series.

Pedroni's panel cointegration test (1999) suggests methods that rely on the null hypothesis that panel data series do not co-integrate. As a result, seven test measures were developed to examine the series' long-term association. If there is a trend in cointegration, the Pedroni (1999) test is used to determine whether there is a trend (Yusuf, 2020).

$$Y_{it} = a_i + \delta_i t + \beta_{1i} X_{1it} + \dots + \beta_{ki} X_{ki,t} + \varepsilon_{it} \quad (2.7)$$

Where (T) is the number of observations over time.

(N) Indicates the number of people who will be participating in the panel.

(K) Indicates the number of regression variables.

2.4.2.1 JOHANSEN COINTEGRATION TEST

Johansen first proposed cointegration in 1991-1992. The Johansen co-integration test, which we use to determine if there is a linear long-run connection between variables of interest (Immurana, Yensu, Adam, & Ibrahim, 2015), may also be used to determine whether there is a linear long-run relationship between variables of interest (Johansen, 1992).

2.4.3 Structural Stability Test

The lack of any structural changes in the data employed in the structural stability test of the predicted long-term and short-term link is tested using a cumulative sum control chart (CUSUM). The critical threshold (5%) confirms that the study's variables are stable. The model's static long-term and short-term parameters are translated, indicating that the variable studies are stable since they are all inside the study's confidence bounds (Ploberger, Krämer, & Kontrus, 1989: Hassan, 2020).

2.4.4 Diagnostics Tests

We'll look for serial correlation as well as heteroscedasticity among the mistakes.

2.4.4.1 AUTOCORRELATION TEST

The second-degree autocorrelation test "LM" uses Fisher's distribution to measure and analyze the autocorrelation between mistakes inside a model of more than one degree, or chi-square distribution χ^2 .

$$LM = n * R^2 \quad (2.8)$$

n : Is the total number of times the form has been viewed.

R^2 : The model's coefficient of determination.

If the computed Fisher distribution value is smaller than the tabular value, with a chi-square distribution, an autocorrelation with the boundaries of random error will be rejected, according to the hypothesis (Salih, 2021, p. 71).

2.4.4.2 HETEROSCEDASTICITY TEST

The link between error boxes for prior periods is used in a test to determine the homogeneity of contrast in standard model, along with on fisher distribution or Kay distribution χ^2 box (Salih, 2021, p. 72).

CHAPTER THREE

3. RESULTS

3.1 Unit Root Test Results

The stationarity of time series variables is checked using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unity root test.

Table 4.1: Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP)Test Results (Iraq)

Order of integration	Variables	ADF	PP
		Prob	Prob
Level	GDP	0.9274	0.9274
First Difference	GDP	0.0188	0.0182
Level	FDI	0.3083	0.3083
First Difference	FDI	0.0001	0.0001
Level	Oil revenue	0.8096	0.8096
First Difference	Oil revenue	0.0012	0.0012

Sources: Generated by the author according to results.

The Augmented Dickey-Fuller and Phillips-Perron tests were employed in the unit root testing. Table (4.1) displays the ADF and PP results from testing; Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) test verifies that the variables GDP, Foreign direct investment , and oil revenue are all stable at the first

significant difference of 5% or less. When all variables are stationary at the same difference we can use Johansen-cointegration test for long-run relationship.

3.2 Cointegration Test Results

The VAR model is used to execute the Johansen cointegration test. The suitable delay is used to build the VAR model. The tests that are presented below were utilised to identify the suitable delay.

The VAR Lag Order Selection Criteria test outcomes will be analysed in this test.

Table 4.2: VAR Lag Order Selection Criteria Results Test

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-229.2906	NA*	6.66e+11*	35.73701	35.86738*	35.71021
1	-220.0456	12.80074	6.81e+11	35.69932*	36.22081	35.59213*
2	-217.1540	2.669140	2.40e+12	36.63908	37.55169	36.45150

Sources: Generated by the author according to results.

The VAR Lag Order Selection Criteria results are shown in Table 4.2. This table shows that the SC, FPE, and LR have zero VAR Lag Order Selection Criteria, whereas the AIC and HQ have one VAR Lag Order Selection Criteria. As a result, we decided that the ideal lag for our study is "zero" and we utilised it.

The subscriber cointegration model will be estimated using the Johansen-Cointegration test in the next section, with the effect testing of the proposed model shown in table (4.3).

Table 4.3: Unrestricted Cointegration Rank Test (Trace and Maximum Eigenvalue) Results Test

Unrestricted Cointegration Rank Test(Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.837111	49.77289	29.79707	0.0001
At most 1 *	0.706026	24.36729	15.49471	0.0018
At most 2 *	0.403250	7.227593	3.841466	0.0072
Unrestricted Cointegration Rank Test(Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.837111	25.40560	21.13162	0.0118
At most 1 *	0.706026	17.13969	14.26460	0.0171
At most 2 *	0.403250	7.227593	3.841466	0.0072

Sources: Generated by the author according to results.

Table 4.3 shows the annual results of the co-integration test between the GDP dependent variable and the independent variables (FDI and Oil revenue) over the period (From 2004 through 2019). The Trace test statistic value (49.77289) is bigger than the Eigenvalue value in the cointegration test (0.8371) that there is cointegration because prob (0.0001) is less than 5% significant, and Max-Eigen test Statistic (25.405) is greater than Critical Value (21.1316) because prob (0.011) is less than 5% significant. This suggests cointegration between GDP, FDI, and oil revenue variables (2004 - 2019), it accept the null hypothesis and rejecting the alternative hypothesis. On the other hand, most tests are significant and demonstrate that FDI and oil earnings in these Iraqi countries have a long-term association with GDP.

3.3 Models Estimation Economic Growth for Iraq Results

When all variables are stably at the same difference we can use least square model. We assess the least Squares DGDP dependent variables. Also DFDI and DOil Revenue independent variables after performing the unit root test and cointegration test.

Table 4.4: Least Squares Model Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DFDI	6.67E-05	0.001985	0.033618	0.9737
DOR	1.251484	0.285840	4.378275	0.0009
C	7.165383	4.602079	1.556988	0.1454
R-squared	0.631202	Mean dependent var		13.16400
Adjusted R-squared	0.569736	S.D. dependent var		26.02433
S.E. of regression	17.07054	Akaike info criterion		8.689442
Sum squared resid	3496.841	Schwarz criterion		8.831052
Log likelihood	-62.17082	Hannan-Quinn criter.		8.687934
F-statistic	10.26907	Durbin-Watson stat		1.834277
Prob(F-statistic)	0.002516			

Sources: Generated by the author according to results.

It is evident to us, based on the findings of the estimate in the table (4.4), that:

1. The P-Value of 0.002516 in the Least Squares Model is lower than the 5% significance limit. The importance of displaying the equation in which all explanatory factors influence the GDP variable in the Iraqi economy.
2. With our research period in Iraq, Table (4.4) demonstrates that FDI inflows and Oil Revenue have a positive and statistically significant influence on GDP from 2004 to 2019, it accept the null hypothesis and rejecting the alternative hypothesis.
3. The statistical value of Durbin-Watson (1.834277) is near to (2), showing that this improved model has removed the autocorrelation problem between

the residuals. Consequently, it accept the null hypothesis while rejecting the alternative hypothesis.

4. As to the extent to which interpretive variables contribute to determining the behavior of the dependent variable, it is clear from the value of the R^2 selection factor, which was equal to 0.63, i.e. that 63% of the changes in the dependent variable (GDP) are due to interpretive variables and the remainder due to measurable variables or errors of the estimate. And 37% of other variables have an impact on GDP.

3.4 Structural Stability Test Results

Figure 4.1 shows that the remaining cumulative manage charts (CUSUM) for this pattern are an average line in the crucial region's bounds, showing the pattern's constancy at a high 5% threshold. Furthermore, the cumulative sum of the squares of the residuals CUSUM of Squares figure (4.2) shows an average line in the important area's boundaries.

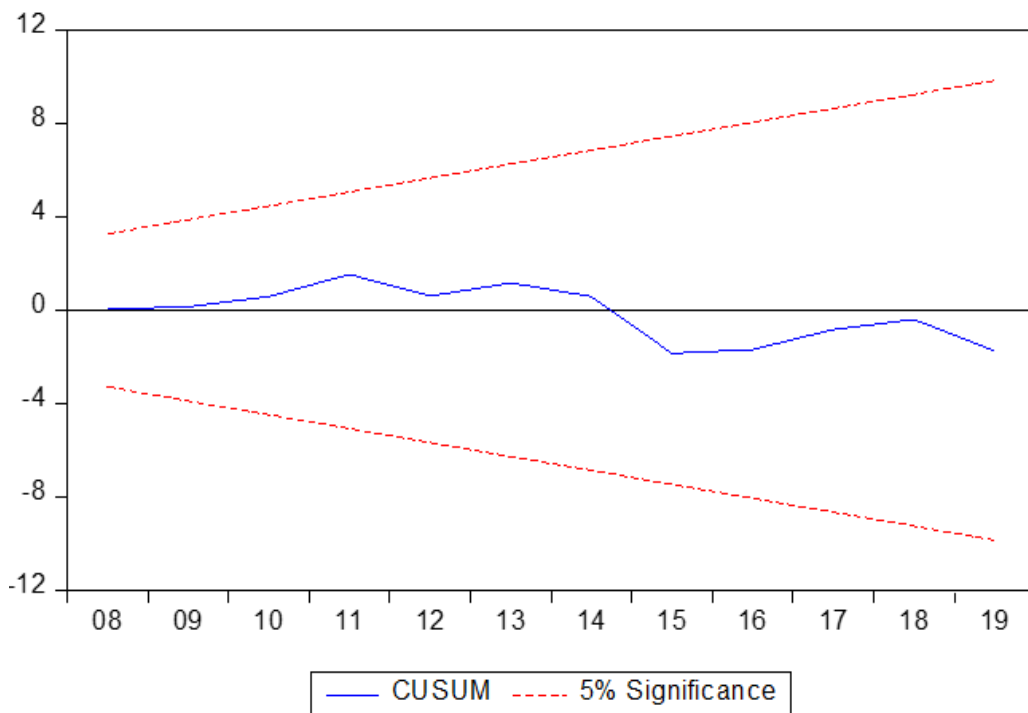


Figure 4.1: Stability test CUSUM

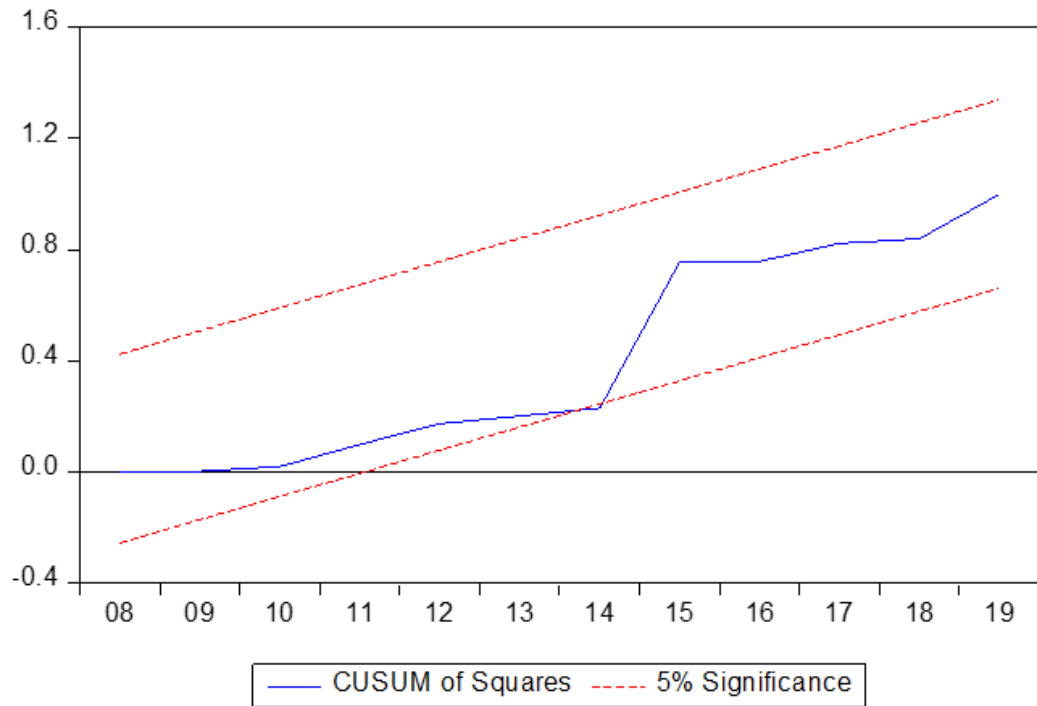


Figure 4.2: Stability test CUSUM of Squares

3.5 Diagnostics Tests Results

3.5.1 Autocorrelation Test Results

The F-statistic of (0.14034) and P. Value of (0.870) in the Breusch Godfrey Serial Correlation LM findings in Test are shown in table 4.5, with the P. Value more than 5%, indicating that the value of the statistic is not significant. Also, the Chi-Square value (0.40954) and P. Value (0.814) indicate that the P. Value is larger than 5%, indicating that the value of the statistics is insignificant. Accept the null hypothesis and reject the alternative hypothesis in both situations, indicating that the mistakes have no autocorrelation.

Table 4.5: Breusch-Godfrey Serial Correlation LM results Test

Breusch-Godfrey Serial Correlation LM Test			
F-statistic	0.14034	Prob. F(2,.10)	0.870
Obs*.R-squared	0.40954	Prob. .Chi-Square(2)	0.814

Sources: Generated by the author according to results.

3.5.2 Heteroskedasticity Test Results

The F-statistic (0.545510) and P-statistic (0.545510) are shown in Table 4.6 of the Heteroskedasticity Test: ARCH findings Test. P. has a value of (0.4744). If the value is larger than 5%, the statistics are insignificant. In addition, the Chi-Square value is (0.60875), and P. P. has a value of (0.435). If the value is larger than 5%, the statistics are insignificant. Accept the null hypothesis and reject the alternative hypothesis in both circumstances.

Table 4.6: Heteroskedasticity Test: ARCH

Heteroskedasticity Test: ARCH			
F-statistic	0.54551	Prob. F(1,12)	0.474
Obs*R-squared	0.60875	Prob. Chi-Square(1)	0.435

Sources: Generated by the author according to results.

3.6 Variance Inflation Factors

The table below shows the findings of the Variance Inflation Factors (4.7). The Variance Inflation Factors (1.067232) are less than 10, indicating that multicollinearity is not an issue.

Table 4.7: Variance Inflation Factors results

Variable	Coefficient	Uncentered	Centered
	Variance	VIF	VIF
DFDI	3.94E-06	1.074180	1.067232
DRO	0.081704	1.163460	1.067232
C	21.17913	1.090196	NA

Sources: Generated by the author according to results.

CHAPTER FOUR

4. DISCUSSION, CONCLUSION AND RECOMMENDATIONS

Discussion:

In this part, we describe the thesis results containing the study hypothesis and furthermore display some different findings according to the literature review.

In our research, we suggested foreign direct investment inflows significantly impact on economic growth from 2004 to 2019 in Iraq. Our results accept this supposition by the least-square model that finds foreign direct investment inflows and oil revenue positively impacted on economic growth from 2004 to 2019 in Iraq. which means accepting the null hypothesis and rejecting the alternative hypothesis. The least-square model displayed to foreign direct investment inflows had a positive impact on economic growth and the results of the study are similar to the studies examined by (Bouoiyour, 2007: Carkovic and Levine, 2002: Abdulkhaleq and Abdulqadir 2017: Ibrahim and Ahmed, 2019).

According to our hypothesis, foreign direct investment inflows have a long-run relationship with economic growth from 2004 to 2019 in Iraq. By the Johansen-Cointegration test, we found that explanatory variables have a long-run relationship with dependent variables which means accepting the null hypothesis and rejecting the alternative hypothesis. The long-run relationship between variables, especially between foreign direct investment inflows and economic growth in different countries and the results of the study are similar to the studies examined by (Soto, 2000: Li and Liu, 2005: Abdulkhaleq and Abdulqadir, 2017: Ibrahim and Ahmed, 2019).

Conclusions:

For our research period (2004-2019), the ratio of FDI inflows to GDP is low; for instance, in 2012, the ratio of Foreign Direct Investment inflows to GDP was just (1.12 per cent), that is a relatively modest ratio.

According to our research, one in all the methods for emerging and underprivileged economies to focus and grow to catch up with advanced economies and attain high level's gross domestic product throughout the study period is through FDI and oil income.

The Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests reveals that the FDI ,Oil Revenue , and GDP variables that suggests that each one variables stable at the 1st different are likewise significant at 5% or below, consistent with the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests.

The consequences of the Johansen cointegration check among GDP dependent variables and independent variables (FDI and Oil Revenue) demonstrated the integration among all variables, indicating the presence of a long-run relation among the variables from 2004 to 2019 in Iraq.

The VAR Lag Order Selection Criteria test results show that the SC, FPE, and LR have zero VAR Lag Order Selection Criteria, whereas the AIC and HQ have one.

The oil and gas industry are Iraq's primary source of governmental revenue, causing serious challenges in the Iraqi economy, such as a lack of a real economy that produces goods, creates jobs, and works with the private sector to lower the country's unemployment rate.

FDI inflows into Iraq increased after 2003 because of the lifting of financial sanctions and Iraq's commencing to the outdoor world. Furthermore, the enactment of the Investment Law in 2006 has a fantastic impact on foreign investment, the majority of which is in the oil sector.

The findings of the literature reviews are still ambiguous in terms of providing exact information, concerning the direction of the link and influence of foreign direct investment (FDI) on GDP, allowing scholars to do more study.

The assessment outcomes using ordinary least squares model revealed a prob f-statistic of 0.002516, indicating that (FDI, Oil revenues) positively impacted on economic growth (gross domestic production) from 2004 to 2019 in Iraq. Implying that any modification within the factors determinative FDI inflows and

external oil prices can immediately impact the economic growth rates (gross domestic production) of the Iraqi economy.

According to the Variance Inflation Factors test, the VIF 1.16171 is less than ten, indicating that multi-linearity is not an issue.

Recommendations:

One of the most important aspects in attracting FDI is political and security balance. As a result, the government must work to regain public trust by increasing human improvement indexes which includes revenue, health, education, poverty, and so on.

Rethinking the structure of government revenues to assure a rise in non-oil income, while the method of revamping the tax and customs system remains delayed, leading to limited resources to fund the Iraqi budget.

Enabling monetary, banking, and financial structural reform processes and establishing financial and monetary rules in order that foreign investors can feel secure in their money and profits, as well as increasing Iraq's share of FDI flows to West Asian countries.

To pay close attention to changes in the oil price as the primary basis of money for the Iraqi public budget, to use these resources to promote the investment strategy, to produce goods, and to decline unemployment by decreasing reliance on oil earnings to ensure economic stability.

Developing domestic production through the contribution of agricultural and industrial economic sectors to gross domestic production, in order to diversify the sources of public revenues and reduce dependence on oil exports as a major source of revenue by resorting to other sources of revenue such as taxes, fees and fines, in order to help stabilize the outcome of public revenues.

The Iraqi government may prepare the ground for Foreign Direct Investment by implementing the investment law, focusing on openness, and eradicating administrative and financial corruption.

The findings demonstrated that Foreign Direct Investment and gross domestic production have a favourable and long-term integrative connection. The research recommends that other economic variables be included in the model, such as inflation, interest rate, exchange rate, government expenditure, or actual indices of democracy, crime, or terrorism, all presently tied to the Iraqi economy.

The government can minimize the management routine and strive to remove hurdles to getting investment authorization, so that investment permission is provided in a shorter period of time.



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