



TR

BANDIRMA ONYEDİ EYLÜL UNIVERSITY

INSTITUTE OF SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

Master's Thesis

**THE RELATIONSHIP BETWEEN TRADE
OPENNESS, FDI, AND ECONOMIC GROWTH: AN
EMPIRICAL ANALYSIS OF MOROCCO**

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Advisor:

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Bandırma 2023

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APPROVAL OF MASTER THESIS

The thesis entitled as “THE RELATIONSHIP BETWEEN TRADE OPENNESS, FDI, AND ECONOMIC GROWTH: AN EMPIRICAL ANALYSIS OF MOROCCO” submitted by master degree student Ahmed Salem Khattarou under the supervision of Dr. Hale KIRER SILVA LECUNA to Institute of Social Sciences to fulfil Master’s program in Economics at the Department of Economics at Bandırma Öneydi Eylül University has been approved unanimously/ by the majority as a Master Thesis by the examining committee during the thesis defense on 21/12/2023.

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ETHICAL STATEMENT
TO
BANDIRMA ONYEDİ EYLÜL UNIVERSITY
INSTITUTE OF SOCIAL SCIENCE

I hereby declare that all the information is gathered and presented in accordance with academic rules and ethical principles in this dissertation. As stated by these rules and principles, I also declare that all data, opinions, and results that aren't my own are given reference to and cited accordingly. (06/12/2023)

Ahmed Salem KHATTAROU

ABSTRACT

THE RELATIONSHIP BETWEEN TRADE OPENNESS, FDI, AND ECONOMIC GROWTH: AN EMPIRICAL ANALYSIS OF MOROCCO

Ahmed Salem KHATTAROU

This thesis employs an Autoregressive Distributed Lag (ARDL) approach to investigate the relationship between Foreign Direct Investment (FDI), trade openness, and economic growth in Morocco from 1992 to 2022. The ARDL model facilitates both short-term and long-term analysis, assessing the long-run equilibrium linkages between FDI, trade openness, and economic growth, along with various other factors. Empirical results indicate that FDI exerts a robust positive and statistically significant influence on GDP, denoting economic growth. Conversely, factors such as trade openness did not demonstrate statistical significance. The bounds test substantiates the existence of a long-term relationship, and the model is statistically significant, reinforcing the relevance of FDI in Morocco's economic expansion.

Keywords: Trade Openness, Foreign Direct Investment (FDI), Economic Growth, ARDL Analysis, Toda-Yamamoto

ÖZET

TİCARİ AÇIKLIK, DYY VE EKONOMİK BÜYÜME ARASINDAKİ İLİŞKİ: FAS'IN AMPİRİK BİR ANALİZİ

Ahmed Salem KHATTAROU

Bu tez, 1992 ile 2022 yılları arasındaki dönemde Fas'ta Doğrudan Yabancı Yatırım (DYY), ticaret açıklığı ve ekonomik büyüme arasındaki ilişkiyi Gecikmesi Dağıtılmış Otoregresif (ARDL) yaklaşımıyla incelemektedir. ARDL modeli, kısa vadeli ve uzun vadeli analiz yapmayı kolaylaştırmakta olup, bu bağlamda DYY, ticaret açıklığı ve ekonomik büyüme arasındaki uzun dönem dengesini, diğer çeşitli faktörlerle birlikte değerlendirmektedir. Ampirik bulgular, DYY'nin Gayri Safi Yurtiçi Hasıla üzerinde güçlü, pozitif ve istatistiksel olarak anlamlı bir etkisi olduğunu göstermektedir. Öte yandan, ticaret açıklığı gibi faktörler istatistiksel anlamlılık taşımadığından, bu bağlamda bir etki gözlemlenmemiştir. Sınır testi, uzun vadeli bir ilişkinin varlığını doğrulamakta ve modelin istatistiksel olarak anlamlı sonuçlar ürettiğini göstermektedir, bu da DYY'nin Fas'ın ekonomik genişlemesinde kritik bir rol oynadığını vurgulamaktadır.

Anahtar Sözcükler: Ticari Açıklık, Doğrudan Yabancı Yatırım (DYY), Ekonomik Büyüme, ARDL Analizi, Toda-Yamamoto

DEDICATION

This work is dedicated first and foremost to my parents, whose unwavering love and support have been my constant companions from the beginning of my journey to this very day. Their endless encouragement has been the bedrock of my aspirations. I extend my heartfelt gratitude to my brother, Mohamed Khattarou, and my uncle, Mohamed Mahmoud Ahmed Mahjoub, for their enduring support and guidance.

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Bandirma, 2022

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LIST OF ABBREVIATIONS

FDI	: Foreign Direct Investment
IMF	: International Monetary Fund
OECD	: Organization for Economic Co-operation and Development
UNCTAD	: United Nation's Trade and Development
ARDL	: Autoregressive Distributed Lag
GDP	: Gross Domestic product
ISS	: Import Substitution Strategy
ELG	: Export-Led Growth ELG
MNCs	: Multinational Corporations MNCs
TFE	: Total Factor Efficiency
IT	: Information Technology
U.S. & USA	: United State of America
UAE	: United Arab of Emirates
R&D	: Research and Development
EU	: European Union
DB	: Doing Business
MENA	: Middle East and North Africa
MAD	: Moroccan dirham
ADF	: Augmented Dickey-Fuller
PP	: Phillips-Perron
KPSS	: Kwiatkowski-Phillips-Schmidt-Shin
ECM	: Error Correction Model

RESET	: Regression Equation Specification Error Test
CUSUM	: Cumulative Sum
CUSUM of squares	: Cumulative Sum of Squares
STD. DEV.	: Standard Deviation
SUM SQ. DEV.	: Sum Squares Standard Deviation



INTRODUCTION

The pursuit of economic growth and understanding its catalysts has fascinated economic theorists, researchers, and policymakers for centuries. From the barter systems of ancient times to the complex trade networks spurred by the Industrial Revolution, and onto the intricacies of today's global economy, trade has remained a constant and crucial element in shaping the prosperity of nations. Its evolution, from closed national markets to the expansive open-market systems and economic unions like the European Union, has marked the pathways of economic progress.

In the current economic landscape, Foreign Direct Investment (FDI) has emerged as a powerful force, far surpassing the mere exchange of capital. FDI brings with it a myriad of benefits: job creation, skill enhancement, and technological advancements, all contributing to the transformation of the host country's economic structure. Companies engaging in FDI not only provide financial resources but also drive innovation, expertise, and a competitive zeal that invigorates local industries and bolsters economic health.

Alongside the ascendancy of FDI, the principle of trade openness has significantly shaped the narrative of economic expansion. Open trade policies catalyze economies of scale, enabling countries to manufacture products more efficiently and cost-effectively. This process is underpinned by the principle of comparative advantage, which allows nations to specialize in areas that afford them a production edge, thus fostering a globally interconnected and prolific market economy.

This thesis embarks on a detailed examination of the complex interplay between trade openness, FDI, and economic growth, with a concentrated lens on Morocco's experience from 1992 to 2022. By employing the Autoregressive Distributed Lag (ARDL) modeling approach, the research captures the nuanced immediate and long-term impacts of these variables on Morocco's economic landscape.

Morocco, a country charting its course toward greater global economic integration, provides a valuable case study for this research. This thesis endeavours to dissect Morocco's economic evolution, analysing how trade policies and foreign investment have molded its journey of economic growth.

These narrative weaves together historical economic doctrines and present-day realities, aiming to provide a comprehensive understanding of Morocco's economic metamorphosis. The insights gleaned are pertinent not only to Morocco's strategic economic planning but also resonate with other developing countries navigating similar paths in the global economic milieu.

In summary, this thesis narrates a tale of economic development, innovation, and resilience. It underscores the significant role of trade and foreign investment in shaping the economic fortunes of nations. It blends theoretical acumen with empirical analysis, contributing to the discourse on sustainable economic development in today's interconnected world.

Chapter One lays the theoretical groundwork, examining trade liberalization and its benefits—scaling economies, instigating structural economic changes, intensifying competition, and promoting technological innovations. It explores the rich tapestry of trade-related economic theories, from the classical ideas of absolute and comparative advantages to modern theories like Michael Porter's Diamond Model. This chapter also investigates the multifaceted impacts of FDI on economic indicators, setting the stage for a comprehensive analysis of foreign investment's influence on economic growth.

Chapter Two provides a deep dive into the specific context of Morocco, painting a vivid picture of the nation's economic reforms and trade agreements. It offers an incisive look at how liberalization has reshaped Morocco's economic landscape, exploring the country's bilateral arrangements and its interactions within the African continent. The chapter then scrutinizes FDI in Morocco, assessing its origins, sectoral distribution, and its implications on key macroeconomic indicators.

Chapter Three is the analytical heart of the thesis, translating the theoretical and contextual frameworks into empirical analysis. It presents a literature review, outlines the research methodology, and applies residual diagnostic tests to ensure the model's integrity. Stability diagnostic tests are conducted to affirm the model's reliability over time. The chapter culminates with a detailed discussion of empirical results, examining long-run and short-run coefficients, and providing a comprehensive evaluation of the model's performance and the findings' validity.

CHAPTER ONE

TRADE, FDI, AND ECONOMIC GROWTH: THE THEORETICAL APPROACH

This chapter conducts a thorough analysis to investigate the many benefits of trade and trade liberalization. Several important theories related to international trade are discussed. Also, a considerable amount of time is devoted to Foreign Direct Investment (FDI), looking at its different types, effects, and the theoretical frameworks that explain its workings. The chapter is concluded by presenting an overview of various economic growth theories, giving a well-rounded view of the different opinions existing in economic discussions.

1. TRADE AND TRADE LIBERALIZATION

This section explores the upsides of trade and trade liberalization and will dive into a number of connected theories. The aim is to discuss the wide-ranging perks that nations can secure by strengthening trade ties and reducing trade obstacles, shedding light on the social and economic consequences of relaxed trade policies.

1.1. Trade Liberalization

In economic discussions, particularly those focusing on global trade, the concept of trade openness is often cited. However, it's worth noting that there's no single, universally accepted definition for this term. Broadly speaking, trade openness refers to the elimination or minimization of various trade barriers with the intention of promoting more global economic engagement. This typically entails the elimination of trade barriers such as taxes, restrictions, licensing constraints, and currency rate regulations that could hinder international trade. According to Edwards (1998), the word "alludes" to the absence of trade barriers between nations.

The idea is closely tied to the idea of trade facilitation and liberalization. Implementing measures that make international commerce easier tends to boost a country's trade volume, covering both imports and exports. Policy initiatives designed to simplify and encourage global trade often lead to higher degrees of trade openness. It has

been observed that loosening trade regulations and making trade easier positively affects both exports and imports, meanwhile enhancing a nation's degree of trading openness.

A frequently utilized metric for measuring the degree of openness in trade is the ratio of a nation's aggregate value of trade to its gross domestic product (GDP). Additional measures that can be included are the proportion of exports from GDP, the proportion of imports to GDP, and a range of trade openness indices. Higher ratios typically indicate higher levels of trade openness, whilst lower ratios tend to indicate lower levels of trade openness.

The level of trade openness in a country is influenced by the degree of international integration or interdependence. Countries around the world have diverse degrees of receptiveness towards engaging in international trade. Certain economies have a higher degree of openness in comparison to their counterparts. The following part will explore the several benefits that a country may encounter as it expands its trade liberalization efforts.

1.2 The Benefits of Open Trade Policies

In this sub-section, the benefits of open trade policies are explored in terms of how an unrestricted trade can yield numerous advantages for both national and global economies. Accordingly, these benefits are given below.

1.2.1 Scaling Up the Economy

The concept of efficiencies that scale is a fundamental aspect of trade worldwide. Standard trade theories, which assume that returns are constant to scale and perfect rivalry, explain international trade based on comparative advantage. However, more recent theories, such as those proposed by Helpman & Krugman (1987) and Krugman (1979), offer a more nuanced perspective on this topic. According to Grossman & Helpman (1991) and Krugman (1980), when considering increasing returns to scale and imperfect competition, it is argued that economies of scale play a significant role in driving international trade, in addition to factors such as comparative advantages, technological competency, and product differentiation. Companies that operate under economies of scale generally see enhanced efficiency and reduced manufacturing costs. The competitive advantage of these companies, resulting in the displacement of less

efficient market participants and subsequently leading to lower product prices, enhances consumer welfare (Melitz, 2003; Melitz & P Ottaviano, 2008).

1.2.2 Structural Economic Changes

Structural economic changes encompass the implementation of open trade policies, which serve to facilitate heightened levels of engagement among nations engaged in trading activities. This contact facilitates the sharing of significant information pertaining to consumer preferences and manufacturing practices among nations, consequently instigating structural transformations in the economic landscape of the countries that trade (Grossman & Helpman, 1994). As illustrated by Melitz & Trefler (2012), when a country A recognizes significant demand for its offering X in Country B, it may opt to diversify its range of goods, thus leading to a positive transformation of the economic environment in both nations, where have been given real world example as USA-CANADA integration.

1.2.3 Increase In Competition

The expansion of trade policies leads to a broader market environment that necessitates enterprises to navigate through more competition, particularly as they are now need to contend with foreign firms operating within their local market. The heightened level of competition has the potential to act as a driving force for enhancing the quality of products and stimulating innovation, ultimately leading to advantages for customers (Agosin et al., 2005; Melitz & P Ottaviano, 2008; Porter, 1990).

1.2.4 Innovations In Technology

Innovations in technology are widely recognized in economic growth theories as having a favorable effect on long-term growth (Solow, 1956). According to Coe and Helpman, (1995), the presence of trade openness facilitates the exchange of technology across nations. Additionally, Parente and Prescott, (1994) argue that countries with lower levels of technical development are likely to benefit more from this exchange, as they experience diminishing marginal returns of technology. As countries experience increased levels of global integration, there is a higher probability of their adoption of novel technologies and production processes (Grossman & Helpman, 1991b), leading to the enhancement of their technological environment.

In addition, commerce facilitates the acquisition of intermediate goods and capital equipment, so contributing to the advancement of domestic technological progress (Feenstra, 1998). In a similar vein, exporting companies can acquire fresh perspectives from a wide range of consumer demographics, hence facilitating the generation of technological advancements (Melitz & Trefler, 2012).

Summary of Benefits: Trade openness offers several advantages, which can be summarized as follows: By embracing open trade policies, nations stand to gain various advantages like scaling up economies, fostering greater competition, advancing technological capabilities, and bringing about transformative shifts in their economic structure (Venables, 1999). This idea is further developed by Griliches, (1998). Krugman, (1979) has explored how businesses within trading nations can benefit from economies of scale, while Deardorff (1984) emphasizes that doing away with pricing anomalies and bolstering production efficiency are pivotal. Dornbusch et al., (1977) note an emerging trend toward specialization among economies engaged in trade. Furthermore, Romer, (1990) underscores the necessity of supporting the development of innovative products.

1.3 Theories Connected to Trade

In this sub section, we will gain exposure to a range of theories related to international trade. These theories, offer various perspectives and frameworks for understanding the dynamics, benefits, and challenges of trade between nations.

1.3.1 The Absolute Advantage Theory

The concept of absolute advantage pertains to a scenario wherein a nation, individual, or business is capable of producing a product or service with greater efficiency. This concept, is originally presented by the economist Adam Smith in his influential publication "The Wealth of Nations," posits that a nation ought to concentrate its efforts on producing and exporting items in which it possesses a discernible advantage in productivity (Smith, 1776).

1.3.2 Comparative Advantage

The notion of comparative advantage focuses on a country's, individual's, or organization's capacity of producing a specific good or service more productive than another. The early 19th-century idea from David Ricardo suggests that countries gain the

most when they focus on producing what they're good at. Even if one country is more efficient in producing everything compared to another, both nations still stand to gain from trading with each other by exploiting their unique strengths in specific areas of production (Ricardo, 1817).

1.3.3 Heckscher-Ohlin Theory

Similarly, the Heckscher-Ohlin Theory, also known as the Factor Proportions Theory, argues that a country's exports are shaped by its natural abundance in certain types of resources. Whether it's skilled labor, abundant natural resources, or capital, countries will naturally steer towards manufacturing goods that make the most of what they have in plenty. So, the theory suggests that countries should zero in on producing and exporting those goods that capitalize on their most readily available resources (Ohlin, 1967).

1.3.4 Gravity Model

Tinbergen's Gravity Model of International Trade offers a structured approach to understanding the trade relationships between countries through quantitative analysis. The model reveals that there's a positive association between the economic size of two countries and their level of trade. In contrast, geographical distance between the two nations tends to negatively impact their trading volume (Tinbergen, 1962).

1.3.5 New Trade Theory

Emerging in the late 70th of last century, the New Trade Theory adds nuance to traditional economic theories by incorporating the influences of economies of scale and network effects. Paul Krugman, (1979) elaborated on the phenomenon where countries could be involved in both importing and exporting similar goods, a behavior influenced by economies of scale and varying consumer tastes (Krugman, 1979).

1.3.6 Michael Porter's Diamond Model

Lastly, Michael Porter's Diamond Model offers a framework to understand why certain nations hold competitive advantages in particular sectors. Porter, (1990) identifies four key determinants: factor and input conditions, local market demand, availability of related and supporting sectors, and the overall competitive landscape in the country.

These elements collectively shape a nation's ability to compete effectively on the global stage (Porter, 1990).

1.4 The Connection Between Free Trade and Economic Development

The relationship among a liberalized trade framework and the growth of the economy remains an area of ongoing discussion between scholars & policymakers. Although there has been a general consensus on the existence of a certain degree of correlation between both of the phenomena, the precise nature of their mutual influence remains a topic of ongoing debate (Frankel & Romer, 1999). The examination of this intricate association is further complicated by methodological challenges and the endeavor to establish a causal relationship between the two factors (Rodriguez & Rodrik, 2000).

In the conventional sense, the promotion of commerce, in conjunction with expenditures in tangible and intangible assets, is widely acknowledged as a substantial catalyst for economic advancement (Sachs & Warner, 1995). The underlying justification is that nations that engage in trading were far more likely to bring in FDI as well as acquire vital technological knowledge (Borensztein et al., 1998). This phenomenon contributes to a nation's capacity to raise efficiency & overall production. Supporters of liberalization of trade contend that strategies promoting open trade contribute to the allocation of resources more efficiently and promote a growth model centered on exports, particularly in industries where a nation possesses a comparative advantage (Krugman, 1980).

The examination of the influence of commerce on economic performance could be linked historically to the scholarly contributions of Adam Smith as well as David Ricardo. According to Ricardo (1817) and Smith (1776), the emergence of international trade can be attributed to nations specializing in industries in which they possess comparative or absolute advantages. This specialization leads to an increase in total GDP and the welfare of society. Commerce enables a country to surpass its manufacturing capacities while meet demands that exceed its domestic capabilities, hence enhancing its economic indicators (Samuelson, 1939).

The influence of trade liberalization on different economic variables, including market structures, unemployment rates, inflation, poverty, and income distribution, has

been extensively studied (Winters et al., 2004). According to Edwards (1998), the increased openness nations have to trade may result in enhanced efficiency, hence contributing to elevated levels of national wealth. One of the ways in which trade openness can enhance an economy is through the importation of essential investment products and the utilization of foreign innovation, as highlighted by Grossman and Helpman (1991a).

Several trading tactics, such as Import Substitution Strategy (ISS) introduced by Prebisch in 1950, Export-Led Growth (ELG) proposed by Krugman in 1989, and FDI-based growth as discussed by Borensztein et al. in 1998, have the objective of optimizing the advantages derived from trade. The adoption of trade liberalization policies frequently leads to a rise in FDI, the transfer of technology, and improved productivity (Findlay, 1978). According to Melitz (2003), these types of situations are conducive to fostering rivalry and enhancing productivity.

The existing body of empirical research examining the correlation between trade openness and economic growth has produced inconclusive findings, as highlighted by Rodriguez and Rodrik (2000). Several studies have identified a positive association between the two variables (Frankel & Romer, 1999). Conversely, there are arguments suggesting an adverse effect, especially in cases where heightened rivalry prevents local firms from engaging in innovation (Agosin et al., 2005).

2. FOREIGN DIRECT INVESTMENT

This section examines foreign direct investment (FDI) and its diverse forms. Subsequently, the possible outcomes it may have is briefly discussed, and the discussion ends with some thoughts on the theoretical models that are currently accessible for this subject.

2.1 An In-depth Examination of Foreign Direct Investment Across Different

Viewpoints

Foreign Direct Investment (FDI) can be explained by referring to a durable alliance established among a foreign investor and a domestic enterprise situated in the host countries, according to the International Monetary Fund (IMF). The investor maintains significant power on the operational activities of the organization, often demonstrated by possessing a minimum of 10% stake in the shares with the right to vote.

According to the perspective of Kehal Harbhajan, FDI encompasses two primary approaches: the establishment of a new venture in a foreign country, commonly referred to as Greenfield investment, or the acquisition of an already established company in a different economy known as a brownfield investment. This indicates that the investor exercises significant managerial authority over the firm in the host country (Kehal, 2004).

As stated by the United Nation's Trade and Development body (UNCTAD), FDIs refer to capital commitments made by individuals or organizations in a different country. Unlike stock or bond investments, FDIs often include the sharing of non-material assets like managerial expertise, giving investors a higher degree of control and accountability in their ventures. Nowadays, there's an increasing emphasis on FDIs serving the dual purpose of catering to both international and local markets within interconnected industry frameworks (UNCTAD, 2006).

On the report of the OECD, FDI is characterized as a long-term financial commitment made by an investor in a company located in another country. The intent behind such an investment is to have a lasting influence on the company. As per OECD's 2009 report, this enduring relationship is often signified by the investor having a significant say in the business operations, typically through owning at least 10% of the voting rights (OECD, 2009).

FDI is essentially the funneling of funds from one nation into another. The distinction lies in the fact that the invested capital remains within the host country, setting it apart from financial capital flows. The investment has the potential to either enhance existing firms in the host nation or establish a new business entity. FDI exerts a significant influence on several macroeconomic indicators, including economic growth, employment levels, and production output, due to its nature as a tangible investment. According to Ibrahim and Abdel-Gadir (2015), FDI is the injection of cash, new technology, managerial skills, and global industrial networks serves to expedite economic development in host countries (Ibrahim & Abdel-Gadir, 2015).

2.2 Understanding The Nature of Investment

Investment is usually seen as the practice of committing money or other resources over a certain period, with the expectation of generating future financial gains. The

primary aim is to grow the original sum invested over time (Reilly & Keith C. Brown, 2011).

There are three primary types of investment, each with its distinct features:

I. Capital Investment: This involves businesses putting money into acquiring physical assets such as equipment, vehicles, and various kinds of real estate, from commercial properties like shopping centers and factories to healthcare institutions.

II. Inventory Spending: This type of investment focuses on businesses buying and storing raw materials or other goods necessary for production. The stock level increases are generally viewed as positive, while decreases are seen as negative for a business's financial health.

III. Investment in Residential Real Estate: This involves the expenditure on constructing new houses or apartments, intended either for rental purposes or for personal residence. Both companies and private persons engage in this type of investment.

2.3 Types of Foreign Capital Infusion

This term describes the different ways and categories through which foreign funds are channeled into a receiving nation.

2.3.1 Vertical Foreign Direct Investment

In vertical FDI, a company expands its operations into another country, distributing various elements of its production cycle across different nations. There are notable variations in factor distribution, geographical fragmentation, and manufacturing capability among these entities (Elberfeld et al., 2005; Protsenko, 2004). The primary emphasis of this approach lies in the realm of manufacturing, facilitating multinational firms in managing their expenditures (Protsenko, 2004).

2.3.2 Horizontal Foreign Direct Investment

The term of horizontal FDI refers to an establishment of subsidiaries or branches of a company in foreign countries that engage in the same or similar activities as the parent company. This pertains to a type of corporate consolidation wherein organizations

operating in the same or nearly related industries collaborate to create economic worth (Protsenko, 2004; Sulemana, 2019). Integrations of this nature commonly occur when numerous enterprises seek to exploit operational synergies, achieve an edge over their competitors, augment market power and diversity, and utilize benefits of scale (Behrens & M. Picard, 2007).

2.3.3 Platform (Triangular) FDI:

Platform or triangular FDI refers to a specific kind of FDI when an investor country utilizes an intermediary country as a conduit to invest in a target country. This investment strategy involves the investor country establishing a subsidiary or affiliate in the intermediary.

According to Barry (2004), this form of FDI is characterized by its origin in one nation and its focus on another, with the primary objective of selling commodities to a third country. To clarify, the goods resulting from the investment are specifically designated for overseas shipment to a distinct, third nation (Ekholm et al., 2007). As an illustration, an American multinational firm like Nike may choose to construct production facilities in Vietnam, with a specific focus on selling the manufactured products to the European market. Within this particular framework, the United States assumes the role of the country of origin, Vietnam serves as the production center, and Europe is designated as the eventual recipient of the exported goods.

2.3.4 Conglomerate (Diversified) Foreign Direct Investment

Diversified FDI is defined as the practice of investing in a sector that is completely unrelated, effectively belonging to a distinct industry altogether. As stated by Herger & McCorriston, (2016) these kinds of acquisitions make up more than $\frac{1}{5}$ (Herger & McCorriston, 2016). For instance, Carrefour, a prominent French retail chain, may consider making a strategic investment in Tesla, a renowned American car manufacturer. In alternative terms, the investment does not seem to have a direct correlation with the primary operations of the organization.

2.4 The Consequences of Foreign Direct Investments on The Selected Economic Indicators

FDIs have differential impacts on the two the source and the host nations. The underlying factors influencing those investments dictate the degree to which either end of the investment spectrum is affected. The primary role in mediating the effects of FDIs lies with multinational corporations (MNCs), and these effects can have both good and negative repercussions for the host nation's economy. Furthermore, FDIs can significantly impact the economies of the nations that serve as the source of these investments (Hoàng & Huyn, 2015). In this section the effect of FDIs on the selected economic indicators such as economic growth, technological advances, labor market is investigated.

2.4.1 The Impact of FDI on The Growth of Economic and Technological Spillovers

Özel (2012) said that economic growth refers to a measurable increase in a country's productive capacities, specifically its Gross Domestic Product (GDP), within a defined period. In essence, it pertains to the augmentation of an economy's productive potential over a period of time. When examined from the perspective of income per capita, growth encompasses not only the enlargement of a society's economic endeavors but also the increase in income per person. In order for this expansion to possess significance, it is imperative that it is maintained consistently over an extended duration.

Scholars in academia have generated a substantial amount of research exploring the impact of FDIs on economic development. In general, these researches propose that FDIs have a positive impact on a nation's gross domestic product (GDP). Nevertheless, the extent of this impact is contingent upon several aspects pertaining to the host nation. According to existing research, FDIs have been found to play a significant role in fostering economic growth. This is achieved through the efficient utilization of resources, the acceleration of industrial sector progress, and the facilitation of knowledge transfer from multinational corporations to local enterprises. FDIs are particularly advantageous when they are in line with the areas that require development in the host country. However, the act of importing essential materials for production from foreign countries has the potential to temporarily disrupt the equilibrium of payments in the recipient nation.

According to Moudatsou (2003), within the domain of neoclassical growth theories, FDIs are regarded as a beneficial factor for economic growth as they provide essential capital to developing countries. Based on the aforementioned theories, it is posited that foreign enterprises have the potential to enhance economic growth by means of technical progress. The concept being discussed is that FDI functions as a type of cross-border financial movement, carried out by multinational enterprises with the aim of leveraging profit potential or disparities in interest rates across nations. According to the theory, it is posited that over a period of time, there will be a tendency for all nations to gradually approach similar levels of output. Within this theoretical framework, it can be observed that both FDI and indigenous capital exert similar influences on the overall economic growth.

Neoclassical models suggest that the marginal utility of capital diminishes with time, resulting in a transient effect of FDI on economic development. On the contrary, the growth theories of intrinsic propose the endogeneity of technology determinant. These ideas propose that FDI is generally more effective than domestic investment in promoting economic growth. According to Kotrajaras (2010), FDI has a significant impact on skill development within the labor force and contributes to the expansion of knowledge, hence fostering sustained economic growth. The underlying premise of these internal growth models posits that sustained economic growth over the long term is influenced not solely by technological progress, but also by the institutional framework of a nation. Hence, the inflow of FDI into the host country is impacted by many elements, including but not limited to trade policy, political stability, and market size (Asheghian, 2016).

According to the market size hypothesis, foreign investors exhibit a higher propensity to invest in markets of bigger magnitude due to the potential for enhanced resource allocation efficiency and economies of scale. Economic growth is identified as a crucial factor in the attraction of FDI (Borges, 2010).

Previous studies have predominantly focused on the transfer of technology from developed countries to poor countries, despite the fact that the majority of FDIs take place between developed nations. Research conducted by Ghosh Roy and Van den Berg investigates the influence of FDIs on the economic growth of the United States. Their findings suggest that an existence of notable positive effect from FDIs on the country's

economic development. The aforementioned research indicates that it would be advantageous for the United States to emphasize policies that foster foreign investments in order to sustain its economic vitality (Ghosh Roy & Van den Berg, 2006). According to Moran, foreign-owned companies frequently partake in knowledge transfer as a means to sustain their worldwide competitiveness, resulting in direct and indirect spillover effects that yield advantages for domestic suppliers.

FDI engenders a dynamic interplay among multinational corporations, their domestic subsidiaries, and the recipient country.

FDI has a noticeable influence on economic development as it improves Total Factor Efficiency (TFE) and optimizes resource allocation within the host country. While numerous studies have confirmed the significance of FDI in enhancing efficiency and generating revenue growth, the precise magnitude of this influence remains disputed. Certain studies suggest that the impact of FDI may be exaggerated as a result of the crowding-out phenomenon, wherein domestic investment is displaced. However, according to Borensztein et al. (1998), it is argued that an increase in FDI really leads to a general rise in total investments.

In the context of developing economies, the impact of FDI on economic development tends to be rather limited. This phenomenon can be attributed to the fact that these nations typically necessitate enhancements in their educational systems, technological advancements, and infrastructural development in order to effectively leverage foreign investments (Potterie & Lichtenberg, 2001).

In order for FDI to exert a substantial influence on economic growth, it needs the presence of additional crucial factors that complement its effects. Auxiliary factors encompass several aspects such as the caliber of human resources, the level of integration in global trade, the strength of infrastructure, and the stability of financial and banking systems (Alaya et al., 2010).

The reduction of costs for domestic enterprises is facilitated by the partnership between multinational corporations and providers of intermediate goods, as stated by Markusen and Venables (1999). Thereby, this phenomenon generates increased interest from international corporations to allocate investments within the nation, thereby acting

as catalysts for growth within the industrial sector. The rise in international corporations leads to a heightened need for domestically-manufactured intermediate goods, hence facilitating the entry of additional enterprises into this sector. According to Blomström et al. (2003), this process leads to a decrease in production expenses, which in turn attracts more foreign investment and enhances the overall economic well-being of the nation.

According to Romer (1993), the disparities in income among nations can be primarily attributed to variations in human capital and knowledge, rather than differences in physical capital. Therefore, it is imperative for host nations to strive towards establishing an investment environment that facilitates the ability of multinational corporations to generate profits by leveraging their sophisticated knowledge and technology.

Technology possesses a distinctive characteristic in that it can be temporarily restricted by indefinite preventive measures, such as intellectual property laws and patents, while fundamentally lacking rivalry (Rivera Paul M Romer et al., 1990). Which implies that when one group adopts a specific technology, it doesn't stop others from using it in a similar manner. Unlike the money spent on creating new technologies, using already existing tech is generally less expensive. Additionally, the firm that originally developed the technology might not reap all the possible benefits. This happens because, once the tech is out there, it can be shared globally at a relatively small cost. Common ways this tech gets around include global trade, people moving from country to country, foreign investment, and agreements to license the tech. The impact of technology transfer through FDI is commonly assessed by examining the influence of multinational businesses on the productivity of domestic firms within a certain industry. This assessment is typically conducted by measuring the share of employment or sales that these multinational organizations contribute to the overall sector (Bottazzi et al., 2005).

The economic literature emphasizes the favorable external effect of technology transfer on the economic advancement of host nations as a prominent consequence of the existence of multinational corporations (Kemeny, 2010). This phenomenon mostly arises due to the technological superiority of multinational corporations in comparison to domestic enterprises in emerging host nations, this might be ascribed to their significant allocations in research and development efforts.

The role of FDI in the advancement of technology plays a crucial role in fostering economic growth through the enhancement of capital accumulation inside the host nation. The transmission of technology has a crucial role in fostering economic progress, particularly for emerging nations that aspire to narrow the gap with more advanced economies. There are several methods employed to facilitate the diffusion of technology, including the importation of advanced technological products, the adaptation of foreign technology, and the attraction of international human capital. According to Gökmenoğlu and Taspınar (2016), FDI provided by multinational firms continues to serve as a vital avenue for developing nations to acquire state-of-the-art technologies.

In light of these advantages, numerous nations provide economic inducements such as tax deductions, exemptions from duties, and subsidies for infrastructure in order to allure international investments. According to Bottazzi et al. (2005), it is widely believed that economic growth can be facilitated by technology transfer and the resulting positive externalities.

Nevertheless, the ramifications of foreign investments extend beyond mere money infusion and job creation, as they also serve as a catalyst for the transfer of technology to domestic enterprises. In certain cases, local enterprises have the potential to enhance their production through the act of monitoring overseas ones. In certain instances, employees undergo a transition from overseas organizations to domestic enterprises, hence simplifying the transfer of technology. However, certain studies indicate that the extent of this spillover effect is frequently constrained. The constraints encompass various factors, such as the hesitance exhibited by multinational corporations in employing local individuals for senior roles, the restricted ability of labor to move between foreign and local enterprises, and the disinclination of multinational corporations to disclose their proprietary information. According to Shaver et al. (1997), these companies hold intangible assets of significant value, such as technical competence, trade skills, and supply chain coordination, which are not easily licensable or transferable.

When individuals transition from employment in international corporations to domestic organizations, they frequently bring forth significant knowledge, so enabling the transfer of expertise from the foreign entities to the domestic enterprises. Moreover, the presence of foreign corporations has the potential to stimulate the domestic market

through the procurement of intermediate goods from local enterprises, resulting in improved operational effectiveness. Nevertheless, the effects may not always be advantageous, particularly in the immediate timeframe. For example, foreign companies that possess lower marginal production costs have the ability to surpass domestic companies in competition, resulting in a decrease in demand for local products and necessitating domestic firms to decrease their production levels. According to Aitken and Harrison (1999), the improvement in productivity can result in a decrease in average costs for local companies. However, the intensified competition may compel these enterprises to reduce their output, ultimately causing an overall increase in production costs.

The discourse surrounding FDI is characterized by its multifaceted nature. On the one hand, FDI is often praised for its positive externalities in developing nations. Conversely, there are apprehensions regarding the potential adverse effects of foreign corporations on domestic economies, particularly in terms of outcompeting local businesses. The potential negative consequences encompass heightened reliance on foreign resources in the technical sector, suppression of domestic enterprises' innovative capabilities, and the promotion of unfavorable customer preferences and product offerings (Abdelmalki et al., 2012).

There are two primary inquiries that emerge: Firstly, it is worth considering whether international enterprises exhibit a higher level of efficiency compared to their domestic counterparts. Furthermore, if this is indeed the case, does this enhanced efficiency have a positive impact on local enterprises operating within the same industry? According to a significant body of research, it is often argued that foreign enterprises possess inherent efficiency advantages, which in turn might stimulate domestic firms to improve their productivity through either imitation or competitive pressures (R. E. Lipsey, 2004).

Numerous studies have been conducted to examine the comparative efficiency of multinational corporations and domestic enterprises operating within the industrial sectors of emerging countries. Based on the findings of a study conducted by Blomström and Wolff (1997), it was observed that employees working in foreign multinational businesses had a significantly higher level of productivity, producing nearly double the amount of production per worker when compared to their counterparts employed in local

companies. The observed disparity was mostly ascribed to variations in capital density rather than total factor productivity. According to Blomström and Wolff (1997), certain economists suggest that this phenomenon might be attributed to the preference of foreign enterprises to engage in sectors characterized by intrinsically higher levels of productivity. This implies that the multinational status of a company exhibits a stronger association with its productivity levels compared to its size or other distinguishing attributes.

According to Abramovitz (1986), the capacity of host countries to assimilate modern technologies, referred to as "Social Capacities," plays a critical role in harnessing the advantages of technology spillovers resulting from FDI. Insufficient human capital frequently impedes the capacity of numerous developing nations to effectively leverage these technical developments.

According to the study conducted by Görg and Greenaway (2004), there exists an inverse relationship between the extent of technological disparity between foreign firms engaging in FDIs and domestic enterprises in the host country, and the level of economic growth that the FDI brings to the host nation. According to Görg and Greenaway (2004), home firms stand to gain more benefits from technology spillovers initiated by foreign entities when the productivity levels of both foreign and domestic firms are closely aligned. The United States, being a prominent global leader in technology and a recipient of substantial FDI, serves as an illustrative example. According to Ghosh Roy and Van den Berg (2006), despite the United States' theoretical capacity to effectively incorporate foreign technology, the country's already advanced technological position results in FDIs having a limited impact on its overall technological advancement.

The acquisition of knowledge regarding the production processes employed by foreign corporations can initially have a negative impact on the productivity levels of domestic firms. Nevertheless, in the long run, these endeavors in learning have the potential to augment the capabilities and output of domestic enterprises. Inter-industry spillovers encompass several forms of links between domestic suppliers and international enterprises, manifesting in both backward and forward directions within the supply chain. According to Liu (2008), local enterprises have the potential to enhance their product quality and operational efficiency by obtaining intermediate items of superior quality.

In order to promote the transfer of technology, it is imperative for governments to cultivate domestic competitiveness and provide support to local firms in acquiring knowledge from foreign enterprises. When domestic enterprises narrow the technology gap, there is a decrease in the market demand for foreign items. As a result, international corporations under significant pressure to adopt and use novel technology in order to maintain their competitive edge in the market. Policymakers ought to prioritize the mitigation of technology transfer expenses, enhancing the proficiency of the indigenous labor force, and implementing educational strategies that enhance the learning capacities of domestic enterprises. Based on theoretical frameworks, it is commonly argued that harnessing market dynamics is frequently exhibiting greater effectiveness than the implementation of technology transfer agreements or performance mandates on international firms (Blomstrom et al., 1996).

The presence of companies that enter a foreign market at an early stage leads to the generation of beneficial information spillovers that benefit subsequent investors. For example, Honda conducted a thorough analysis of Volkswagen's past errors in Ohio before to its entry into the American automotive industry in 1982. Through a comprehensive analysis of Volkswagen's vulnerabilities and the emulation of their effective techniques, Honda successfully enhanced its market entry strategy to a great extent. Although consulting services can provide valuable insights, their utility is typically limited due to the insufficient transmission of information between consultants and corporations. The primary benefit arises from acquiring knowledge through the examination of organizations that have previously penetrated the market (Shaver et al., 1997).

In brief, foreign enterprises conducting operations in host nations produce significant spillover effects of useful information, which prove advantageous for later FDIs. The research conducted by Shaver, Mitchell, and Yeung provides evidence that supports two primary conclusions. To begin with, it has been shown that enterprises possessing past expertise in the host country tend to exhibit a higher degree of success compared to newly established entities. Additionally, it has been found that a greater presence of international corporations inside a certain industry enhances the success' probability for new participants (Shaver et al., 1997).

2.4.2 Foreign Direct Investments Effects on Wages and the Dynamics of the Job Market

Foreign corporations possess many means via which they might exert influence on the wages within the nations where they establish or maintain their business activities. For example, multinational corporations frequently offer better remuneration in comparison to domestic enterprises. Nevertheless, it is important to note that this factor may not have a significant impact on the overall pay framework. The potential reasons for greater pay scales may include the utilization of discerning recruitment methods or the deliberate focus regarding particular high-income sectors or geographic areas within the nation (Zhao & Laixun, 1998). If markets of labor exhibit a high degree of competitiveness, it is possible that the increased pay provided by foreign enterprises may incentivize local companies to elevate their own wage levels. The introduction of foreign enterprises often leads to an increased demand for labor, resulting in a general upward pressure on salaries across all employers (Tomohara et al., 2011).

Foreign organizations frequently see enhanced worker productivity as a result of their utilization of state-of-the-art technology, hence enabling them to provide more remuneration for comparable levels of expertise. Additional elements that may exert influence include regulatory frameworks in the host country and external pressures originating from the home country. Many employees have a preference for working in domestic firms, prompting international firms to offer more competitive compensation as a means of addressing this issue. According to Lipsey (2004), the provision of higher pay also functions as a deterrent for employees to go to local companies, thereby serving as a protective measure for proprietary technology.

The impact of FDIs on wage scales in Mexico, Venezuela, and the United States has been examined in studies conducted by Aitken, Harrison, and Lipsey. It was discovered that industries experiencing a significant influx of foreign companies generally exhibited higher salary levels. The salary discrepancies between domestic and foreign enterprises were notably significant in Mexico and Venezuela, whereas the transfer of wages from foreign to local firms had less impact. On the other hand, it can be observed that in the United States, there were noticeable spillover effects resulting from the relatively reduced salaries gaps among international and local companies (Aitken &

Harrison, 1999). A study conducted by Figlio and Blonigen in South Carolina revealed that foreign enterprises exerted a significant influence on the average salary level. The researchers estimated that the effect of foreign firms on wage growth was seven times greater than that of local companies (Figlio & Blonigen, 2000).

In brief, the presence of international corporations has a tendency to increase the average wage levels, regardless of the impact of wage spillovers. The observed phenomenon can be linked to an increase in labor demand with the arrival of foreign enterprises into the market. This leads to a rise in overall levels of wage, despite the international company's initial intention to offer salaries similar to what local companies offer. Nations endowed with a substantial labor force characterized by low-cost attributes possess a distinct advantage in their ability to attract FDI.

The prevailing body of research indicates that FDIs have a beneficial impact on employment through the establishment of fresh manufacturing facilities in recipient nations. On the other hand, it does not seem that FDIs carried out through acquiring local companies have a substantial impact on employment rates. Multinational firms frequently direct their attention towards host countries that possess a labor force characterized by accessibility, affordability, and proficiency. In the event that such labor is unavailable, major firms have the option to recruit qualified individuals from their countries of origin, thereby restricting the dissemination of sophisticated knowledge and skills to the domestic labor-force (Rozen-Bakher, 2017).

The employment impacts of FDIs can vary depending on the specific activities carried out by the investing company. For example, corporations originating from wealthy nations may largely depend on labor-intensive manufacturing processes within their subsidiaries located in less-developed nations, thereby contributing to the growth of local employment opportunities. Nevertheless, it is worth considering an alternative viewpoint that posits FDIs may have a detrimental effect on employment figures within the host nation. According to the Organization for Economic Co-operation and Development (OECD), intra-European investments have been identified as a contributing factor to the enhancement of employment rates and economic growth (OECD, 2009). However, investments targeted at East Asian nations with comparatively lower labor costs may have

negative implications for European job markets, as highlighted by the concept of "Employment Exports" as discussed by Lipsey (2004).

The analysis conducted by Aussilloux and Cheval contributes an additional dimension to the ongoing discourse on employment dynamics. According to their argument, American companies frequently opt for FDIs as a substitute for exports, potentially resulting in a decline in domestic employment levels. In contrast, France frequently participates in FDIs with the objective of establishing an intermediary trade network, so facilitating its integration into the global market. Aussilloux and Cheval's 2002 study suggests that this method tends to boost the net exports resulting from France's overseas investments, positively affecting job creation back home (Aussilloux & Cheval, 2002).

2.4.3 Effects of Foreign Investments on The Balance of Payment on the Receiving Country and Exports in both the Receiving and Home Countries

In this sub section, as indicated by the title, the multifaceted effects of FDI on the balance of payment in the host country, considering varying maturity terms is explored. Additionally, the anticipated impacts on exports in both host and home countries are examined.

2.4.3.1. The Immediate Outcome

As soon as foreign money comes into a country, it helps improve the capital and financial accounts right away, bettering the country's financial health. Alfaro and team's 2000 study backs up this idea, showing that this incoming cash can be crucial in supporting important projects like building infrastructure or advancing education. On top of the cash benefits, there's also significant value in the sharing of tech know-how. According to the study conducted by Borensztein et al. (1998), it has been observed that foreign investors frequently introduce advanced technologies that enhance productivity and have the ability to transform the economic environment by augmenting the export capacity of the host nation. These technologies are often accompanied by management expertise, providing local industries and their employees with an opportunity to improve their skills, so increasing productivity and strengthening their ability to export goods.

2.4.3.2 The Effects in The Medium Term

The issue of debt presents a complex scenario within the framework of FDI. Although it generates essential financial resources, it also possesses certain disadvantages. According to Harrison et al. (2002), it is contended that specific forms of FDI entail debt payment obligations, which might result in capital outflows that exert pressure on the Balance of Payments. The budgetary outflow has the potential to impede the country's ongoing economic pursuits.

The repatriation of profits by overseas investors is a factor that is frequently disregarded. The aforementioned phenomena, as examined by Desai et al. (2004), has the potential to exert a detrimental impact on the current account, leading to the outflow of funds from the host nation and thus undermining its Balance of Payments. This matter becomes increasingly urgent, particularly in light of the country's existing struggle with a deficit in its current account.

2.4.3.3 The Long-Term Consequences

The long-term consequences of FDI exhibit a combination of positive and negative outcomes. According to Javorcik (2004), it has been highlighted that high-quality foreign investment has the potential to facilitate skills and industrial growth, hence enhancing the host country's competitiveness in the global arena. This has the potential to result in enduring enhancements to the economic framework of the country.

On the contrary, an excessive dependence on FDI as a driver of economic growth might render the country vulnerable to fluctuations in the global economy, as highlighted by Agosin et al., (2005). The incorporation of unpredictability into the Balance of Payments can render a nation susceptible to external economic fluctuations.

As general evaluation, it can be said that the country analyses reveal a multifaceted scenario, wherein a definitive conclusion about the influence of FDI on the Balance of Payments cannot be universally applied. The results exhibit considerable diversity, as elucidated by Lipsey and Sjöholm (2005), necessitating a complex methodology. It is imperative for decision-makers to demonstrate due diligence by thoroughly evaluating the potential benefits and drawbacks in order to develop policies that optimize the good outcomes while mitigating the related risks of FDI.

The scholarly literature offers divergent perspectives on the correlation between FDI and the export activities of the domestic, or host, nation. One viewpoint posits that FDI made by multinational corporations (MNCs) can serve as a viable alternative to exports originating from their respective home countries. This substitution frequently arises when corporations evaluate the increasing expenses of transportation linked to geographically remote markets and determine that creating local production via FDI is a more cost-effective option compared to exporting. On the contrary, an alternative perspective posits that FDI and exports might exhibit a complementing relationship, rather than being mutually exclusive. Numerous empirical research examining the association between FDI and exports have yielded diverse outcomes. While a significant number of studies have identified a positive association among exports and FDI, a minority of studies have revealed correlation to be negative. For example, Fontagné and Pajot (1997) discovered a complimentary association between FDI and exports within the French context. Similarly, Diarrassouba (2013) established a positive link between FDI and exports in a study encompassing 24 nations belonging to the Organisation for Economic Co-operation and Development (OECD).

When a multinational corporation chooses to engage in horizontal integration, which involves relocating the manufacturing of a particular product to another country in order to cater to local demand, it frequently results in a reduction in the necessity for exports from its country of origin. This decision is made by the company to produce the product domestically in order to fulfill the demands of consumers, rather than opting for international exportation from its nation of origin. In contrast, in instances of vertical integration, wherein a multinational corporation relocates a portion of its manufacturing overseas to capitalize on cost reductions, FDI might serve to enhance domestic exports. In these particular cases, FDI serves to enhance international trade rather than supplant it. This is achieved through the reinforcement of competitive dynamics in foreign markets and the facilitation of seamless transactions involving both intermediate and finished commodities among various subsidiaries. Hence, the impact of FDI on the exports of the host country may differ based on the strategic strategy adopted, as highlighted by Lipsey (2004).

The concept that enterprises and their respective home countries offer unique comparative advantages has been expressed in various manners. A significant discrepancy has been noted in the comparative analysis of the worldwide export proportion of industrial products originating from the United States and the overall performance of multinational firms headquartered in the United States. Between the years 1966 and 1987, the proportion of global exports in industrial products attributed to the United States experienced a decline, decreasing from 17% to 11%. In contrast, the export rate for multinational corporations established in the United States and their international subsidiaries exhibited a consistent level of stability throughout the aforementioned time frame. The stability was a result of the decline in exports from the U.S.-based parent corporations being counterbalanced by a rise in exports from their international subsidiaries. Blomström and Wolff (1997) observed comparable tendencies in Swedish studies, suggesting that FDI not only facilitates multinational corporations in capitalizing on their distinctive strengths but also empowers the home country to maintain its market presence in the face of unfavorable developments.

The Impact of Post-World War II U.S. Investments on Employment and Exports
After the conclusion of the 2nd WW, the United States emerged as the predominant global provider of FDI. One of the most contentious topics of discussion during this particular era revolved on the question of whether the United States' foreign production would serve as a viable replacement for its domestic exports. Consequently, the foreign investments made in the 1960s encountered substantial criticism from labor organizations with the objective of protecting domestic jobs. Nevertheless, the United States has increasingly outsourced production to developing nations, primarily relying on unskilled, labor-intensive approaches. Conversely, domestic production in the U.S. tends to employ capital-intensive or skilled labor-intensive methods. Hence, in order to achieve cost advantages, the production process is being decentralized across various nations, while FDIs are utilized to supplement, rather than supplant, exports. Lipsey (2004) asserts that American multinational corporations operating in the Far East have strategically adjusted their manufacturing composition and strengthened their worldwide trade linkages. At the outset, these corporations transitioned their export focus from labor-intensive industries such as food and textiles to capital-intensive areas such as machinery and chemicals.

According to Lipsey (2004), this modification facilitated enhanced integration of these American companies with global trade patterns, while simultaneously enabling them to establish a presence in emerging regions.

The examination of the influence of trade and industrial policies on FDI gives rise to two fundamental inquiries. To begin with, it is worth considering if nations that implement import substitution strategies tend to attract a greater amount of FDI in comparison to those that embrace export-led growth. Additionally, how much significant is FDI in shaping the developmental path of these two distinct groups of nations? Nations such as Brazil, Argentina, and India, who have traditionally adhered to import substitution strategies, have emerged as notable beneficiaries of FDI on a worldwide scale. Nevertheless, it is a complex task to separate the impacts of protectionist measures from other factors such as market size, development prospects, and political stability, as these variables can also exert a substantial influence on FDI inflows. Protectionism, in and of itself, does not inherently function as a compelling factor for attracting foreign investment. In contrast, it appears that export-oriented approaches are more effective in facilitating developing nations with low-wage labor pools to attract increased FDI. During the period from 1967 to 1978, countries that exhibited export-led growth strategies such as Singapore, Hong Kong, Taiwan, Malaysia, and Kenya, demonstrated better GDP ratios compared to nations that pursued import substitution programs like Brazil, India, Argentina, and Ghana. South Korea stands as an exceptional case within this particular scenario. Despite implementing an export-oriented growth strategy, the country has not observed a commensurate rise in its gross domestic product (GDP). However, South Korea has established a comprehensive network of licensing agreements with numerous international corporations. In export-oriented nations, agreements commonly prioritize industries such as electrical machinery, power, and clothing. Balasubramanian et al. (1996), argue that nations that implement a foreign trade expansion strategy tend to attract higher levels of FDI compared to those that primarily rely on import substitution as a means of achieving economic growth.

The interplay between FDI and international trade is complex. On the one hand, FDI has the potential to serve as a viable alternative to exports. Conversely, it may also need the importation of intermediate goods that are essential for manufacturing, hence

potentially increasing exports from the investor's place of origin. As a result, FDI exerts diverse effects on patterns of global trade. According to a study conducted in Sweden, it has been found that FDI has the potential to substitute some categories of exports. However, it also facilitates the exportation of novel consumer and intermediary goods originating from the home nation (Fontagné & Pajot, 1997).

2.5 Some Theories Related to FDI

This sub-section provides an overview of existing theories that are related to FDI, building upon some of the theories that have already been introduced in the context of international trade.

2.5.1 Production Cycle Theory

Vernon (1966) introduced the Product Cycle Theory, a conceptual framework intended to elucidate the intricacies of a product's evolution, international trade patterns, and foreign direct investments. This theory was particularly instrumental in illuminating the strategies and patterns of American corporations in the manufacturing sector in Western Europe post World War II. Vernon's model primarily encompasses three critical stages: the Innovation, Maturity, and Standardization stages, each highlighting different aspects of product development, production, and trade.

The Innovation Stage is characterized by the inception and introduction of novel products, typically by companies located in developed countries with substantial technological advancements and innovative capacities. In this stage, products are primarily developed and consumed locally due to the associated high production costs and prices. However, the surplus is usually exported to foreign markets, portraying similar consumer preferences and income levels. The production, during this phase, is localized, allowing companies to closely monitor and adapt the manufacturing process and manage uncertainties associated with the product's success.

Following the Innovation Stage, the product enters the Maturity Stage, wherein it gains wider acceptance and its demand escalates, reaching international markets on a broader scale. This stage is crucial for managing costs effectively and achieving economies of scale, with an increasing emphasis on competitive pricing and optimization of production and distribution to meet the soaring demand. The exporting country, at this

point, starts facing augmented competition in export markets as the product gains universal appeal, and other nations commence manufacturing analogous products.

Lastly, the Standardization Stage sees the product achieving full standardization and specialization. Production often relocates to countries where production costs are lower, typically developing countries, to maintain competitive pricing in the face of market saturation and increasing competition. This stage is marked by a focus on efficiency, mass production, and minimizing costs, with innovation taking a backseat. The trade flow becomes multidirectional and complex, and the original innovating country may transform into a net importer due to shifts in comparative advantage and lower domestic production.

Notably, Vernon's model is distinctive as it doesn't encompass a "decline" stage. Instead, it concludes with the Standardization stage, offering insights into how products, from their inception to standardization, interrelate with evolving trade and investment dynamics.

By detailing the progression through these stages and emphasizing the interrelation between innovation, production localization, and international trade, Vernon's Product Cycle Theory has remained a significant analytical tool, aiding in the comprehension of the complexities inherent in international business and foreign direct investments, particularly within the context of the manufacturing industries (Vernon, 1979).

2.5.2. Monopolistic Advantage Theory

The Monopolistic Advantage Theory posits that firms with certain advantages, like management skills, advanced technology, patents, and intellectual property, are motivated to invest in foreign nations to exploit these advantages in international competition (Kindleberger, 1969). Kindleberger, who expanded upon Hymer's foundational work, emphasized that these monopolistic advantages serve as strategic assets that firms leverage to optimize their positions in international markets. Therefore, the presence of such advantages potentially leads to monopolistic profits, thus incentivizing firms to undertake foreign direct investments (Nayak & Rahul, 2014).

The present theory provides a framework within which the study conducted by Lall and Siddharthan (1982) can be situated, enabling a more detailed examination of monopolistic advantages. The authors propose that the current body of research on the monopolistic advantages of Multi-National Corporations (MNCs) may not adequately account for the more specific and limited advantages experienced by non-U.S. MNCs operating within the United States. Traditional economic indicators commonly used in industrial economics, such as research and development (R&D) expenditure, advertising expenditure, average wages, and the ratio of non-production workers to total workers, may not fully capture the unique innovations or exceptional marketing abilities of individual firms that are not reliant on extensive advertising efforts (Lall & Siddharthan, 1982).

Moreover, the specialized advantages may often be overshadowed by the broad industrial capabilities, especially in cases where the host country leads in product differentiation. It is imperative to consider that the entry barriers, stemming from domestic industrial structures in other countries, may not endow their enterprises with the power to enter competitive markets like the U.S. The variables at the industry level may not significantly impact the pattern of foreign investment in the U.S. due to these specialized advantages (Lall & Siddharthan, 1982).

Furthermore, Lall and Siddharthan (1982) have pointed out the impact of governmental interventions, such as tariffs and other import barriers, on the proportion of foreign involvement in the industry of manufacturing of the United States. The presence of trade barriers can serve as a catalyst for exporters to develop a factories presence within the US. This can result in fluctuations in the foreign share of the market, which can be attributed to differences in effective protection rates across various industries. Nevertheless, it is imperative to approach these correlations with prudence, as the potential independent impact of tariffs on stimulating foreign investment may be insignificant, instead serving as a surrogate for specific forms of foreign monopolistic advantages.

In conclusion, the Monopolistic Advantage Theory provides a framework for understanding why firms with specific advantages are motivated to invest abroad, seeking to optimize the exploitation of these advantages in international competition. The nuances

added by Lall and Siddharthan (1982) offer deeper insights into how specialized advantages and external factors like governmental interventions interplay with the broad theoretical framework proposed by Kindleberger.

2.5.3. Internalization Theory and Transnational Companies' Growth Strategy

The Internalization Theory elucidates the strategic motivations and evolution trajectories of transnational companies in the context of Foreign Direct Investment (FDI). Rooted in the foundational propositions of Coase (1937) and significantly developed by Buckley and Casson (1976), and Hennart (1982), this theory interprets FDI as a firm-level strategic approach diverging from conventional capital-market financial decisions (Buckley, 1985; Hymer, 1976).

Hymer (1976), with his pivotal contributions, introduced crucial determinants of FDI: the mitigation of competition and the utilization of firm-specific advantages. He asserted that the execution of FDI is contingent upon the preponderance of the benefits derived from exploiting firm-specific advantages over the costs associated with overseas operations. Such a perspective placed emphasis on market imperfections and variations from ideal competition in the final product markets as key catalysts for the emergence of Multinational Enterprises (MNEs). Additionally, it highlighted the inherent challenges like informational costs, differential government treatments, and currency risks faced by foreign firms (Eden & Miller, 2004).

Buckley and Casson (1976) extended this conceptual framework by illustrating that transnational companies strategize their internal operations to harness and leverage specific advantages. The Internalization Theory's significance is also acknowledged in Dunning's eclectic paradigm, albeit he contends that it explains only a fraction of FDI flows.

Hennart (1982) further amplified the theory's scope by formulating models that differentiate between vertical and horizontal integration, offering a more nuanced understanding of the strategic alignments adopted by MNEs in response to the intricate landscape of foreign investments.

In essence, the Internalization Theory offers a comprehensive lens to analyze the strategic imperatives for transnational companies to cultivate and deploy firm-specific

advantages amidst market imperfections and competitive landscapes. It remains a central theoretical framework to interpret the multifaceted dynamics of FDI and the expansive strategies of MNEs in the global economy.

3. ECONOMIC GROWTH

The famous sentence, which holds significant presence in most economics' textbooks, goes, "If you asked ten economists the same question, you'd probably get ten different answers." This also holds true for the definition of economics, as economists do not universally agree on the precise definition of their field. Backhouse and Medema (2009) have listed a variety of definitions that are relevant to the context we are addressing. Here are some of the definitions, along with some additional insights and commentary from the author:

"Economics is the study of economies, at both the level of individuals and of society as a whole." This definition is drawn from the work of Krugman and Wells (2004) and emphasizes that economics encompasses the study of the behavior of individual participants at the micro level, as well as its contribution to the broader macroeconomic picture, which represents all the micro participants in a given economy or society.

"Economics is the study of how society manages its scarce resources". The definition above emphasizes a fundamental concept that shapes the economy and drives many of its forces: scarcity. Most economists begin with the recognition of scarcity in nearly everything, motivating them to define ways to use resources as effectively as possible (Backhouse & Medema, 2009).

In conclusion, the numerous interpretations and definitions of economics highlight its dynamic nature, reflecting ongoing debates among economists and underlining the multifaceted components required to comprehend economic growth. This section focuses on the importance of economic growth, with an emphasis on its underlying drivers and the desired positive effects. Additionally, significant models and ideas related to the subject will be presented in the following parts.

3.1. The definition of economic growth

Economists investigate growth disparities among nations for several compelling reasons. Firstly, comprehending the origins of diverse growth patterns holds significant

importance. Persistent discrepancies in overall growth rates among countries have resulted in substantial disparities in the well-being of their populations. Secondly, the pursuit of knowledge in this area offers substantial intellectual rewards. Theoretical hypotheses related to economic growth are broad and, quite justifiably, expansive in their scale and breadth. Thirdly, the initial wave of groundbreaking empirical growth analyses, marked by bold and contentious claims, has stimulated the development of innovative methods for examining income dynamics across countries. These emerging techniques are, in turn, yielding fresh insights into growth trends, which carry significant implications for economic theory (Durlauf & Quah, 1999).

The economic growth of a nation can be described as a continuous, long-term increase in its ability to provide a wider variety of economic goods to its population. This growing capacity is built upon advancing technology and necessitates institutional and ideological adjustments. Each component of this definition holds significance. The sustained growth in the availability of goods is the outcome of economic growth, and it is what characterizes it. In some cases, even smaller countries can enhance the income of their citizens by possessing resources (such as minerals or strategic location) that can be exploited by more developed nations, leading to significant and increasing returns (Kuznets, 1973).

3.2. Sources of Economic Growth: An Overview

Economic growth, frequently quantified as an increase in Gross Domestic Product (GDP), remains a pivotal indicator of an economy's health and its prospects for future development. This section presents some sources contributing to economic growth.

3.2.1. Technological Advancements

The role of technology in guiding the path of economic growth is undeniable. The swift rise of digital technologies, encompassing artificial intelligence, cloud computing, and sophisticated analytics, marks the inception of what many describe as the "Fourth Industrial Revolution" (Schwab, 2017). These technological leaps have enhanced established business operations and paved the way for new sectors like the gig economy and digital platforms. Moreover, such technologies have leveled the playing field by

making information more accessible, thereby lowering obstacles and spurring innovation (Brynjolfsson & McAfee, 2014).

Shahiduzzaman and Alam (2014) posits that technology, especially in the realm of information technology (IT), can significantly enhance economic growth and productivity. A robust telecommunications infrastructure can heighten efficiency and reduce information acquisition costs, potentially yielding positive returns from investments in IT. Such investments can either amplify overall capital intensity or replace non-IT assets with IT-based ones, elevating output within the existing production potential. Many scholars highlight the capital intensification due to IT investment as a key factor propelling economic growth and productivity. Nonetheless, the influence of IT investment on the economy might differ based on the economic development stage and the relationship dynamics between telecommunication expenditure and economic expansion (Shahiduzzaman & Alam, 2014).

Per Powell and Snellman (2004) observations, technology can substantially influence economic growth by enhancing the efficiency and productivity of labor. Committing resources to information and communication technologies often leads to growth in productivity, especially within individual companies. Yet, the evidence for technology's wider ripple effects on productivity growth remains inconsistent. Some research indicates a beneficial connection between investment in information technology and growth in productivity, while other studies don't establish this link. In essence, the relationship between technology and economic growth presents a nuanced and multifaceted picture (Powell & Snellman, 2004).

3.2.2. Human Capital

Despite the stable capital-to-output ratio between poor and rich nations, there was a differentiating factor that set these countries apart. The real GDP per capita in the United States was \$8,605 in 1950, and it rose to \$18,258 by 1990. This kept the U.S. at the top of the global list in terms of income per capita, with an average growth of 1.9 percent in real terms (Topel, 1999).

Enhanced well-being (welfare) can be attributed to various factors. Among these, human factors, manifested in the accumulation of knowledge and skills, play a significant

role in the efficient use of available equipment and technologies. This statement is supported by several studies, one of them has found that a 25 percent increase in the United States' GDP per capita after 1929 resulted from schooling. This indicates that the welfare disparities among societies are influenced by their respective shares of human capital (Topel, 1999).

3.2.3. Research and Development

The importance of Research and Development (R&D) in any economy cannot be overstated. The past two centuries have showcased considerable advancements in various facets of human life. These enhancements range from simplifying intricate tasks to creating more leisure time. As a result, productivity and output have surged, working hours have decreased, and people now have more free time to either relax or produce more. Innovations span from common household items like washing machines to capital goods that reduce the need for human intervention.

The widespread use of software, especially in the telecommunication revolution, facilitates timely access to real data and transactions. This progression has subsequently paved the way for developments in big data, language processing models, and potentially revolutionary generative AI technologies. Focusing on specific sectors crucial for sustainable living, advancements in biotechnological R&D have been evident. This has led to the introduction of numerous medical devices, enabling many individuals to reintegrate into society, leading lives as fulfilling as anyone else.

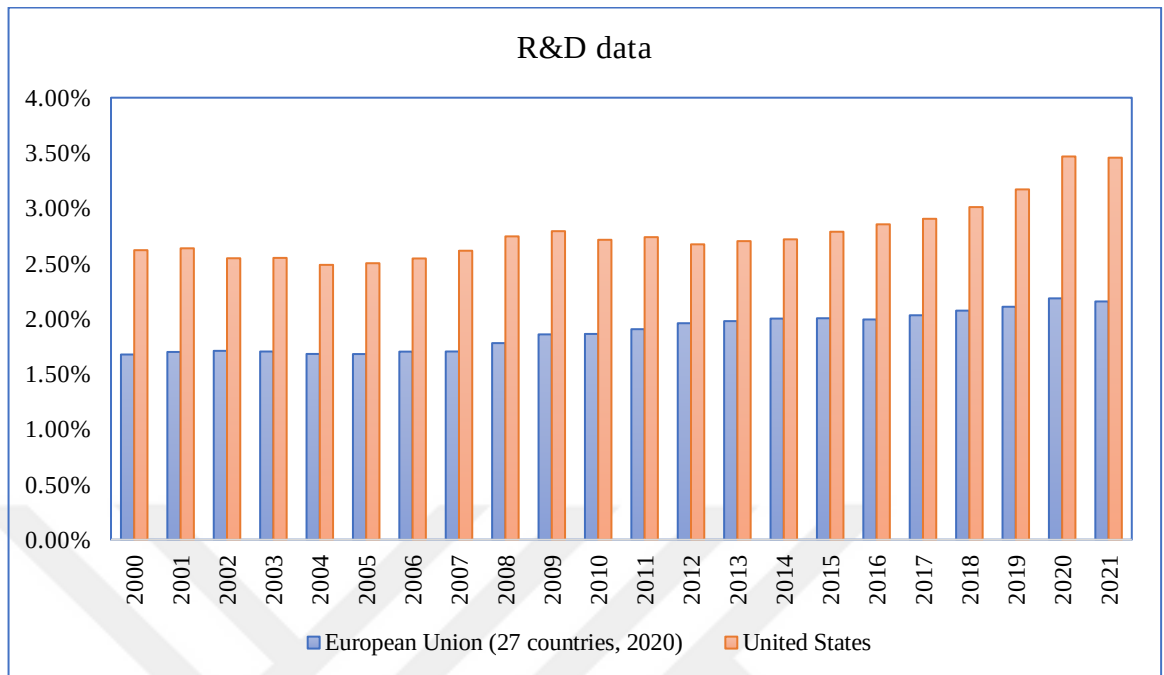


Figure 1. R&D data

Source: OECD Data, 2023

Figure 1 displays the R&D expenditure as a percentage of GDP for both the European Union and the United States from 2000 to 2021. Both entities have demonstrated a growing commitment to R&D over the years. However, the US has consistently invested more, as seen in its comparative data. This higher investment likely contributes to its competitive advantage and leadership in the tech sector and other industries as well.

According to Stokey (1995), one of the significant drivers of the economic development can be found in developing products and processes via Research and development. While the estimation of aggregate research and development is far from precise no one can doubt its substantial contribution to the economy. In the world of business, companies usually pour money into Research and Development hoping they'll make a profit. They'll keep putting in money until they feel the returns, in terms of potential future earnings, match what they're spending. But if we step back and look at the bigger picture, society as a whole might have different expectations. From this broader perspective, it's not just about profit. It's about the overall good that comes out of Research and Development, like new tech or medical breakthroughs that benefit everyone.

Here's where things get tricky. Imagine a bunch of companies all racing to invent the next big thing. They might all be spending heaps on similar projects, which can be a bit of a waste. This is like having too many cooks in the kitchen. And then there's the fact that one discovery often leads to another. But if the original company that made the first breakthrough doesn't get to benefit from all the follow-up innovations, they might think twice before investing heavily in R&D again. This could mean less cool stuff for all of us in the long run. So, maybe there's a need for some outside push, like government incentives, to get things balanced right (Stokey, 1995).

3.3. Economic Growth Theories

Three basic economic ideas are examined in the ensuing subsections to start a thorough conversation. The fundamental concepts of the Neoclassical economic theory are described after an extensive review of the Classical Model. The details of endogenous growth theory are then explored, contributing complex perspectives to the general knowledge of economic dynamics.

3.3.1. Classical Economic Theory

Classical economics, inaugurated in the late eighteenth century, owes its foundational principles to Adam Smith's book, "An Inquiry into the Nature and Causes of the Wealth of Nations". This paradigm was subsequently refined by some economists such as David Ricardo and Thomas Malthus. Its principles, however, were not without critics; Karl Marx, for instance, proffered salient critiques which have since shaped discourse on the subject. However, a more consequential challenge arose in the 20th century with John Maynard Keynes. Keynes critiqued the classical economic postulations, particularly their assumptions on the natural tendencies of markets to achieve full employment and self-regulation. Instead, he posited that governmental intervention was requisite in rectifying market failures and cyclical downturns, thereby introducing a departure from the laissez-faire predilections of his classical predecessors.

3.3.1.1. Adam Smith

Adam Smith's theories on economic growth revolve around the idea that growth is driven from within an economy, not just by external factors. He believed that how well we work - our skill, dexterity, and judgment - played a significant role. One of Smith's

standout ideas was about the division of labor. He saw it as a major productivity booster. In simple terms, the more specialized we become in our jobs, thanks to a wider market and more capital, the more we can produce. Smith also made early observations about how workers and their experiences lead to technological innovations. Interestingly, he thought that as time went on, these technological insights would become common knowledge. While he recognized potential roadblocks to endless growth, like running out of natural resources, he didn't see them as immediate threats. One of the more debated points in his work is about why profits might decline over time, but that's a complex discussion. At its core, Smith's view is that our choices, especially how we save and spend, fuel economic growth. His insights are foundational in classical economics and still spark discussion today (Salvadori, 1998).

3.3.1.2. David Ricardo

David Ricardo, a key figure in classical economics, offered a distinct perspective on capital accumulation compared to Adam Smith. Ricardo argued that as capital increases, profits will inevitably decline due to diminishing returns from limited land. Essentially, too much capital chasing too little land leads to stagnation. However, he speculated that if quality land were unlimited, the economy could grow continuously. This theory highlights Ricardo's unique view on the relationship between land availability, capital, and economic growth (Salvadori, 1998).

3.3.1.3. Thomas Malthus

Malthus's Theory of Population posits that while food production grows linearly, population grows exponentially, eventually outpacing the available resources and leading to famines, diseases, and other catastrophic events. Critics argue that technological advancements can offset these limitations, allowing for sustainable population growth. Moreover, modern evidence indicates that as societies develop, birth rates tend to decline, which may counteract Malthus's prediction of unchecked growth. Still, the balancing act between resource availability and population growth remains a topic of interest in modern debates on sustainability and development (Weir, 1991).

3.3.2. Neoclassical Model

The Neoclassical Growth Theory is an economic framework that describes how to achieve a steady rate of economic growth by interacting with three major factors: labor, capital, and technology. Robert Solow and Trevor Swan built and introduced the long-term economic growth model in 1956.

The Solow Growth Model, formulated by Robert M. Solow in the mid-20th century, offers a macroeconomic framework to understand the determinants of long-term economic growth. This model is grounded on the relationship between labor, capital, and technology, focusing especially on how savings, capital accumulation, and technological advancements interact to impact an economy's output.

In Solow's seminal 1956 paper, he presented a neoclassical growth model that highlighted the diminishing returns of capital and the exogeneity of technological progress. In this model, the long-term growth rate of an economy is determined by two external factors: the savings (or investment) rate and the rate of technological progress. The model assumes a constant returns to scale production function, meaning that doubling both labor and capital will double output. However, capital experiences diminishing returns, implying that every additional unit of capital results in a smaller increment in output.

One of the primary contributions of the Solow model is its analysis of the steady-state equilibrium – a point where the capital stock per worker remains constant, leading to stable economic growth. This equilibrium emerges because of the interplay between the diminishing returns of capital and the exogenous rate of technological progress. Importantly, the model suggests that economies converge to this steady state, irrespective of their initial capital endowments. However, it's only the technological progress that can lead to perpetual growth in this framework, as the effects of capital accumulation are transitory due to the diminishing returns (Solow, 1956).

Another critical insight from the Solow model is the idea of "convergence". This means that countries with lower initial levels of capital per worker tend to grow faster, eventually converging with more advanced economies, provided they share similar savings rates, depreciation rates, and population growth (Mankiw et al., 1992).

Over the years, the Solow model has faced critiques, particularly for its assumption of exogenous technological growth. This led to the development of endogenous growth theories that incorporated technology as an internal component of the model. Nevertheless, the Solow Growth Model remains a foundational pillar in the study of economic growth, offering crucial insights into the core dynamics of capital accumulation and technological progress.

3.3.3. Endogenous Growth Theory

The endogenous growth theory emerged as a response and extension to the exogenous growth model, most notably characterized by the Solow Growth Model. While Robert M. Solow's work in the 1950s primarily treated technological progress as an exogenous factor (Solow, 1956), later economists recognized the need for a model where technological progress and its determinants were internal to the model itself, hence the term "endogenous".

Endogenous growth theory is underpinned by the idea that economic activities within a country can influence its rate of technological progress and, consequently, its rate of economic growth. In the endogenous model, policies, human capital development, innovation, and other internal factors play pivotal roles in determining the growth trajectory of an economy.

One of the key contributors to the endogenous growth theory is Paul Romer, who, in the 1980s, proposed that long-term sustained economic growth is largely a result of endogenous factors such as knowledge accumulation, R&D, and human capital (P. M. Romer, 1986). Romer's model especially emphasizes increasing returns to scale from knowledge, in contrast to Solow's emphasis on diminishing returns from physical capital. In Romer's perspective, investments in human capital and R&D can lead to a persistent growth rate, even in the absence of exogenous technological advancements.

Further advancing the endogenous framework, Robert Lucas highlighted the significance of human capital accumulation. He posited that human capital, through education and experience, can boost productivity, fostering technological advancement and innovation from within the economy (Lucas, 1988).

Endogenous growth theory offers a richer understanding of the growth process, allowing policymakers to directly influence the growth rate through internal mechanisms, such as promoting R&D, improving education, and creating innovation-friendly environments. While the Solow model presented technological progress as an external force, endogenous models provide insights into the mechanisms that can be adjusted to foster or stifle growth.



CHAPTER TWO

MOROCCO'S TRADE POLICIES, FDI, AND MACROECONOMIC INDICATORS

In this chapter, the discussion focuses on trade, trade policies, openness, and Foreign Direct Investment (FDI), along with key macroeconomic indicators such as GDP and inflation in Morocco. The analysis delves into each of these areas with a moderate level of detail.

1. MOROCCO: AN OVERVIEW ON ECONOMIC REFORMS AND TRADE AGREEMENTS

When considering Morocco's economic reforms during the 1980s, it is impossible to overlook the World Bank's considerable influence. Even though it seemed like Morocco was charting its own course, behind the scenes, the World Bank was a major player, guiding and shaping the country's decisions (Harrigan & El-Said, 2009).

Fast forward to the 1990s, and the dynamics started to shift. Morocco began spreading its wings, leaning less on the World Bank and seeking financial partnerships with the European Union, France, and even some Arab nations. As Morocco's political landscape evolved and its economy matured, the World Bank had to find its new place. Instead of being the primary lender, it took on a more advisory role, supporting Morocco's own visions and plans (Harrigan & El-Said, 2009).

This is when things get interesting. The World Bank and the IMF, two giants in global finance, did not always see eye to eye on Morocco. The World Bank was all about pushing Morocco to focus on industries, especially those that could export goods and drive economic growth. Meanwhile, the IMF was more like the cautious parent, emphasizing the need for a stable economy above all else. This tug-of-war between the two became particularly evident in discussions about agricultural reforms. In a nutshell, Morocco's economic story during this era was shaped by these two institutions and their often-contrasting visions for the country's future (Harrigan & El-Said, 2009).

1.1. The Impact of Liberalization on the Economic Landscape of Morocco

Morocco is working its way into a system of trade liberalization framework in order to enhance its economic growth and development. Morocco, due to its favorable geographical location between Europe and Africa, has effectively utilized this strategic positioning to establish a significant presence in the global economic arena. The country's commitment to establishing an economy that is oriented towards international trade is evident through its liberal trade attitude, extensive Free Trade Agreements (FTAs), and ongoing structural changes in the economy (Bouoiyour, 2007).

1.1.1. Trade Bilateral Arrangements

Trade bilateral arrangements refer to agreements made between two nations to facilitate and regulate trade between them. These agreements establish the terms and conditions under which goods and services can be exchanged. One of the key components of Morocco's economic plan is the Open Economic Collaboration it established with the United States, which was put into effect in 2006. The aforementioned bilateral agreement, representing a significant milestone, establishes a precedent as the inaugural accord between the United States and an African nation. Its implementation has notably enhanced Morocco's capacity to engage in international trade, particularly in sectors such as automobile manufacture, textiles, and agriculture. Moreover, Morocco is a participant in the Euro-Mediterranean Agreement, which seeks to create a region of unrestricted commerce between the European Union and Mediterranean nations. In this context, Figure 2 demonstrates the trade statistics between Morocco and USA.

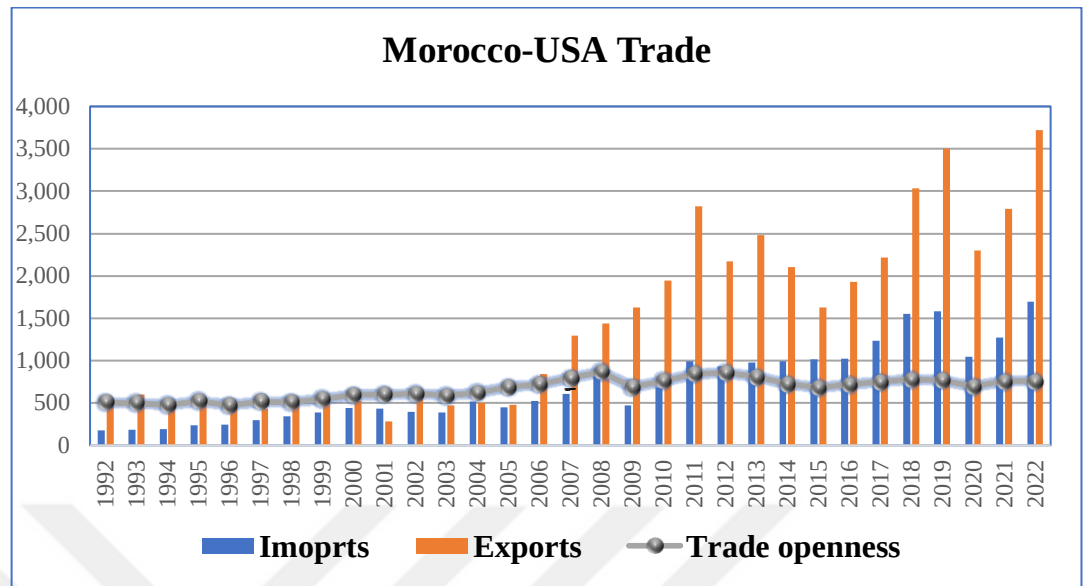


Figure 2. Morocco - USA Trade

Source: United States Census Bureau

Note: Export and import from USA perspective.

1.1.2. Interactions with the African Continent

The government has also prioritized the enhancement of its economic partnerships with other African countries. The decision of Morocco to rejoin the African Union in 2017 has served as a significant impetus for the country's commercial negotiations and diplomatic interactions around the African continent. The proposed initiatives encompass the exploration of novel trade opportunities within the Sub-Saharan Africa region, as well as the facilitation of investments in pivotal industries such as green energy, agriculture, and telecommunications.

1.1.3. Reforms in Regulatory Measures

Regulatory reforms refer to the changes made to the existing regulatory framework in order to enhance its effectiveness and efficiency. These reforms are typically in accordance with its strategic objective for 2020 to enhance economic diversification, Morocco has implemented a range of measures aimed at increasing its attractiveness to domestic and international investors. The reforms discussed in the literature involve the modernization of labor laws, the enhancement of infrastructure, and the simplification of taxation procedures (SFAR & MTAR, 2017).

Although trade openness offers certain advantages, it also presents certain complications such as heightened vulnerability to external financial volatility and trade imbalances. Nevertheless, the proactive involvement of the government in engaging in aggressive trade negotiations and adopting local reforms to the economy serves the purpose of mitigating these areas of weakness.

In conclusion, it is evident that the promotion of commerce liberalization has played a significant role in fostering Morocco's economic growth. However, it is imperative to emphasize the need of deliberate and well-thought-out policy choices in order to ensure that the resulting economic advantages are distributed fairly and inclusively across various segments of the population.

2. FDI IN MOROCCO

The Kingdom of Morocco possesses numerous attractions for Foreign Direct Investment (FDI), owing to its strategic location near Europe, an investor-friendly legal framework, competitive labor costs, and a diverse cultural landscape. These features forge robust connections with various economic partners from European nations, Arab countries, the wider African continent, and the United States. The advantages Morocco offers make it a prime catalyst for FDI, leveraging its excellent networks and a multilingual workforce proficient in more than four languages (Arabic, French, Spanish, and English) thus facilitating multinational companies in integrating and expanding into this vibrant market.

Morocco's integration into the North African and Middle Eastern economic sphere carves out a distinctive niche for it among Mediterranean countries, simultaneously placing it at the historic intersection of Arab-Andalusian and Western civilizations.

Consequently, leading global corporations such as Eaton, Aerolia, Alcoa, Shandong, PSA Peugeot Citroën, Renault, Bombardier, and Safran have selected Morocco as a site for their growth and development initiatives. Their investments reflect a robust vote of confidence in Morocco's industrial and commercial prowess, underscoring its established reputation as a vital hub for manufacturing and trade (Bouoiyour, 2007).

2.1. Comparative Dynamics of FDI: Assessing Morocco's Position and Rank within the MENA Region and Beyond

According to the Doing Business Report for the year 2020 (World Bank, 2020), Morocco has outperformed some developed and developing countries within its peer group in certain areas, achieving an overall score of 73.4 out of 100. This commendable score ranked Morocco 53rd worldwide, reflecting its substantial business environment improvements. The DB score represents an aggregate of individual assessments across various business dimensions, ranging from starting a business and dealing with construction permits to resolving insolvency. The individual scores for these categories are detailed below:

Table 1. Starting a business

	Morocco	France	Spain	Egypt	MENA	Algeria
Score out of 100	93.0	93.1	86.9	87.8	84	78
Rank	43 rd	37 th	97 th	90 th	-----	152 ^{sd}

Source: Doing Business (World Bank, 2020)

Starting a business is evaluated based on time, cost, and minimum paid-in capital required for a limited liability company. In this domain, Morocco has achieved a significant score of 93, surpassing Spain and the Middle East and North Africa (MENA) regional average. This places Morocco in the 43rd position globally, closely trailing France, which holds the 37th rank with a score of 93.1.

Table 2. Dealing with Construction Permits

	Morocco	France	Spain	Egypt	MENA	Algeria
Score out of 100	83.2	74.3	70.8	71.2	61.7	65.3
Rank	16 th	52 nd	79 th	74 th	-----	121 st

Source: Doing Business (World Bank, 2020)

The evaluation of 'Dealing with construction permits' takes into account the procedures, time, and cost required to finalize all formalities to build a warehouse, as well as the quality control and safety mechanisms within the construction permitting system. Morocco has excelled in this category, surpassing France, Spain, Egypt, and the MENA regional average with a score of 83.2, which places it at the 14th rank globally.

Table 3. Getting Electricity

	Morocco	France	Spain	Egypt	MENA (Average)	Algeria
Score out of 100	87.3	92	83	77.9	72.4	72.1
Rank	34 th	17 th	55 th	77 th	-----	102 nd

Source: Doing Business (World Bank, 2020)

The assessment of 'Getting Electricity' encompasses the procedures, time, and cost involved in connecting to the electrical grid, as well as the reliability of the electricity supply and the transparency of tariffs. Using these metrics, Morocco has achieved a global rank of 34th with a score of 87.3 out of 100, positioning it after France and ahead of its peer countries including Spain.

Table 4. Registering Property

	Morocco	France	Spain	Egypt	MENA (Average)	Algeria
Score out of 100	65.8	63.3	71.7	55	63.4	44.3
Rank	81 st	99 th	59 th	130 th	-----	165 th

Source: Doing Business (World Bank, 2020)

The 'Registering Property' category evaluates the procedures, time, and cost required to transfer a property, along with the quality of the land administration system. Morocco, with a score of 65.8, stands above the MENA regional average and France in this regard.

Table 5. Getting Credit

	Morocco	France	Spain	Egypt	MENA (Average)	Algeria
Score out of 100	45	50	60	65	41.8	10
Rank	119 th	104 th	80 th	67 th	-----	181 st

Source: Doing Business (World Bank, 2020)

The 'Getting Credit' category assesses movable collateral laws and credit information systems. Although this is among the lower scores for Morocco, it still surpasses the MENA average of 41.8.

Table 6. Protecting Minority Investors

	Morocco	France	Spain	Egypt	MENA (Average)	Algeria
Score out of 100	70	68	72	64	51.9	20
Rank	37 th	45 th	28 th	57 th	-----	179 th

Source: Doing Business (World Bank, 2020)

The 'Protecting Minority Investors' indicator measures the rights of minority shareholders during related-party transactions and corporate governance. Morocco has outperformed both France and the MENA regional average in this aspect, securing the 37th position globally.

Table 7. Paying Taxes

	Morocco	France	Spain	Egypt	MENA (Average)	Algeria
Score out of 100	87.2	79.2	84.7	55.1	75.1	53.9
Rank	24 th	61 st	35 th	156 th	-----	158 th

Source: Doing Business (World Bank, 2020)

The 'Paying Taxes' category evaluates the number of payments, time, and the total tax and contribution rate required for a firm to comply with all tax regulations, in addition to post-filing processes. Morocco has outperformed France, Spain, and the MENA average in this regard, achieving the 24th rank globally.

Table 8. Trading across borders

	Morocco	France	Spain	Egypt	MENA (Average)	Algeria
Score out of 100	85.6	100	100	42,2	61.8	38.4
Rank	58 th	1 st	1 st	171 st	-----	172 ^{sd}

Source: Doing Business (World Bank, 2020)

The 'Trading across Borders' metric evaluates the time and cost to export the product of comparative advantage and to import auto parts. While Morocco may not rival European Union (EU) countries in this respect, it has still secured a score that significantly exceeds both the MENA average and Egypt.

Table 9. Enforcing Contracts

	Morocco	France	Spain	Egypt	MENA (Average)	Algeria
Score out of 100	63.7	75.3	70.9	40	56	54.8
Rank	60 th	16 th	29 th	166 th	-----	116 th

Source: Doing Business (World Bank, 2020)

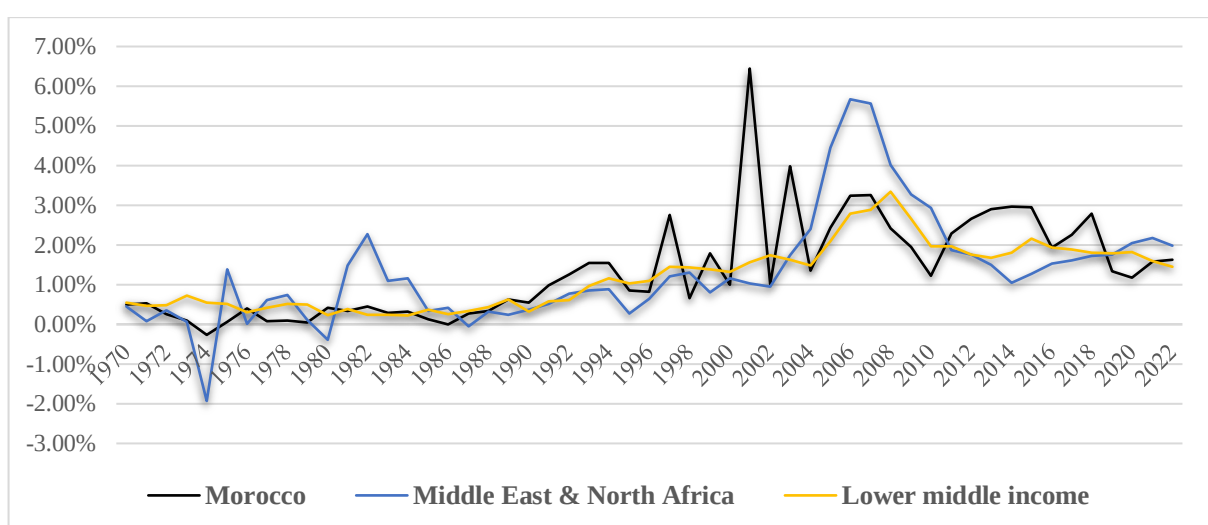
The 'Enforcing Contracts' indicator measures the time and cost to resolve a commercial dispute, as well as the quality of judicial processes. Morocco achieved the 60th rank globally in this category, placing it above Egypt, Algeria, and the MENA regional average.

Table 10. Resolving Insolvency

	Morocco	France	Spain	Egypt	MENA	Algeria
Score out of	52.9	74.6	79.2	42.2	34.5	49.2
Rank	73 rd	26 th	18 th	104 th	-----	81 st

Source: Doing Business (World Bank, 2020)

The 'Resolving Insolvency' category assesses the time, cost, outcomes, and recovery rate for a commercial insolvency, along with the robustness of the legal framework governing insolvency. Morocco attained the 73rd rank on this measure, surpassing Egypt, Algeria, and the MENA regional average.

**Figure 3. FDI, Net Inflows (% of GDP)**

Source: World Bank, (2023)

In the above chart, the FDI inflow trends in Morocco against the backdrop of the MENA region and lower-middle-income countries reveal a complex interplay of economic factors and policy decisions. The graph traces Morocco's FDI inflows from 1970 to 2022, which showcase periods of significant growth and decline influenced by both global economic events and Morocco's internal policy environment.

The early 2000s marked a pivotal period for Morocco, as the kingdom embarked on a series of economic reforms aimed at liberalizing the economy and attracting foreign investment. The implementation of the US-Morocco Free Trade Agreement in 2004, designed to eliminate trade barriers and bolster economic ties, likely contributed to a notable increase in FDI.

However, the global financial crisis of 2007-2009 introduced a period of economic instability, which is reflected in a sharp decrease in Morocco's FDI inflows. The crisis had widespread repercussions, causing investors to become more risk-averse, thereby reducing the flow of international capital to emerging markets.

The COVID-19 pandemic, beginning in 2020, further disrupted global FDI patterns, as economic activities were halted, and supply chains were disrupted. Morocco's FDI inflows experienced another decline during this period, in line with global investment trends.

Throughout these fluctuations, Morocco's FDI inflows have typically remained above the average for lower-middle-income countries, suggesting that Morocco has maintained a relatively attractive environment for foreign investors. This could be due to the kingdom's strategic location, efforts to maintain political stability, and ongoing economic reforms.

The graph's portrayal of FDI trends offers insights into the relationship between external economic shocks, such as the financial crisis and the COVID-19 pandemic, and internal policy measures in shaping the investment landscape. It highlights the need for resilience and adaptability in economic policy to navigate the challenges posed by such disruptions and to capitalize on opportunities for growth in FDI.

2.2. FDI Origins and Sectoral Allocation

Morocco has consistently attracted billions of dirhams in FDI from a variety of sources, targeting numerous industries. This section delves into the details of these investments.

2.2.1. FDI Origins

The comprehensive dataset from the Office des Changes (2023) traces the origins of FDI into Morocco, highlighting the period from 2007 onwards. It shows a significant influx of capital from 15 European countries, including the United Kingdom. The contribution from these nations varied over the years, reaching its zenith in 2010 with 80.81% of total FDI and hitting a low point in 2015 with 50.54%. This influx underscores the varying yet persistent European investment interest in Morocco's economy.

Particularly notable within this European FDI landscape is France's dominant role. The enduring cultural and linguistic affinity between Morocco and France has been reflected in a steady flow of French investments. From 2007 to the first half of 2023, France's FDI into Morocco has been robust, averaging a minimum of 32.16% relative contribution, with the lowest annual input being 22.53% in 2017. Remarkably, during the financial crisis period, France's investment peaked at 51.32% in 2009 and climbed to 58.43% in 2010, indicating France's heightened economic engagement with Morocco during a time of global economic turmoil (Office des Changes, 2023).

The United Arab Emirates stands as the second-largest source of FDI for Morocco, averaging an annual contribution of approximately 11%. The FDI from the UAE has been substantial, flowing billions of dirhams each year, and reaching its highest in 2012 when it accounted for over 24% of the total FDI with an inflow of 7.789 billion dirhams. Conversely, the lowest influx was recorded in 2009 amidst the financial crisis, with only 4.58% of the total FDI, equivalent to 1.15 billion dirhams. According to the Ministry of Economy of the UAE, the country's share in Morocco's FDI market rose to 21% in 2021, amounting to approximately USD 14 billion, distributed across various sectors including automotive, agriculture, communications, services, healthcare, tourism, and real estate.

The proximity between Morocco and Spain, a mere 14 kilometers (approximately 8.7 miles), and the prevalence of the Spanish language might suggest a substantial flow

of investments, which, while not as pronounced as that from France, is nonetheless significant. Spain ranks as the third-largest contributor to Morocco's FDI historically, following France and the UAE for the period from 2007 to the first half of 2023. The annual average stands at 5.73%, with the highest contribution being 16.09% in 2007 (6.108 billion dirhams) and the lowest at 3.32% in 2016 (1.174 billion dirhams).

The United States, closely trailing Spain with a historical annual average FDI contribution of 5.46%, has made significant investments in the Moroccan FDI market, injecting over 34.36 billion dirhams from 2007 to 2023. The highest investment from the US was in 2022, accounting for 19.74% of the total FDI for that year, or 7.81 billion dirhams. The lowest point was in 2010, with a 1.81% contribution, amounting to 633.8 million dirhams, likely influenced by the global financial crisis originating in the US.

Great Britain, closely following Spain and USA, has historically contributed an average of 5.24% annually to Morocco's FDI. Over the last seventeen years, from 2007 to 2023, British investments have totaled over 32 billion dirhams. The peak of British FDI occurred in 2021 with a substantial 8.85% share, amounting to 2.9 billion dirhams, while the lowest was in 2012 with just 2.35% or 755.5 million dirhams.

The collective FDI contributions from Luxembourg, Germany, the Netherlands, Italy, Switzerland, and Ireland may individually average less than 5%, yet their combined influence from 2007 to 2023 reaches a significant historical average of 15.27%, amounting to 95 billion dirhams. Notably, recent trends from individual countries such as Ireland have made substantial contributions, with 3.473 billion dirhams in 2017 and 9.657 billion dirhams in 2018, reflecting an increasing engagement in Morocco's FDI landscape.

The Arab world's investment in Morocco's FDI market is substantial, with the UAE, Saudi Arabia, Qatar, and Kuwait as principal contributors. Over a 17-year span, these countries have collectively infused over 102 billion dirhams, averaging 17.52% of total FDI. The UAE's impact is particularly significant, accounting for 63% of this total, which equates to 64.35 billion dirhams. This underscores the UAE's pivotal role in shaping the FDI landscape in Morocco.

Table 11. FDI revenue from selected countries 2018-23-6

In millions of dirhams						
	2018	2019	2020	2021	2022	2023 (1st and 2nd quarters)
France	7699.7	12303	7950	10299	11641	5787
UAE	3943.2	2646	2879	3605	4053	1124
Spain	2176.8	1530	1803	2154	1852	1425
USA	2422	1050	673	982	7810	776
UK	2534.5	1613	2096	2912	3503	1129

Source: (Office des Changes, 2023)

2.2.2. Sectoral Allocation

The Office des Changes' latest report indicates that Morocco's FDI market had amassed over 677 billion dirhams by the end of 2021, spread across various sectors and subsectors, marking a 46.34% growth since the end of 2014. The industrial sector is at the forefront of this investment surge, leading in both the average amount of dirhams invested and its relative percentage share. On the other end, the education sector, while having the smallest average and contribution, is rapidly growing, with an increase of over 177% from 2014 to 2021.

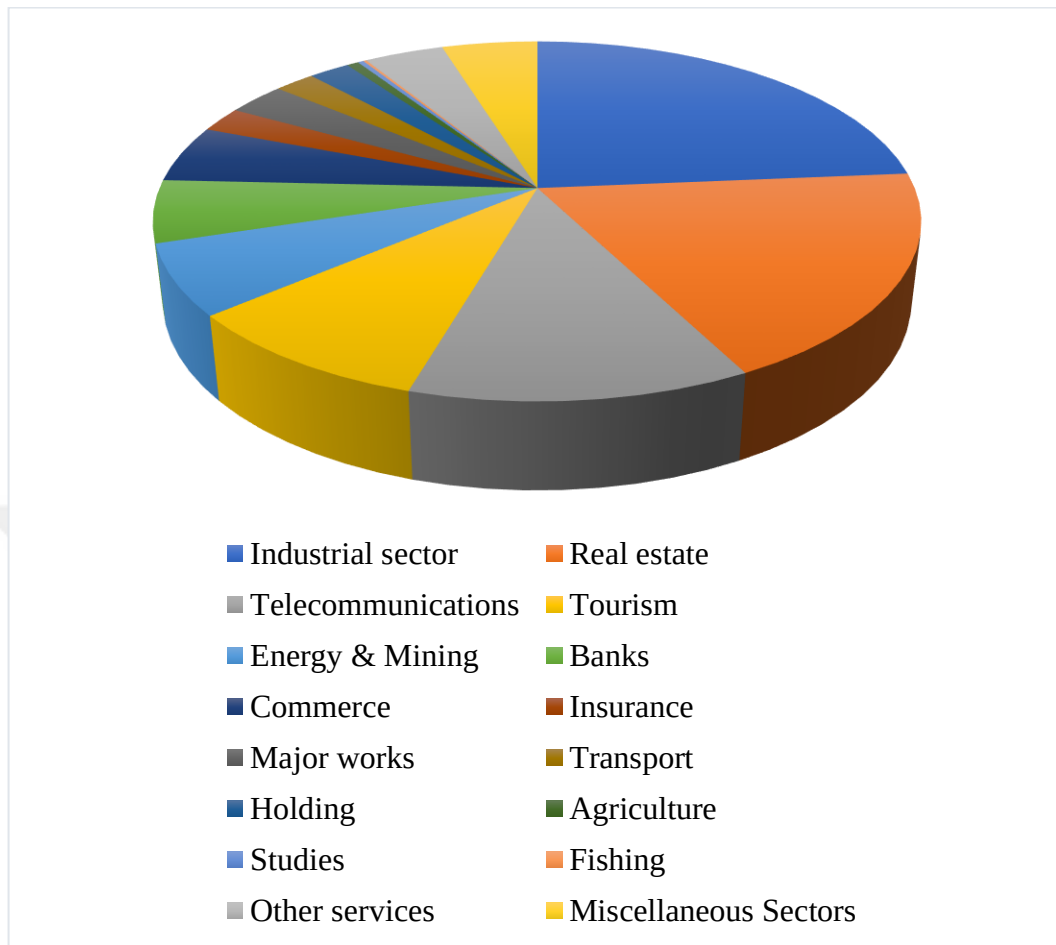


Figure 4. FDI Market's share by sector (2021)

Source: (Office des Changes, 2023)

2.2.2.1. Industrial Sector

The industrial sector has traditionally dominated Morocco's FDI market share, yet while it has expanded in absolute dirham terms, its relative proportion of the total market has seen a decline, from 29.09% at the end of 2014 to 23.65% by the end of 2021. This suggests that the broader FDI market in Morocco has been growing at a faster pace than the industrial sector itself. With a historical average market share of 24.81%, and a consistent figure around 23.74% for the years 2019-2021, this stagnation could be attributed to the supply chain disruptions caused by the pandemic.

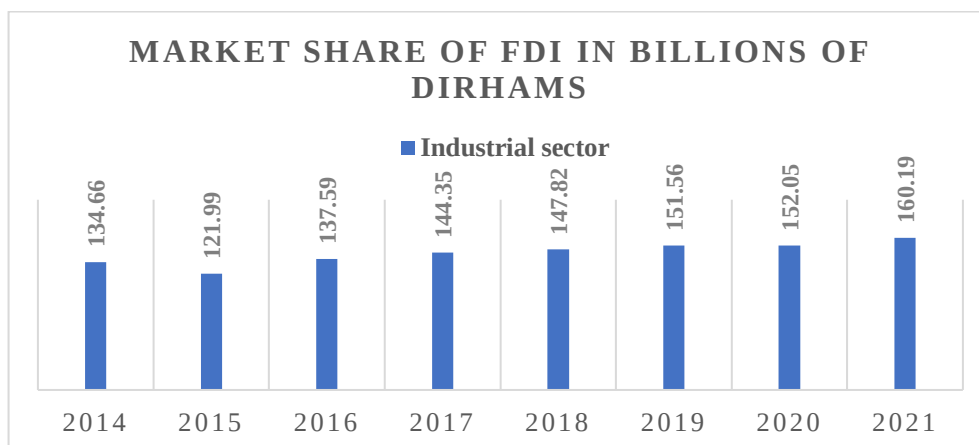


Figure 5. The FDI market share of Industrial sector

Source: (Office des Changes, 2023)

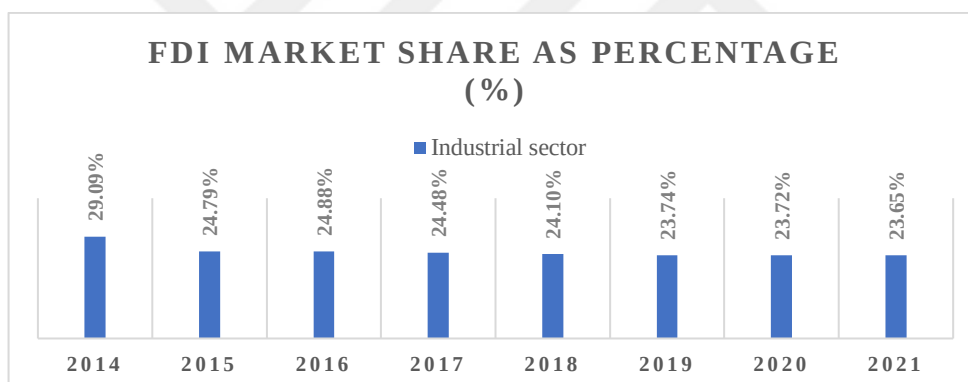


Figure 6. The FDI market share of Industrial sector (%)

Source: (Office des Changes, 2023)

Figures 5 and 6 graphically depict the market share of the industrial sector within Morocco's FDI market, spanning an 8-year period from the end of 2014 to the end of 2021. Figure 5 illustrates the share in terms of billion-dirham amounts, whereas Figure 6 displays the percentage that the industrial sector contributes to the overall FDI market. These visual representations make it easier to comprehend the sector's growth and its relative size in both absolute monetary terms and as a proportion of the total market.

2.2.2.2. Real Estate

Real estate holds the second-largest market share in Morocco's FDI landscape, with a steady average of 18.16%, indicating it is growing in tandem with the overall FDI

inflows. The nation's allure for real estate investment is partly due to its relative political stability, which weathered the Arab Spring, and its continual draw for tourists. As corroborated by the Doing Business Report 2020, Morocco's 16th rank in ease of dealing with construction permits outperforming Spain and France and its superior rank to France in registering property, at 81st globally, exemplify its conducive environment for real estate development. This is reflected in the sector's growth from 78 billion MAD in 2014 to 127 billion MAD by the end of 2021.

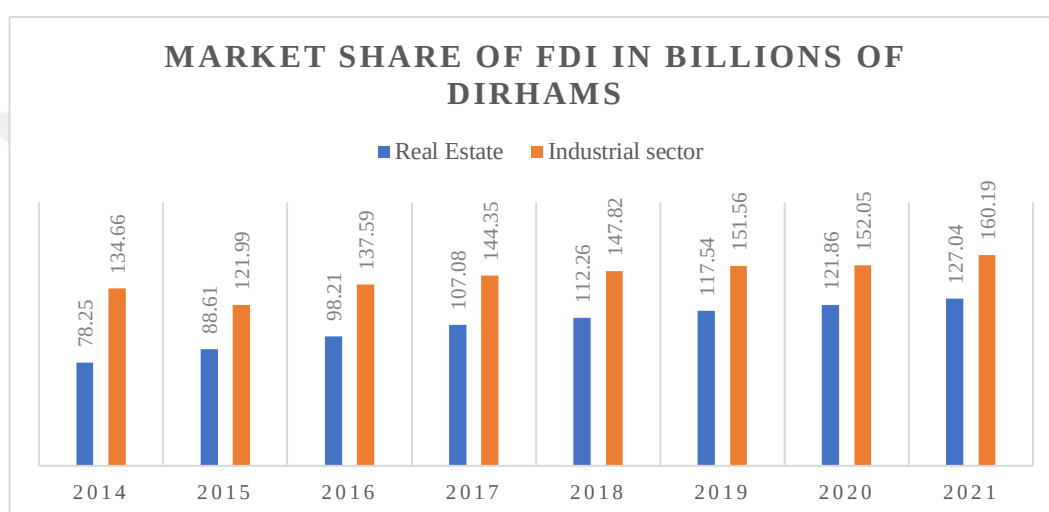


Figure 7. Real Estate in dirhams

Source: (Office des Changes, 2023)

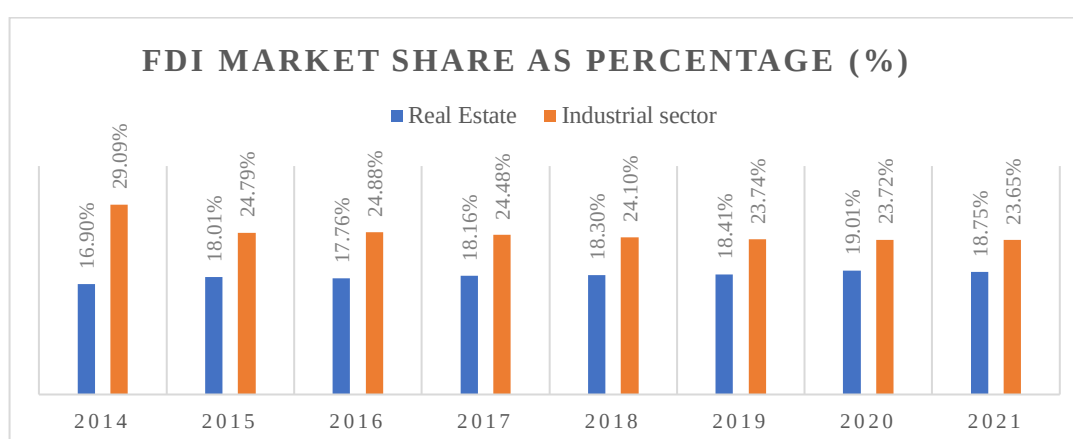


Figure 8. Real estate as percentage of the market

Source: (Office des Changes, 2023)

Figures 7 and 8 present a comparative analysis of the market shares for the real estate and industrial sectors within Morocco's FDI market over an 8-year period, from the end of 2014 to the end of 2021. Figure 7 delineates the share in terms of dirham amounts, reaching into the billions, while Figure 8 showcases the percentage of market share each sector holds. These visual aids enhance understanding by illustrating growth and market size in both gross dirham value and market share percentage. The simultaneous presentation of both sectors offers a clearer comparison, highlighting their combined market share of 42.4% in 2021.

2.2.2.3. Telecommunications

The telecommunications sector, often regarded as a reliable investment in many economies, maintains a significant position in Morocco's FDI landscape. It is the third-largest sector in terms of FDI, with an average retained investment of 13.80% across the eight-year span from 2014 to 2021. By the end of 2021, telecommunications held 12.12% of the market share, with an outstanding FDI amount of 82.1 billion dirhams, marking growth from 68.1 billion dirhams in 2014, an increase of over 20% in the invested capital.

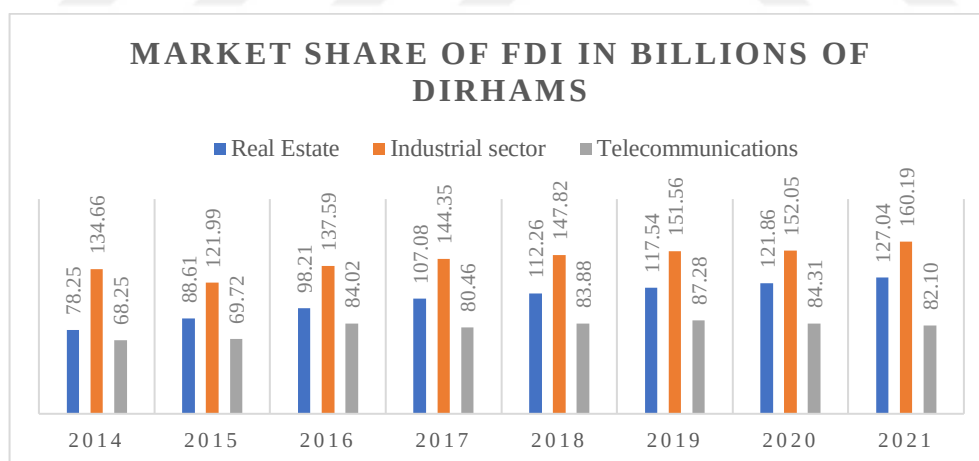


Figure 9. Telecommunications sector

Source: (Office des Changes, 2023)

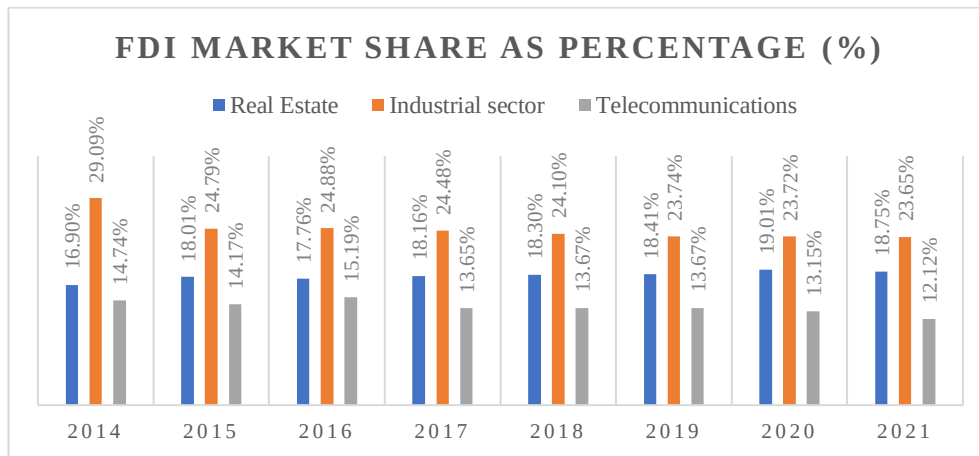


Figure 10. Telecommunications sector as percentage of the market

Source: (Office des Changes, 2023)

Figures 9 and 10 illustrate the market shares of the telecommunications, real estate, and industrial sectors in Morocco's FDI market, covering an eight-year period from the end of 2014 to the end of 2021. Figure 9 displays the share in billions of dirhams, while Figure 10 presents the market share percentages. These visualizations aid in understanding the growth and market size in both absolute monetary terms and relative market share percentages. Showcasing these three sectors concurrently allows for an enhanced comparison, highlighting their collective market share of 54.52% in 2021.

2.2.2.4. Tourism

Tourism plays a pivotal role in Morocco's economy, accounting for approximately 8% of its GDP. As reported by Statista, Morocco stands as a premier destination for international tourists in Africa. In 2019, international tourists represented 47% of total tourism in Morocco, with 7.8 million international arrivals recorded from 2018 to 2023. In 2021, Morocco achieved the second-highest international tourism receipts on the continent, amassing over USD 3.81 billion, trailing only behind Egypt. This influx of international tourists underscores the considerable FDI in the sector, which holds an average market share of over 10% and stood at 9.27% by the end of 2021, translating to more than 62.8 million dirhams in investment.

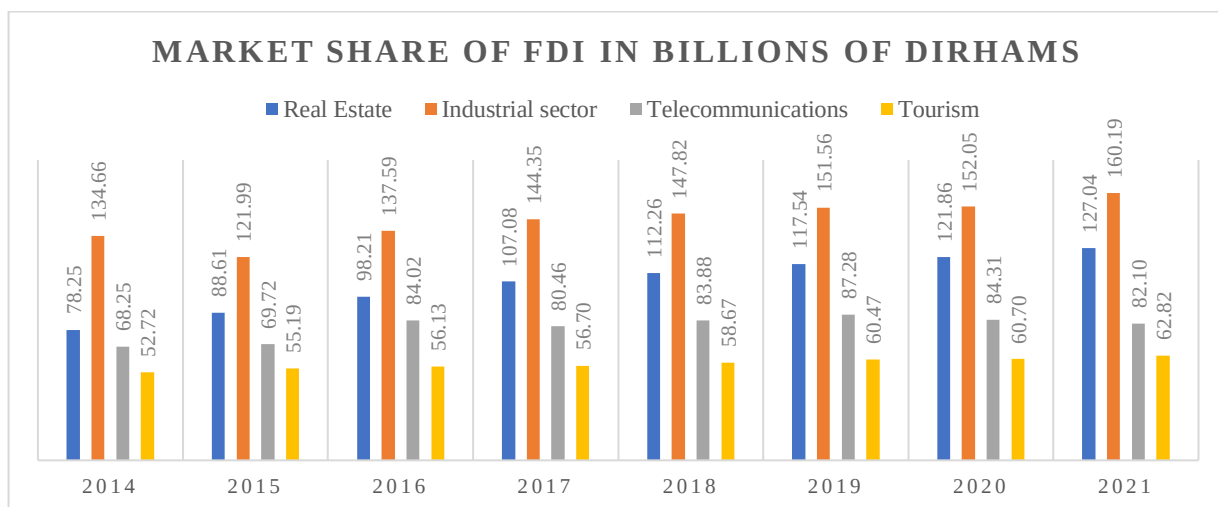


Figure 11. Tourism sector

Source: (Office des Changes, 2023)

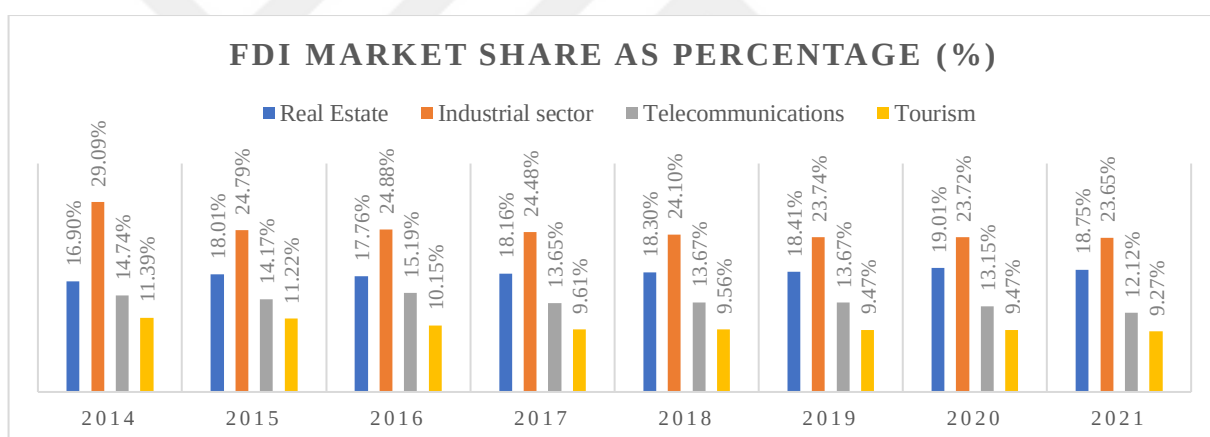


Figure 12. Tourism sector as percentage of the market

Source: (Office des Changes, 2023)

Adopting the same visualization approach as previously utilized in figure 11 and 12, the aforementioned sectors are depicted alongside the tourism sector to provide a clearer perspective on historical and current data trends. The FDI market share for tourism exhibited a downward trend from 2014 to 2021, decreasing from 11.39% to 9.27%. Despite this percentage decrease, it's important to note that the actual investment value increased from 52.72 billion dirhams in 2014 to 62.8 billion dirhams, suggesting that while the sector's FDI growth was positive, it did not keep pace with the overall growth of the FDI market in Morocco.

2.2.2.5. Energy & Mining and Banks

Combining the energy & mining and banking sectors for analysis is an approach taken to gain a more coherent understanding of Morocco's FDI landscape, as each sector individually accounts for less than 6% of the FDI market share on average. When considered collectively, these sectors represent over 11% of the market share, providing a more substantial perspective on the country's FDI distribution. This aggregated view helps to elucidate the significance of these sectors within the broader context of Morocco's economic investment environment.

The energy & mining sector in Morocco has demonstrated an impressive average FDI market share growth of 5.70% over the eight years from 2014 to 2021. Starting from a modest 2.74% market share at the end of 2014, equivalent to 12.71 billion dirhams, the sector has seen its share double, consistently increasing in both dirham value and relative terms to reach 6.33% or nearly 43 billion dirhams by the end of 2021. This remarkable expansion can be credited to several factors, notably Morocco's emerging prominence in sustainable energy and its potential leadership in the green hydrogen sector.

The banking sector in Morocco has maintained a stable FDI market share, fluctuating between 6% and 5%, with an average of 5.48%. By the end of 2021, the sector's share stood slightly above the average at 5.60%. Commencing in 2014 with a 6.17% market share, valued at 28.55 billion dirhams, the banking sector concluded 2021 with nearly 40 billion dirhams, equating to a 5.6% share of the market.

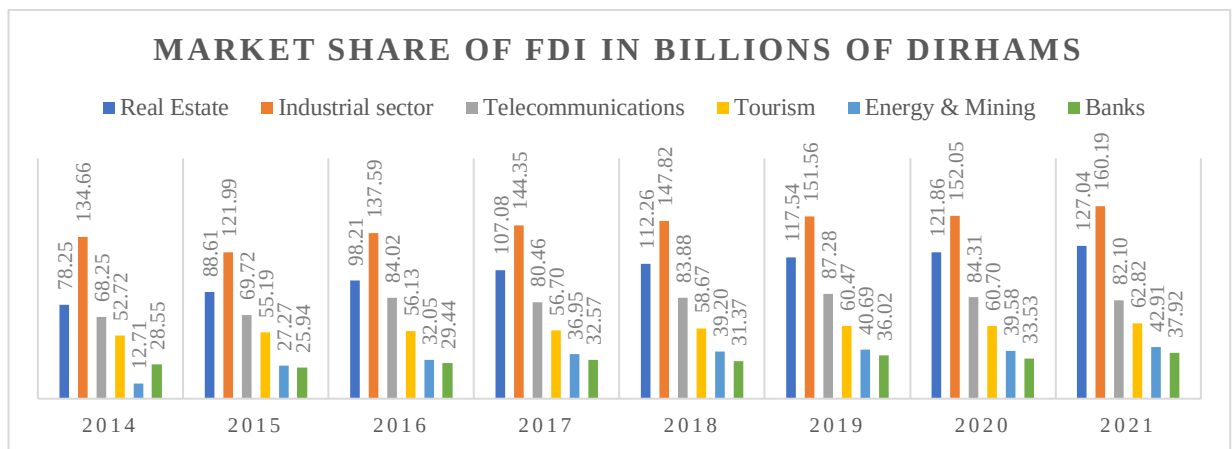


Figure 13. Energy & Mining and Banking sectors

Source: (Office des Changes, 2023)

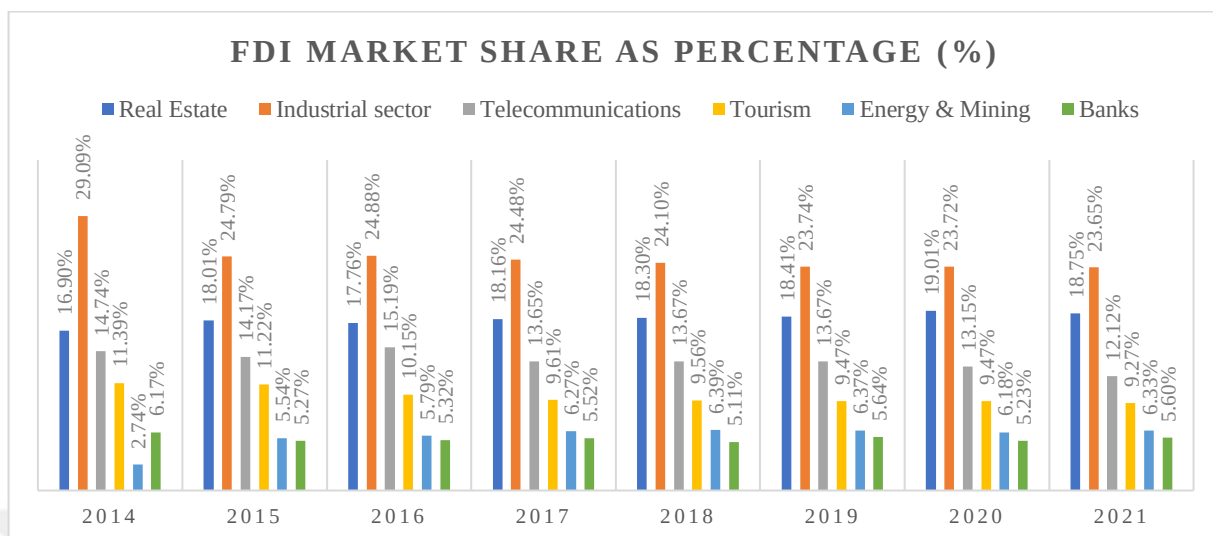


Figure 14. Energy & Mining and Banking sectors as percentage of the market

Source: (Office des Changes, 2023)

Using the established visualization strategy, Figures 13 and 14 are employed to represent the Energy & Mining and Banking sectors alongside the previously mentioned sectors. This approach is designed to facilitate a comprehensive understanding of Morocco's FDI landscape. By integrating these sectors into the visual analysis, it becomes evident that together, they cumulatively retain 75.72% of the FDI market share or 513 billion dirhams, thereby portraying a significant portion of Morocco's investment environment. This cumulative perspective is crucial for stakeholders to visualize the distribution of FDI across key sectors within the economy.

2.2.2.6. Other sectors

The collective grouping known as 'Other sectors' encompasses a diverse range of industries that, when combined, account for less than 25% of the FDI market share. These sectors include Commerce, Insurance, Major Works, Transport, Holding Companies, Agriculture, Studies (Education), Fishing, Other Services, and Miscellaneous Sectors. Individually, each of these sectors on average contributes less than 5% to the market share, with the exception of Miscellaneous Sectors. As of the end of 2021, all except Commerce fall below the 5% threshold. Collectively, these ten sectors represent 164.41 billion dirhams, which equates to 24.27% of the total FDI market share. Of this, 114.18

billion dirhams is attributed to just four sectors: Commerce, Major Works, Other Services, and Miscellaneous Sectors, which together form 16.85% of the 24.27%.

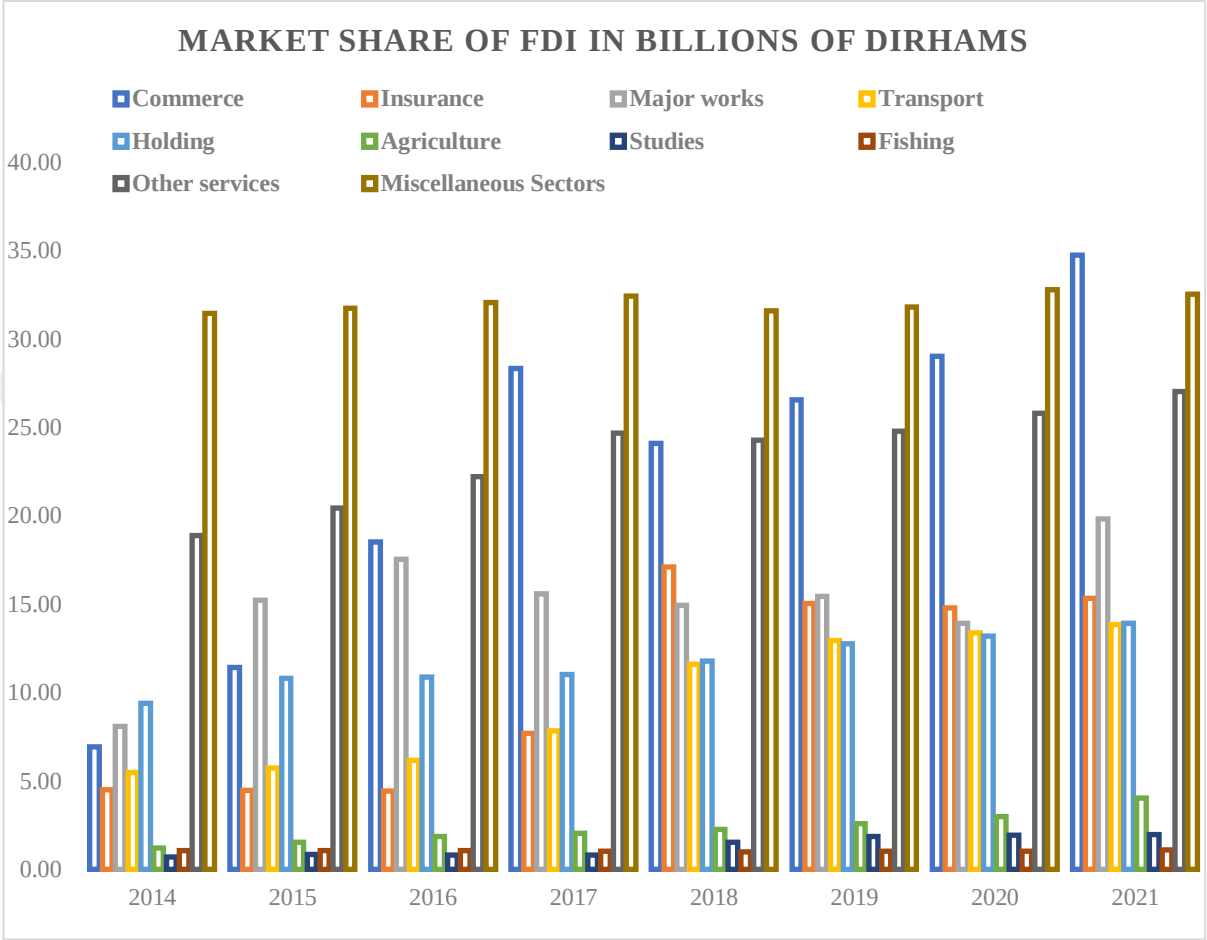


Figure 15. Other sectors
Source: (Office des Changes, 2023)

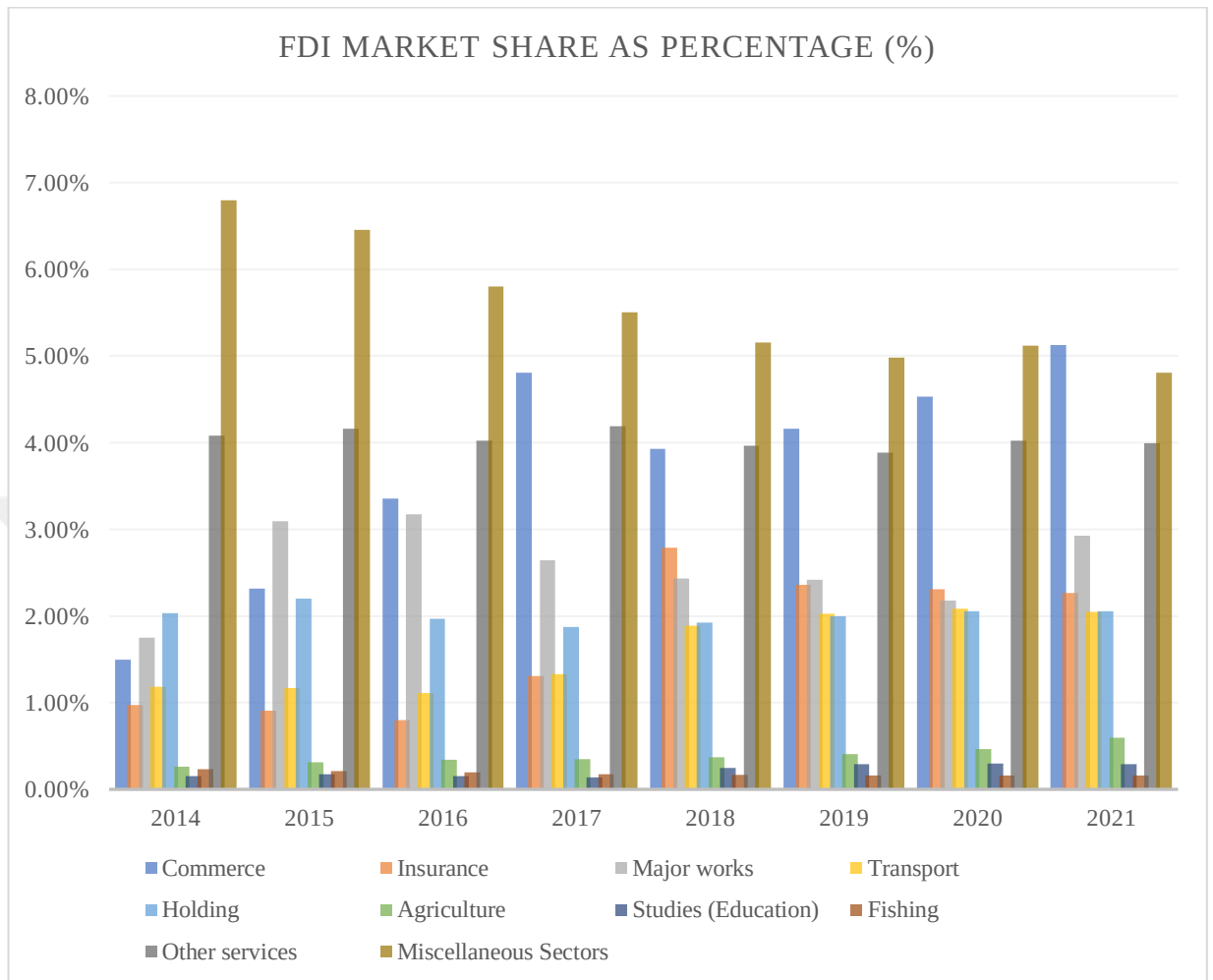


Figure 16. Other sectors as percentage of the market

Source: (Office des Changes, 2023)

Figures 15 and 16 are designed to provide a historical visualization of the ten aforementioned sectors over an eight-year period, from 2014 to 2021. Figure 15 illustrates the growth and fluctuations in terms of dirham amounts invested in these sectors, while Figure 16 depicts the percentage each sector holds within the overall FDI market share. Together, these figures offer a comprehensive view of the trends and changes in sector specific FDI in Morocco.

3. MACROECONOMIC INDICATORS

In this section, we will explore key economic indicators such as economic growth, inflation, unemployment, and balance of payments for Morocco. This examination will include data visualizations and comparative analyses with Morocco's income group,

regional area, and occasionally other relevant benchmarks. This thorough approach aims to offer a detailed understanding of Morocco's economic position and its evolving trends.

3.1. Economic growth

Morocco, as a developing nation, has demonstrated a commendable economic trajectory, particularly post-2000 economic reforms. Prior to these reforms, Morocco experienced instances of negative GDP growth. However, it has since consistently shown positive GDP growth, except for 2020 due to the global pandemic. The country began its recovery in 2021, registering a GDP of USD 134.18 billion, an increase from USD 121.35 billion in 2020 (the pandemic year) and even surpassing the pre-pandemic level of USD 128.92 billion in 2019.

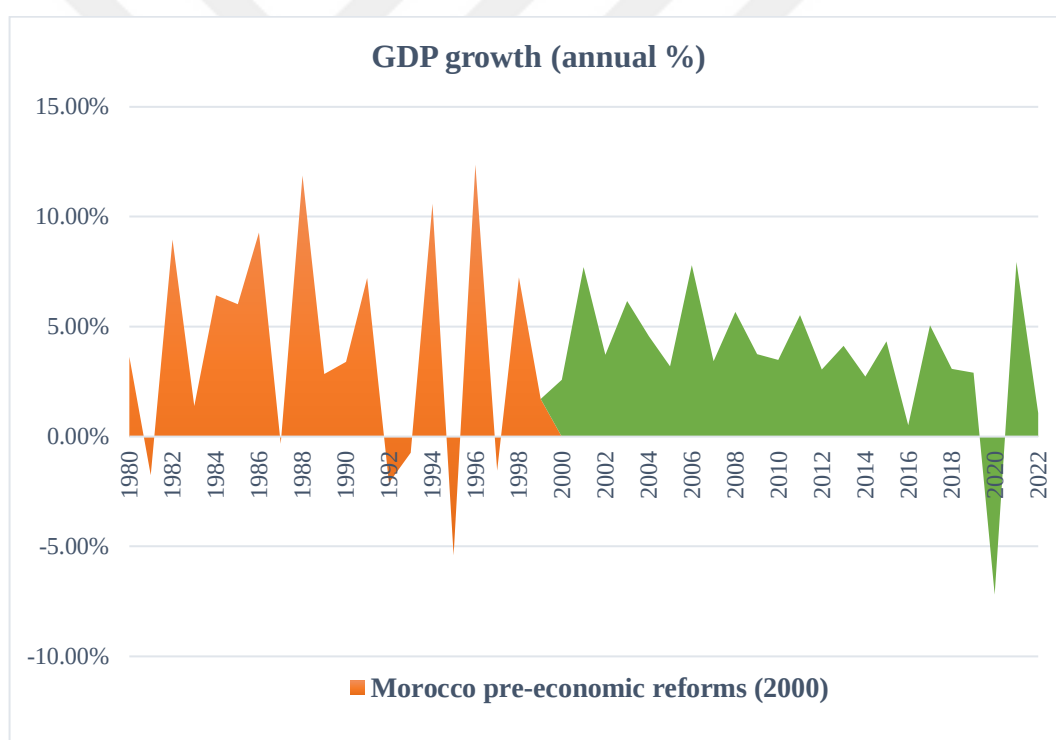


Figure 17. GDP growth (annual %) of Morocco

Source: World Bank, 2023

Figure 17, divided into two segments, illustrates Morocco's economic performance across two distinct eras: pre- and post-economic reforms of 2000. In the pre-reform period (1980-2000), the economy experienced significant instability and volatility. Notably, 1996 saw an exceptional growth rate of 12.37%, yet the economy contracted by

1.56% in 1997. This period was marked by considerable fluctuations, evidenced by a standard deviation exceeding 5.16% and six out of twenty years (1981, 1987, 1992-93, 1995, 1997) experiencing negative GDP growth.

In the second part of Figure 17, the post-reform era post-2000 is characterized by relatively stable growth with reduced volatility compared to the pre-reform period, exhibiting a standard deviation of only 3% over 22 years. Despite the highest growth rate in this era being 7.93%, there was a consistent pattern of positive growth almost every year, even during the 2007-09 financial crisis. The only exception was the year of the COVID-19 pandemic 2020, where negative growth can be attributed to the lockdowns and a significant drop in revenue, especially from international tourism.

Table 12. The Data pre- and post-reforms

	Average	Minimum	Maximum	Standard
Pre-economic	4,05%	-5,41%	12,37%	5,15%
post-reforms (2000)	3,71%	-7,19%	7,93%	3,07%

Source: Author's calculation based on World Bank data

Table 12 descriptively illustrates the economic conditions and implicit risks within each period.

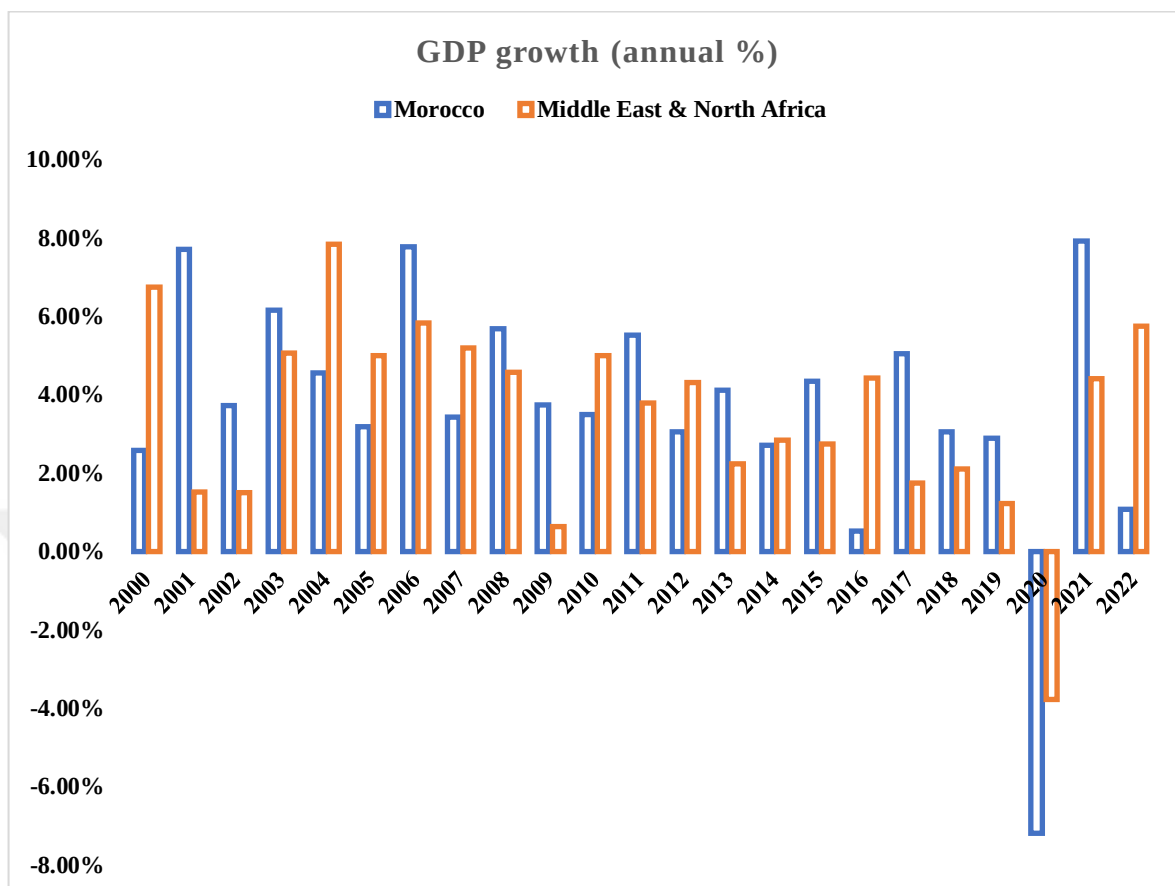


Figure 18. GDP growth (annual %) Morocco and MENA region 2000-2022

Source: World Bank, 2023

Figure 18 visually presents the annual GDP growth comparison between Morocco and the MENA region from 2000 to 2022. It clearly shows that, on average, Morocco's economy outperformed the MENA region, particularly showing resilience during the financial crisis by maintaining over 2% growth consistently. Over these 22 years, Morocco achieved an average GDP growth of 3.71%, slightly higher than the MENA region's average of 3.52%. However, during the COVID-19 pandemic, Morocco experienced a significant contraction of over 7%, compared to the MENA region's average contraction of around 4%. This disparity can be attributed to factors such as the critical role of tourism in Morocco's economy and the impact on personal remittances flowing into the country.

3.2. Inflation

Inflation, often deemed a policy maker's nightmare, impacts investors, especially those in fixed-income markets with long-duration portfolios, and the general public. Prior to the 2020 pandemic, inflation was a lesser concern in developed countries. However, it has since become a crucial metric, prompting central banks like the Federal Reserve and the Bank of England to raise policy rates to balance recession risks and inflation, exacerbated by extensive lockdown spending and production slowdowns.

Notably, despite a decline in global food commodity prices in early 2023, many regions, including Europe, Central Asia, Sub-Saharan Africa, and Latin America, saw significant domestic food price inflation, posing a major challenge for emerging and developing economies where food constitutes a substantial portion of household expenses (Baffes & Mekonnen, 2023).

During the post-pandemic period, Morocco, like many other countries, faced elevated inflation rates. According to World Bank data, the global inflation rate reached 8% in the post-pandemic era, the highest since 2008, contrasting sharply with the pre-pandemic rate of 2.19% in 2019. The global average inflation rate from 2000 to 2022 stood at 3.56%, while for the Arab world, it was slightly lower at 3.33%. Morocco experienced an inflation rate of 6.66%, still lower than the global average and the 'Lower middle income' group average of around 8%. However, it was higher than the regional group average of 4.91% and the Arab world's 4.99%. Remarkably, Morocco's average inflation rate over this period was the lowest at 1.71%, surpassing all mentioned groups.

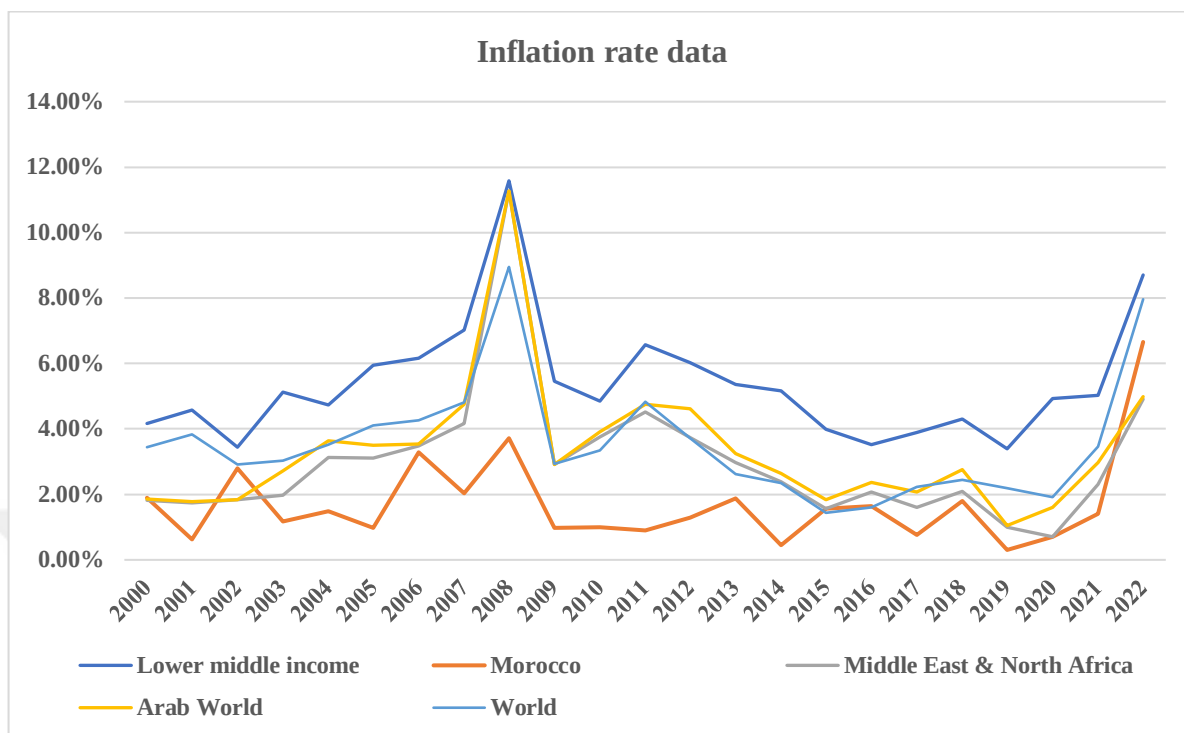


Figure 19. Inflation rate data

Source: World Bank

Figure 19 illustrates the inflation rates for various country groups in comparison with Morocco, highlighting the country's relatively low inflation rates, especially during the 2007-09 financial crisis. However, the divergence between Morocco's inflation rate and those of its shared groups has been narrowing, ultimately converging by 2021.

3.3. Unemployment

Despite Morocco's stable economic growth, sustained low inflation, and significant FDI inflows, these factors have not translated into a notable reduction in the unemployment rate, especially when compared to the lower-middle-income group. From 1991 to 2022, Morocco's lowest unemployment rate was 8.91%, significantly higher than the group's minimum of 5.62%. The highest unemployment rate in Morocco during this period was 13.94%, compared to the group's 7.78%. On average, Morocco's unemployment rate stood at 11.06%, in contrast to the lower-middle-income group's average of 6.40%.

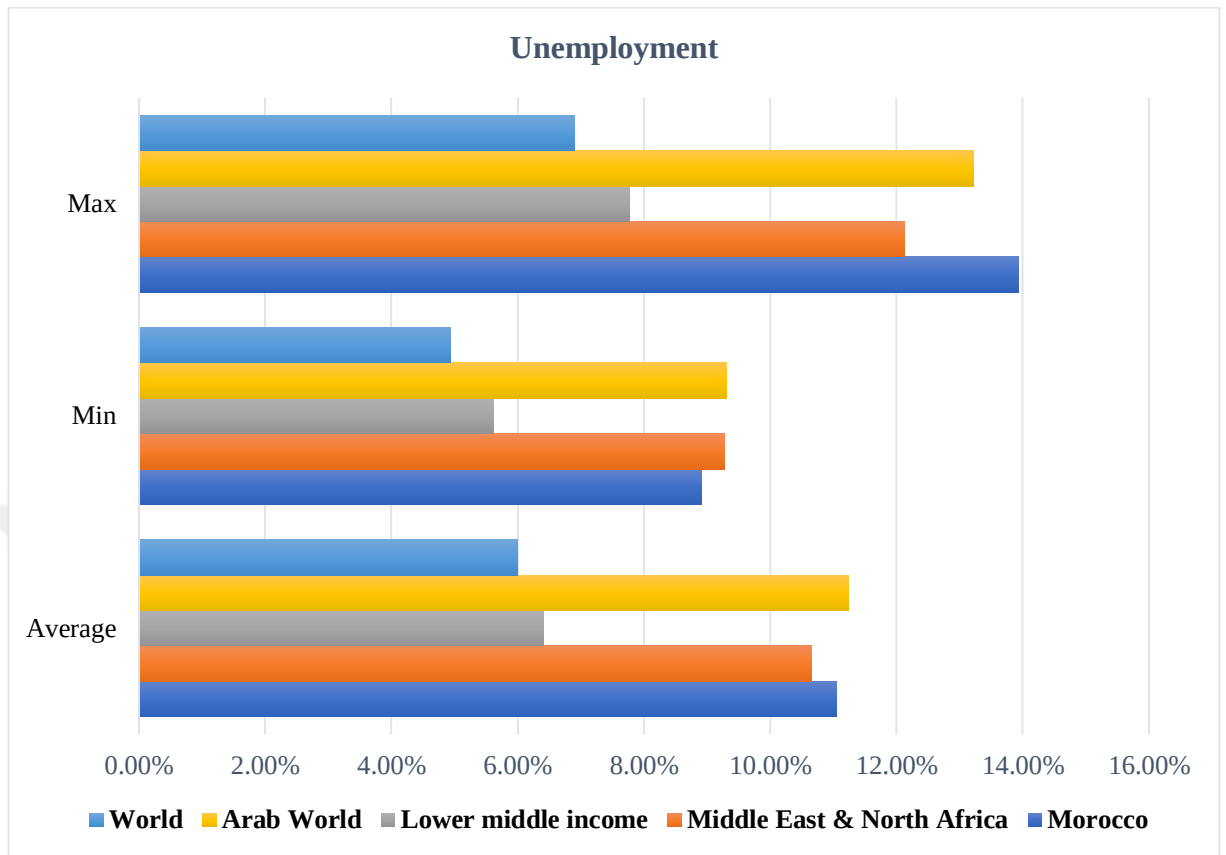


Figure 20. Unemployment data

Source: author calculation based on World Bank data

Figure 20 provides a descriptive and comparative visualization of unemployment rates between Morocco, its income group (lower-middle-income), the Middle East & North Africa, the Arab world, and the world. Notably, Morocco has not achieved relatively low unemployment rates within these groups, with the exception of the Arab world. This exception can be attributed to the consistently high unemployment rates in some Arab countries, such as Tunisia and Libya, where unemployment rates range between 16% to 20%.

Post-2000 reforms in Morocco have led to a moderate decline in unemployment, characterized by low volatility, with a standard deviation of just 1.8%. However, this decrease hasn't significantly stemmed the tide of net migration, especially towards the EU via Spain, a mere 14 kilometers from Morocco's border. According to World Bank data,

Morocco has consistently seen negative net migration since 1960, with 2019 recording its highest level of net migration outflow since 2004, at 92,000 people. Notably, these migrations significantly impact the economy, with personal remittances in 2022 accounting for 8.3% of Morocco's GDP.

3.4. Balance of Payments

According to the IMF, Morocco prepares its Balance of Payments (BoP) in accordance with the fifth edition of the IMF's Balance of Payments Manual (BPM5). The BoP comprises three main accounts: current, capital, and financial, which are balanced using the equation: current account + capital account = financial account, following double-entry accounting. The capital account, generally minor in many countries, records transfers from migrants permanently leaving Morocco and occasional public sector debt forgiveness. The significant current account is divided into four main categories: goods, services, income, and current transfers. Financial accounts document direct investment operations, portfolio investments, and other investments like trade credits and medium- and long-term loans. These include four key areas: long-term investments (FDI), portfolio investments (short-term investments like securities and bonds), other investments (recording external public and private debt operations, and private sector trade credits), and reserve assets, with data sourced from the central bank (Bank Al-Maghrib), excluding revaluation impacts due to currency fluctuations.

The data shows a long history of current deficit that was run by Morocco from 1975 with its worst deficit as percentage of GDP realized in 1977 with over 16.5% current deficit equivalent to USD 1.8 billions. with Sahara war and the complex geopolitical situation out there (Seddon, 1987); consistent deficit along that decade from 1977-1987 was run where it has the first current surplus in the beginning of 1987 as little as 0.8% followed by 1.8% 1988 but the momentum did not continue with prevalence of current deficit along the way except for 0.1% in 1996 until 2001 where it enjoyed its longest series of current surplus until 2007 where it went again into series of current deficits which has not found the way out from them yet till last update of 2022. According to Queyranne (2023) From 2008 to 2012, Morocco's macroeconomic stability faced several challenges due to the global financial crisis, the Eurozone crisis, rising international prices

of energy and food, and regional unrest from the Arab Spring. These shocks impact can be seen clearly on the current account balance.

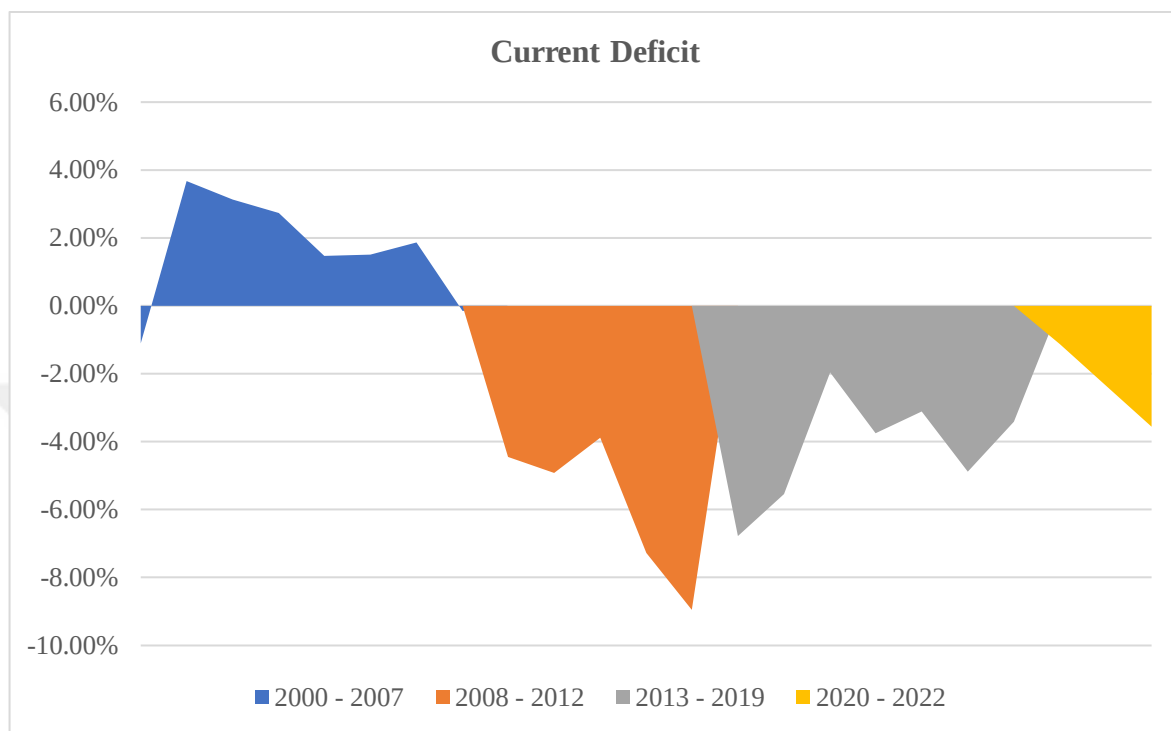


Figure 21. Current Deficit

Source: World Bank, 2023

Figure 21 illustrates Morocco's current account over the last 22 years, segmented into four distinct sub-periods. The first, 2000-2007, follows the economic reforms, marking a phase of adjustment. The second, 2008-2012, coincides with the peak of global and regional crises, including the financial crisis, high energy prices, and the Arab Spring, resulting in the deepest deficit in this timeframe. The third, 2013-2019, is an interim period between the global financial crisis and the COVID-19 pandemic, characterized by a declining deficit trend. The final period, 2020-2022, encompasses the COVID-19 crisis.

CHAPTER THREE

ANALYSIS AND EMPIRICAL RESULTS

In this chapter, practical steps are taken, beginning with a literature review of related previous studies, followed by a detailed discussion of the research methodology, encompassing the methods and research design. Subsequently, the empirical results of the study are presented.

1. LITERATURE REVIEW

Investigating the dynamics between Foreign Direct Investment (FDI), trade openness, and economic growth within Morocco from 1992 to 2022, this study employs an Autoregressive Distributed Lag (ARDL) model to test the validity of four prevalent economic hypotheses. The growth hypothesis is substantiated in the long term by the cointegration of FDI with economic growth, identifying FDI as a significant, positive contributor to the Moroccan economy. This supports the theoretical assertion that FDI, through capital infusion and knowledge spillover, drives economic progress. However, the expected bidirectional causality of the feedback hypothesis is not evidenced, as trade openness does not demonstrate a significant impact on GDP growth, nor does FDI show causality despite its cointegration with GDP growth.

The conservation hypothesis, which would suggest economic growth as a driver for FDI and trade openness, is not supported due to the unidirectional nature of the relationship where only past GDP predicts future GDP growth. This reflects an economic environment where growth is self-propelling, independent of the immediate influence of FDI and trade openness. Finally, the neutrality hypothesis, which posits a limited impact of FDI and trade openness on economic growth, is partially supported; FDI has a long-term positive impact on economic growth, but no short-term causality is observed, and trade openness does not significantly impact GDP growth in any causality direction (Kevser et al., 2022).

The study of Foreign Direct Investment (FDI), trade openness, and their impact on economic growth has been a focal point in the history of modern economic studies, beginning with Adam Smith, the father of classical economics. Smith highlighted the efficiency of international trade, suggesting that it might be more beneficial for nations

to engage in trade with each other. Similarly, David Ricardo also emphasized this concept in his theory of comparative advantage.

Moving forward to contemporary times, Paul Krugman's New Trade Theory further shed light on the complexities of international trade and the benefit from economies of scale. The subject has garnered increasing attention due to its significant implications for economic growth, ranging from knowledge spillovers to technological advancements that can arise from hosting foreign capitals and opening up economies.

According to Ayanwale (2007), FDI is found to have a positive impact on economic growth in Nigeria. The empirical results, based on data from 1970 to 2002, suggest the highest potential for the communications sector, even more so than the oil and energy sectors. Conversely, the manufacturing sector appears to have a negative impact on economic growth in Nigeria.

In the same context, a study conducted by (Pegkas, 2015) covering EU countries from 2002 to 2012 using panel data reveals a long run cointegrating relationship between economic growth and the stock of FDI. Furthermore, the findings indicate that FDI stock significantly affects economic growth in the Eurozone countries. Similarly, Har et al. (2008) examined Malaysia from 1970 to 2005 and found a significant relationship between FDI and economic growth, with direct positive impacts on real gross national income (RGNI) and real gross domestic product (RGDP), showing increases of 0.044877% and 0.046072%, respectively, for every 1% increase in FDI. Further, a study by Mehic et al. (2013), found that FDI had a considerable positive impact on the economic growth of Southeast European transition countries, with results that were consistent even after adjusting for domestic investment levels and potential endogeneity.

The study conducted by Asghar et al. (2011), confirms a positive link between FDI and economic growth from 1983 to 2008, with bidirectional causality in Malaysia and varied unidirectional causality patterns in other Asian countries. In contrast, (Rehman, 2016) findings reveal FDI is driven by economic growth, and alongside human capital and exports, it's crucial for economic growth, although Pakistan's low human capital levels negatively influence this growth. Similarly, Borensztein et al. (1998) study on FDI flows to 69 developing countries shows FDI enhances growth more than domestic

investment, but only if the host country has sufficient human capital to absorb advanced technologies.

On the other hand, (Karimi & Yusop, 2009) study using Toda-Yamamoto and ARDL tests on 1970-2005 Malaysian data, the study finds no significant bidirectional causality between FDI and economic growth, suggesting an indirect impact of FDI on Malaysia's economic development. Additionally, the analysis of 1975 to 1995 cross-country data done by (Alfaro et al., 2004) reveals that FDI's contribution to economic growth is ambiguous on its own, but significantly positive in countries with well-developed financial markets. A study on Morocco covers the period (1976-2016) demonstrates bidirectional causality between GDP, FDI, and human capital, suggesting effective medium-term interaction among these variables (Bakour et al., 2022).

For the case of trade openness and economic growth, contrasting perspectives emerge. While Yanikkaya (2003) observes a significant positive impact of trade barriers on growth, especially in developing countries, Huchet-Bourdon et al. (2018) suggest that openness may negatively influence growth when countries specialize in lower-quality exports, revealing a non-linear relationship between export quality and economic expansion. Furthermore, these studies indicate a threshold effect, where increasing export diversity is linked to heightened growth after reaching a certain level of variety. In contrast, Keho (2017) presents findings from Côte d'Ivoire spanning 1965 to 2014, demonstrating that trade openness has robust positive effects on economic growth, both in the short and long term.

Within the same discourse, (Hye et al., 2016) examines the relationship between trade openness and economic growth in China. The study's empirical findings demonstrate a positive link, with individual trade indicators and a comprehensive trade openness index both yielding favorable effects on economic growth in both the short and long run. This implies that liberal trade policies and practices are generally associated with enhanced economic performance. However, a detailed examination using rolling window analysis reveals instances where trade openness is inversely related to economic growth, indicating that the benefits of trade openness are not consistently realized over time.

In a study on Morocco by (OZTURK & RADOUI, 2020), covering 1960 to 2018, the effects of trade openness on economic growth and development were analyzed using Granger Causality and an ARDL time series model. The research concluded that trade liberalization Granger-causes economic growth, suggesting that liberalization efforts precede economic improvement. However, the ARDL results indicated that trade openness has a statistically significant but very small effect on economic growth in both the short and long term. Furthermore, the influence of trade liberalization on overall economic development was not statistically significant, implying inconsistent effects over time. This contribution to the literature offers valuable insights into the specific impact of trade policies in Morocco.

Zarria (2021) challenges the standard economic growth model by incorporating factors from the external sector, specifically examining Morocco's trade openness and FDI flows and their combined effect on economic growth. The study, using data from 1970 to 2005, reveals that while FDI and trade openness individually have an insignificant impact on Morocco's economic growth, their interactive effect is statistically significant and positive. This indicates that FDI, when coupled with trade liberalization, can be a strong driver of economic growth in Morocco.

In conclusion, the study's ARDL analysis substantiates a modified version of the growth hypothesis for Morocco, recognizing the long-term positive influence of FDI on economic growth, yet acknowledges the neutrality hypothesis in the short-term dynamics of the economic variables. The only causality detected is the self-predictive nature of GDP growth, which suggests an intrinsic momentum within Morocco's economy, rather than an immediate and direct response to FDI and trade openness. These insights call for a strategic policy focus on long-term economic planning, emphasizing the development of robust domestic economic foundations while still encouraging FDI as a complementary factor for sustained growth and considering the nuanced role of trade openness in the broader economic equation.

2. RESEARCH METHODOLOGY

In the Research Methodology section, the research design and various methods, ranging from descriptive statistics to econometric models, are to be thoroughly discussed

and detailed. Each technique will be examined in the context of its application to the study.

2.1. Research design

This thesis investigates the drivers of Morocco's economic growth, concentrating on the contributions of Foreign Direct Investment (FDI) and trade openness. At the heart of this study is the intricate interplay between FDI, economic growth, and trade openness, which necessitates sophisticated econometric techniques in light of the data constraints. Utilizing annual data spanning from 1992 to 2022, this research employs GDP, FDI inflows, trade openness, current account balance, and the growth of imports of goods and services as indicators to proxy for Morocco's economic activity, trade liberalization, and foreign investment. The analysis will encompass all sectors of Morocco's economy, ensuring a holistic view of the country's economic advancement, with GDP serving as the fundamental gauge of economic progress across these sectors.

Table 13. The Indicators

Economic growth	GDP growth (annual %)
Foreign Direct Investment	Foreign direct investment, net inflows (% of GDP)
Trade openness	Trade (% of GDP)
Current account balance	Current account balance (% of GDP)
Imports of goods and services growth	Imports of goods and services (annual % growth)

This research investigates the influence of foreign direct investment (FDI) on Morocco's economic growth over the period from 1992 to 2022 through the application of the Autoregressive Distributed Lag (ARDL) model. The aim is to ascertain the presence of long-term equilibrium among the variables under consideration. Annual data, represented as a percentage of GDP and sourced from the World Bank, serve as the foundation for the analysis. Given the fulfillment of the ARDL model's assumptions by all series, the model is utilized to discern both short-term dynamics and long-term

relationships among the study variables. Additionally, the research will conduct cointegration tests; in the event of cointegration, Toda and Yamamoto causality tests will be applied to determine the causality direction.

2.2. Descriptive Statistics

This analysis employs descriptive statistical methods to summarize core characteristics of the dataset. By providing concise summaries through sample measures, this approach lays the groundwork for virtually all quantitative analyses. The descriptive analysis specifically highlights key metrics such as the mean, minimum, standard deviation, and maximum values within the dataset, offering a foundational understanding of the data's distribution.

2.3. Unit Root Test

This study employs four renowned tests to examine the stationarity of the variables: Augmented Dickey-Fuller (ADF), Phillips-Perron (PP), Kwiatkowski-Phillips-Schmidt-Shin (KPSS), and Ng-Perron.

For both the ADF and PP tests, the null hypothesis contends that the series possesses a unit root, indicating non-stationarity. To establish stationarity at the 5% significance level, we require a p-value below this threshold, translating to a test statistic that exceeds the critical value in absolute terms. Conversely, a higher p-value indicates failure to reject the null hypothesis.

Conversely, the KPSS test inverts this approach. Its null hypothesis assumes stationarity, and a test statistic below the critical value affirms this condition. Exceeding the critical value would lead us to reject the null, suggesting non-stationarity.

The Ng-Perron test comprises four distinct sub-tests: $MZ\alpha$, MZt , MSB , and MPT . Rejecting the null hypothesis of a unit root—hence confirming stationarity—requires the $MZ\alpha$ and MZt statistics to surpass their critical values in absolute terms. For the MSB and MPT , stationarity is indicated by statistics falling below their critical thresholds at the chosen significance level.

2.4. Autoregressive Distributed Lag (ARDL)

This analysis uses the Autoregressive Distributed Lag (ARDL) approach to discover the dynamics between economic indicators. The ARDL model is particularly adept at capturing both short-term fluctuations and long-term relationships between the study variables, even when the underlying datasets are small or have a mix of integrated orders.

The ARDL methodology involves testing the bounds for cointegration among the variables, which is predicated on the F-statistic. Under this framework, the null hypothesis proposes no cointegration, which would mean that the variables do not share a long-term equilibrium relationship. To reject this null hypothesis, the computed F-statistic must exceed a certain critical value threshold. If the F-statistic falls below this threshold, the null hypothesis cannot be rejected, suggesting that the variables do not cointegrate.

Once cointegration is established, the ARDL model provides estimates for both short-term and long-term coefficients, offering insights into the immediate and enduring impacts of changes in the independent variables on the dependent variable. The Error Correction Model (ECM), derived from the ARDL framework, further elucidates the speed at which the dependent variable adjusts to changes towards long-term equilibrium.

2.5. Residual Diagnostic Tests

This analysis includes diagnostic tests to assess the assumptions underlying the econometric model. Specifically, the study employs tests for normality, heteroskedasticity, and serial correlation, which are critical for the validity of the model's inferences.

2.5.1. Normality Test

Using the Jarque-Bera statistic, the test for normality examines whether the residuals of the regression are normally distributed; this is the typical approach. The null hypothesis posits that the residuals follow a normal distribution. If the Jarque-Bera statistic is significant, typically at the 5% level, it would lead to the rejection of the null hypothesis, indicating non-normality in the residuals.

2.5.2. Serial Correlation Test

Serial correlation is tested using the Durbin-Watson statistic or the Breusch-Godfrey test, where the null hypothesis posits the absence of serial correlation — an optimal outcome for our model. If the test statistic falls outside the critical range, or if the p-value is less than the tested significance level, the null hypothesis is rejected, suggesting that the residuals are correlated over time.

2.5.3. Heteroskedasticity Test

Heteroskedasticity assesses the constancy of variance among the residuals; for this purpose, the Breusch-Pagan or White test is commonly utilized. The null hypothesis of these tests suggests homoskedastic residuals, which means the variance does not change with the level of an independent variable. A p-value less than the chosen significance level, typically 5%, would reject this hypothesis, signaling the presence of a heteroskedasticity problem.

2.6. Stability Diagnostic Tests

Within this section, three Stability diagnostic tests will be presented: Ramsey RESET, CUSUM test, and CUSUM of squares.

2.6.1. Ramsey RESET Test

The Ramsey RESET test checks for model misspecification by investigating the presence of omitted variables or incorrect functional forms. The null hypothesis assumes the model has no omitted variables and is correctly specified. A p-value, typically less than the 5% significant level, would invalidate the null hypothesis, indicating potential misspecification; otherwise, the null hypothesis holds.

2.6.2. CUSUM Test

The CUSUM test assesses the stability of the regression coefficients over time. The null hypothesis is that coefficients are stable over the sample period. If the CUSUM statistic falls within the critical bounds, the model is considered stable; otherwise, if it crosses the bounds, instability is suggested.

2.6.3. CUSUM of Squares Test

The CUSUM of squares test evaluates the stability of the variance of the regression residuals. The null hypothesis of stability, the test statistic should remain within the critical bounds. Breaching these bounds would imply that there is structural instability in the variance of the residuals.

3. EMPIRICAL RESULTS

In this section, the empirical results will be presented, focusing on the five variables under study: GDP growth (as the dependent variable), FDI, trade openness, current account balance, and import growth. The analysis will be based on data from 1992 to 2022, sourced secondarily from the World Bank database.

3.1. Descriptive Statistics

Table 14 outlines the descriptive statistical measures, detailing the mean, minimum, standard deviation, and maximum values observed in the dataset.

Table 14. Descriptive statistics table

	GDP growth (annual %)	Current account balance (% of GDP)	Imports of goods and services (annual % growth)	Foreign direct investment, net inflows (% of GDP)	Trade (% of GDP)
Mean	3,463031799	-1,986829357	5,572054164	2,129118985	63,77194168
Median	3,499557102	-1,956907807	7,142835611	1,930005409	64,67219778
Maximum	12,37287628	3,675583317	17,67578043	6,444129284	98,64838214
Minimum	-7,187079577	-8,950346537	-11,88731259	0,663931259	45,67235959
Std. dev.	4,116164773	3,090189497	6,892863688	1,168532627	12,92307821
skewness	-0,464019848	-0,159848324	-0,729310511	1,733367716	0,451342278
kurtois	1,12072655	-0,285253886	0,446594425	4,972504182	-0,142416521
jerque-bera	2,734827331	0,237118647	3,00573658	47,46106768	1,078699087
Prob	0,254765016	0,888199123	0,222491075	4,94265E-11	0,583127428
sum sq. dev.	508,2843731	286,4781338	1425,347094	40,96405504	5010,178516

Table 14 provides a visual depiction of the variables under investigation, displaying their means, maximum and minimum values, distribution measures, and shape. The dependent variable in our model, GDP, has a mean of 3.46%, closely aligned with its median of 3.49%. The kurtosis is 1.12, indicating a platykurtic distribution, which typically suggests thinner tails compared to a normal distribution. Despite this, normality is maintained as confirmed by the Jarque-Bera test, with a p-value of 0.25.

3.2. Unit Root Test

The summary for the unit root tests, including the Augmented Dickey-Fuller (ADF), Phillips-Perron (PP), Kwiatkowski-Phillips-Schmidt-Shin (KPSS), and Ng-Perron, indicates that all series are stationary at level $I(0)$, except for Trade and Current Account, which are stationary at first difference $I(1)$. Detailed test statistics and critical values can be found in the table below (Table 15)

Table 15. Unit Root test

Variables	ADF	PP	KPSS	NG perron test				Remark
				MZa	MZt	MSB	MPT	
GDP growth	-10.31781 ^{a(0)} (-2.963972)	-9.993893 ^{a(0)} (-2.963972)	0.190845 ^{a(0)} (0.463000)	-0.19671 ^{a(0)} (-8.10000)	-0.30856 ^{a(0)} (-1.98000)	1.56861 ^{a(0)} (0.23300)	120.782 ^{a(0)} (3.17000)	I (0)
Trade (%GDP)	-4.254022 ^{a(1)} (-2.971853)	-3.397805 ^{a(1)} (-2.967767)	0.375176 ^{a(1)} (0.463000)	-41.2079 ^{a(1)} (-8.10000)	-4.16459 ^{a(1)} (-1.98000)	0.10106 ^{a(1)} (0.23300)	1.57116 ^{a(1)} (3.17000)	I (1)
FDI net (%GDP)	-6.246840 ^{a(0)} (-2.963972)	-6.233129 ^{a(0)} (-2.963972)	0.219088 ^{a(0)} (0.463000)	-6.68835 ^{a(0)} (-8.10000)	-1.82678 ^{a(0)} (-1.98000)	0.27313 ^{a(0)} (0.23300)	3.66964 ^{a(0)} (3.17000)	I (0)
Import growth	-5.389688 ^{a(0)} (-2.963972)	-5.380093 ^{a(0)} (-2.963972)	0.095029 ^{a(0)} (0.463000)	-14.8663 ^{a(0)} (-8.10000)	-2.64070 ^{a(0)} (-1.98000)	0.17763 ^{a(0)} (0.23300)	1.96515 ^{a(0)} (3.17000)	I (0)
Current account	-5.314709 ^{a(1)} (-3.679322)	-5.317524 ^{a(1)} (-3.679322)	0.297992 ^{a(0)} (0.463000)	-14.4930 ^{a(1)} (-8.10000)	-2.68044 ^{a(1)} (-1.98000)	0.18495 ^{a(1)} (0.23300)	1.73371 ^{a(1)} (3.17000)	I (1)

Note: *:5%, a: Intercept, (0): stationary at level, (1): stationary at first difference, Augmented Dickey-Fuller (ADF), Phillips-Perron (PP), Kwiatkowski-Phillips-Schmidt-Shin (KPSS), and Ng-Perron

3.3. ARDL

The table below (Table 16) summarizes the ARDL model output, which assesses the short-term dynamics of various economic variables in relation to GDP. Significantly, the lagged GDP variables (GDP (-1), GDP(-3), and GDP(-4)) are notable, suggesting that historical GDP values exert a predictive effect on current GDP. Their negative coefficients might indicate a self-correcting mechanism within the economic system. The Current Account variable yields mixed outcomes; notably, the fourth lag is significant and positive, hinting at a lagged impact on GDP. Foreign Direct Investment (FDI) demonstrates a consistently positive influence, with both present and lagged FDI being significant, denoting a positive contribution to current economic output. The effects of Trade Openness and Import Growth on GDP are less consistent, with some lags significant and others not, indicating complex interplays with GDP. The constant term (C) is also significant, possibly reflecting the average rate of growth unaccounted for by the model. Collectively, these results point to a multifaceted nexus of relationships among the studied variables, encompassing both immediate and delayed effects on economic activity.

Table 16. ARDL

Variable	Coefficient	Std. Error	t-Statistic	Prob.
GDP (-1)	-0.694108	0.210173	-3.302558	0.0164
GDP (-2)	-0.505428	0.314495	-1.607108	0.1592
GDP (-3)	-0.897099	0.417405	-2.149230	0.0752
GDP (-4)	-0.856473	0.259256	-3.303573	0.0163
CURRENTACCOUNT	-0.337117	0.544245	-0.619421	0.5584
CURRENTACCOUNT (-1)	-1.224785	0.647299	-1.892148	0.1073
CURRENTACCOUNT (-2)	-1.078737	0.520086	2.074151	0.0834
CURRENTACCOUNT (-3)	-0.205029	0.505619	-0.405500	0.6992
CURRENTACCOUNT (-4)	1.264381	0.460924	2.743146	0.0336
FDI	1.892636	0.849838	2.227055	0.0675
FDI (-1)	2.891392	0.715502	4.041067	0.0068
TRADEOPENNESS	-0.250635	0.184781	-1.356392	0.2238
TRADEOPENNESS (-1)	-0.082410	0.338673	-0.243332	0.8159
TRADEOPENNESS (-2)	-0.373899	0.322522	-1.159296	0.2904
TRADEOPENNESS (-3)	0.640113	0.236273	2.709208	0.0351
IMPORTGROWTH	0.263005	0.244144	1.077252	0.3228
IMPORTGROWTH (-1)	-0.064458	0.202003	-0.319097	0.7605
IMPORTGROWTH (-2)	0.212838	0.175824	1.210519	0.2716
IMPORTGROWTH (-3)	-0.316196	0.154466	-2.047026	0.0866
IMPORTGROWTH (-4)	-0.100779	0.125087	-0.805673	0.4512
C	10.91498	5.079753	2.148723	0.0752

Table 17. Model statistics

R-squared	0.940523
Adjusted R-squared	0.742264
S.E. of regression	1.795934
Sum squared resid	19.35228
Log likelihood	-33.81548
F-statistic	4.743929
Prob(F-statistic)	0.030863

The reported model statistics in Table 17 suggest a strong fit, as indicated by an R-squared of 0.940523, meaning approximately 94.05% of the variance in the dependent variable (GDP growth) is explained by the model. However, the Adjusted R-squared is significantly lower at 0.742264, which adjusts for the number of predictors in the model and implies that when the number of variables is taken into account, the explanatory power is reduced. The F-statistic of 4.743929, with a probability of 0.030863, indicates that the model is statistically significant at the 5% level. This means that there is only a 3.0863% chance that the observed results are due to chance, supporting the hypothesis that the independent variables, collectively, have a significant predictive power on the dependent variable.

3.4. Cointegration Test: THE BOUND TEST

Table 18. Bound test

F-statistic	4.999774	
Significance	I(0)	I(1)
10%	2.45	3.52
5%	2.86	4.01
2.5%	3.25	4.49
1%	3.74	5.06

In Table 18, the Bound Test for cointegration shows an F-statistic value of 4.99, which significantly surpasses the critical value of 4.01 at the 5% significance level. This strongly suggests cointegration among the variables in the model, indicating a long-run relationship between them. Such findings affirm the presence of a stable equilibrium relationship, vital for ensuring the credibility of long-term economic forecasts and the policy implications derived from the model.

3.5. Long-run coefficients

Table 19. Long-run coefficients

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CURRENTACCOUNT	0.145756	0.089230	1.633475	0.1535
FDI	1.210194	0.295819	4.090994	0.0064
TRADEOPENNESS	-0.016906	0.023643	-0.715049	0.5014
IMPORTGROWTH	-0.001414	0.114249	-0.012380	0.9905

The long-run coefficients presented in Table 19 indicate the extent to which the independent variables are expected to affect the dependent variable over time. For the Current Account, a positive coefficient suggests a potential long-term beneficial influence, but with a p-value of 0.1535, this effect is not statistically significant. In contrast, FDI exhibits a substantial and statistically significant positive long-run impact on the dependent variable, with a coefficient of 1.210194 and a p-value of 0.0064, highlighting its importance in the model. Trade Openness displays a negative relationship; however, the high p-value suggests that its long-term impact may not be significant. Similarly, Import Growth shows a negative coefficient, but given its high p-value, the result does not significantly deviate from zero, indicating a negligible long-term effect.

3.6. Short run coefficients

Table 20. Short run coefficient

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	10.91498	1.839465	5.933780	0.0010
GDP(-1)	2.259000	0.558835	4.042335	0.0068
GDP(-2)	1.753572	0.395734	4.431187	0.0044
GDP(-3)	0.856473	0.175295	4.885896	0.0027
CURRENTACCOUNT	-0.337117	0.319687	-1.054520	0.3322
CURRENTACCOUNT(-1)	-2.138089	0.346631	-6.168203	0.0008
CURRENTACCOUNT(-2)	-1.059352	0.318680	-3.324188	0.0159
CURRENTACCOUNT(-3)	-1.264381	0.295147	-4.283902	0.0052
FDI	1.892636	0.513332	3.686964	0.0102
TRADEOPENNESS	-0.250635	0.107359	-2.334548	0.0583
TRADEOPENNESS(-1)	-0.266214	0.192324	-1.384195	0.2156
TRADEOPENNESS(-2)	-0.640113	0.148368	-4.314347	0.0050
IMPORTGROWTH	0.262005	0.104790	2.509829	0.0459
IMPORTGROWTH(-1)	0.204138	0.128672	1.586502	0.1637
IMPORTGROWTH(-2)	0.416976	0.099391	4.195301	0.0057
IMPORTGROWTH(-3)	0.100779	0.059816	1.684814	0.1450
CoIntEq(1)	-3.953108	0.612427	-6.454826	0.0007

In Table 20, the short-run coefficients reveal several key relationships. The constant term is significantly positive, which might represent the model's intercept or the average short-run effect on GDP when all other variables are held at zero. Notably, the GDP coefficients for previous periods are all positive and statistically significant, suggesting that past GDP values have a consistent and immediate influence on current GDP levels.

The Current Account variable and its lags show a mix of effects; the immediate term is not significant, but lagged terms, particularly the first and second lags, exhibit a significant negative impact, which may reflect short-term adjustments in response to external balance changes.

Foreign Direct Investment (FDI) has a robust positive effect, indicating that FDI inflows are beneficial in the short run. On the other hand, Trade Openness appears to have a negative impact in the immediate term, with some of its lags also showing a significant negative relationship, which may indicate short-term adjustment costs or the displacement of local production.

The Import Growth variable shows a positive relationship, implying that in the short run, an increase in import growth is associated with GDP growth. This might reflect the immediate benefits of importing capital goods, technology, or intermediate goods that contribute to economic activity.

3.7. Residual Diagnostic Tests

Within this section, three residual diagnostic tests will be conducted: normality, serial correlation, and heteroskedasticity.

3.7.1. Normality Test

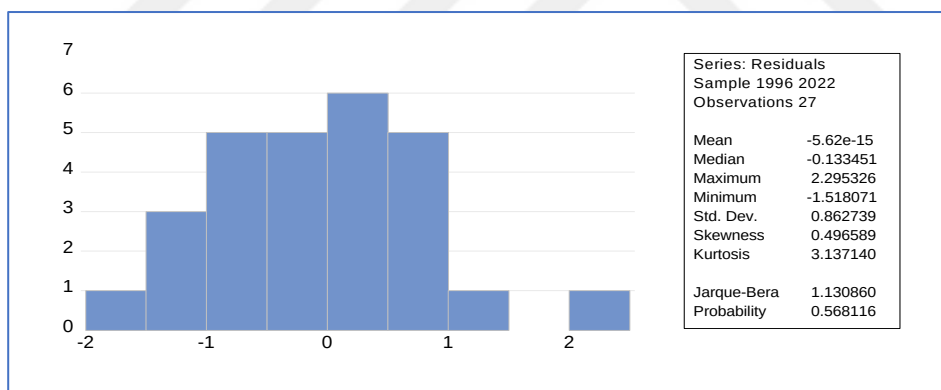


Figure 22. Normality Test

The Jarque-Bera test probability of 0.56 supports the failure to reject the null hypothesis, which posits that the series is normally distributed.

3.7.2. Serial Correlation Test

Table 21. Serial Correlation LM Test

F-statistic	Prob.
4.815275	0.0861

The Breusch-Godfrey Serial Correlation LM Test indicates an F-statistic of 4.815275 with a p-value of 0.0861. Since the p-value exceeds the typical significance threshold of 0.05, the null hypothesis of no serial correlation cannot be rejected at the 5% level.

3.7.3. Heteroskedasticity Test

Table 22. Heteroskedasticity Test (Breusch-Pagan-Godfrey)

F-statistic	Prob.
0.414144	0.9359

The Breusch-Pagan-Godfrey Test indicates an F-statistic of 0.414144 with a p-value of 0.9359, suggesting that we cannot reject the null hypothesis of homoskedasticity in the residuals of the regression model.

3.8. Stability Diagnostic Test

Within this section, three Stability diagnostic tests will be conducted: Ramsey RESET, CUSUM test, and CUSUM of squares.

3.8.1. Ramsey RESET Test

Table 23. Ramsey RESET Test

	Value	df	Probability
t-statistic	1.753619	5	0.1399
F-statistic	3.075179	(1, 5)	0.1399

The Ramsey RESET Test results, with an F-statistic of 3.075179 and a p-value of 0.1399, indicate no significant evidence of model misspecification. The test fails to reject the null hypothesis, suggesting the model's functional form may be correctly specified without omitted variable bias.

3.8.2. CUSUM Test

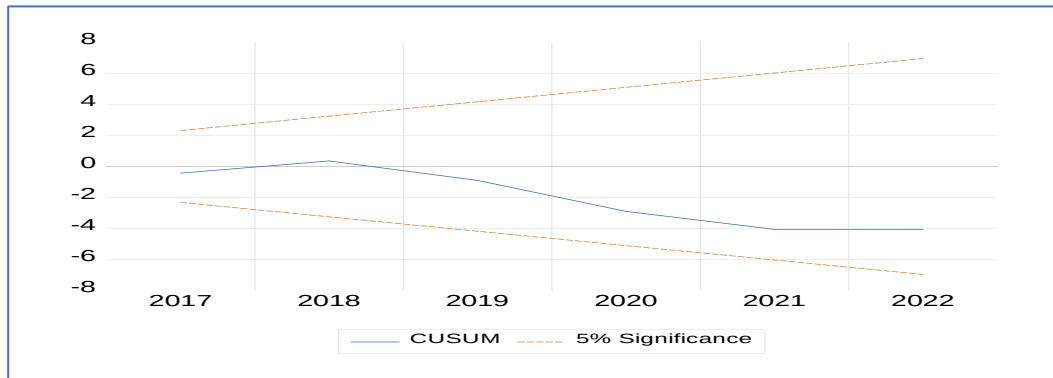


Figure 23. CUSUM Test

The CUSUM plot displayed indicates that the cumulative sum of recursive residuals is within the 5% significance bounds over the period from 2017 to 2022. This suggests that the parameters of the regression model are stable, and there is no statistical evidence of structural breaks within this time frame. The stability of the model coefficients is a positive indication for the reliability of the model's forecasts.

3.8.3. CUSUM of Squares Test

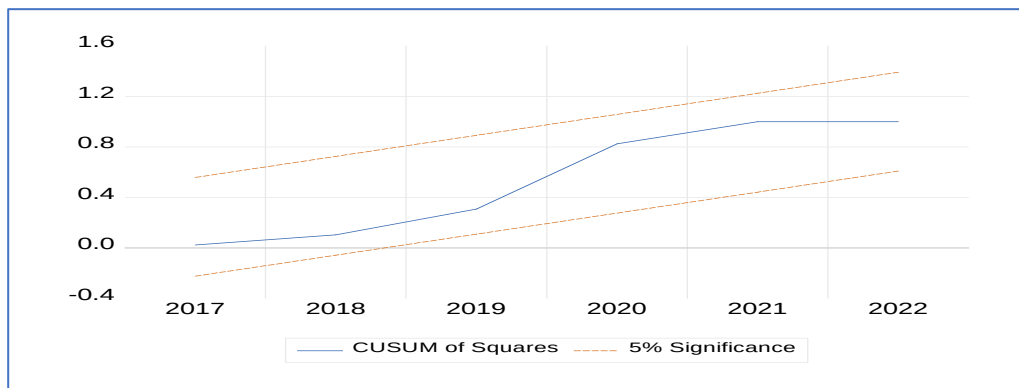


Figure 24. CUSUM of Squares Test

The CUSUM of Squares chart provided suggests that the squared cumulative sum of recursive residuals is trending upwards and remains within the 5% significance bounds throughout the period from 2017 to 2022. This indicates that there is no statistical evidence of variance instability in the regression model over these years, affirming the homoscedasticity of the residuals. Such stability in variance is essential for the reliability

of the model's assumptions and the validity of inference based on the estimated parameters.

3.9. Toda-Yamamoto causality test

Toda and Yamamoto proposed a straightforward method in 1995 that allows for the examination of Granger non-causality within VAR models using raw data levels, regardless of the integration status or cointegration presence among the variables (Karimi & Yusop, 2009).

The selected method investigates potential causative interactions among our variables. For the Toda-Yamamoto test, the null hypothesis contends there is no causality flowing in the specified direction, indicated by a non-significant deviation of the variable from zero. The alternative hypothesis, on the contrary, posits a significant causal influence.

To test for causality among the variables, it is essential to use the following system of equations where each variable is expressed as a function of its own past values and the past values of other variables in the model. For instance:

GDP growth is a function of its own past three values and the past three values of FDI, trade openness, import growth, and current account balance as expressed in the equation below.

GDP growth = C(1)*GDP growth (-1)+ C(2)*GDP growth (-2)+ C(3)* GDP growth (-3)+ C(4)* FDI (-1)+ C(5)* FDI (-2)+ C(6)* FDI (-3)+ C(7)* Trade openness (-1)+ C(8)* Trade openness (-2)+ C(9)* Trade openness (-3)+ C(10)* Import growth (-1)+ C(11)* Import growth (-2)+ C(11)* Import growth (-3)+ C(13)* current account (-1)+ C(14)* current account (-2)+ C(15)* current account (-3)+ C(16).

FDI is similarly a function of its own past three values and the past three values of GDP growth, trade openness, import growth, and current account balance as expressed in the equation below.

FDI = C(17)*GDP growth (-1)+ C(18)*GDP growth (-2)+ C(19)* GDP growth (-3)+ C(20)* FDI (-1)+ C(21)* FDI (-2)+ C(22)* FDI (-3)+ C(23)* Trade openness (-1)+ C(24)* Trade openness (-2)+ C(25)* Trade openness (-3)+ C(26)* Import growth (-1)+ C(27)* Import growth (-2)+ C(28)* Import growth (-3)+ C(29)* current account (-1)+ C(30)* current account (-2)+ C(31)* current account (-3)+ C(32)

The same structure applies to trade openness, import growth, and current account balance, each with coefficients representing the strength and direction of the relationships. Their equations are detailed below.

Trade openness = $C(33)*\text{GDP growth } (-1) + C(34)*\text{GDP growth } (-2) + C(35)*\text{GDP growth } (-3) + C(36)*\text{FDI } (-1) + C(37)*\text{FDI } (-2) + C(38)*\text{FDI } (-3) + C(39)*\text{Trade openness } (-1) + C(40)*\text{Trade openness } (-2) + C(41)*\text{Trade openness } (-3) + C(42)*\text{Import growth } (-1) + C(43)*\text{Import growth } (-2) + C(44)*\text{Import growth } (-3) + C(45)*\text{current account } (-1) + C(46)*\text{current account } (-2) + C(47)*\text{current account } (-3) + C(48)$

Import growth = $C(49)*\text{GDP growth } (-1) + C(50)*\text{GDP growth } (-2) + C(51)*\text{GDP growth } (-3) + C(52)*\text{FDI } (-1) + C(53)*\text{FDI } (-2) + C(54)*\text{FDI } (-3) + C(55)*\text{Trade openness } (-1) + C(56)*\text{Trade openness } (-2) + C(57)*\text{Trade openness } (-3) + C(58)*\text{Import growth } (-1) + C(59)*\text{Import growth } (-2) + C(60)*\text{Import growth } (-3) + C(61)*\text{current account } (-1) + C(62)*\text{current account } (-2) + C(63)*\text{current account } (-3) + C(64)$

Current Account Balance = $C(65)*\text{GDP growth } (-1) + C(66)*\text{GDP growth } (-2) + C(67)*\text{GDP growth } (-3) + C(68)*\text{FDI } (-1) + C(69)*\text{FDI } (-2) + C(70)*\text{FDI } (-3) + C(71)*\text{Trade openness } (-1) + C(72)*\text{Trade openness } (-2) + C(73)*\text{Trade openness } (-3) + C(74)*\text{Import growth } (-1) + C(75)*\text{Import growth } (-2) + C(76)*\text{Import growth } (-3) + C(77)*\text{current account } (-1) + C(78)*\text{current account } (-2) + C(79)*\text{current account } (-3) + C(80)$

When applying the Toda-Yamamoto method to test for causality from FDI to GDP growth, for example, it is hypothesized that the coefficients of the lagged FDI values in the GDP growth equation are all zero that is, $c(4)=c(5)=c(6)=0$. If these coefficients are jointly statistically significant, the null hypothesis is rejected, concluding that FDI Granger-causes GDP growth. This approach, using the Wald test, allows us to systematically explore the causal effects among our economic variables.

3.9.1. Causality Test Tables

Table 24. GDP growth

From	To	Chi-square	P-value
GDP growth	GDP growth	17.68563	0.0005
FDI	GDP growth	5.317324	0.1500
Trade openness	GDP growth	0.971948	0.8080
Import growth	GDP growth	0.618863	0.8921
Current account	GDP growth	3.176943	0.3651

Table 25. FDI

From	To	Chi-square	P-value
GDP growth	FDI	3.340820	0.3420
FDI	FDI	2.808597	0.4221
Trade openness	FDI	5.451945	0.1415
Import growth	FDI	4.412139	0.2203
Current account	FDI	0.605432	0.8952

Table 26. Trade openness

From	To	Chi-square	P-value
GDP growth	Trade openness	3.868363	0.2760
FDI	Trade openness	0.096969	0.9922
Trade openness	Trade openness	1.160036	0.7626
Import growth	Trade openness	0.632383	0.8890
Current account	Trade openness	0.016569	0.9994

Table 27. Import growth

From	To	Chi-square	P-value
GDP growth	Import growth	1.960953	0.5806
FDI	Import growth	0.921322	0.8203
Trade openness	Import growth	1.005822	0.7998
Import growth	Import growth	1.010802	0.7986
Current account	Import growth	2.009219	0.5705

Table 28. Current account balance

From	To	Chi-square	P-value
GDP growth	Current account	2.304668	0.5116
FDI	Current account	1.052737	0.7885
Trade openness	Current account	1.813239	0.6121
Import growth	Current account	1.286046	0.7324
Current account	Current account	0.903577	0.8246

From the results in Table 24, 25, 26, 27, and 28, we can infer that there is no evidence of Granger causality between the variables tested, except for the self-predictive power of GDP growth. This could mean that the variables operate independently of one another in terms of the time series dynamics captured by this test, or that the predictive relationship, if any, does not manifest in a way that is detectable by Granger causality within the tested lags. It's also possible that any potential causality is non-linear or affected by external factors not included in the model. Moreover, these results are based on the specific lags and transformations used in the model; different specifications might yield different results.



CONCLUSION

The main goal of this study is to explore how Foreign Direct Investment (FDI), trade openness, and economic growth are connected in Morocco for the years between 1992 and 2022. The study aims to understand the nature of these relationships, see how much economic growth relies on these factors, and figure out the cause-and-effect links between them.

The research found a complicated set of relationships. While trade openness is often seen as a boost for economic growth, in Morocco's case, it seems to have a negative effect in the long term. However, this finding isn't very strong statistically, suggesting that the negative impact of trade openness might not be as significant as it appears.

In contrast, FDI shows a strong and positive influence on Morocco's economic growth. The data reveals that a small increase in FDI leads to a significant rise in economic growth, both in the short and long term. For example, a 1% increase in FDI is linked to a 1.89% increase in growth shortly afterward and a 1.21% rise in the long run. This highlights FDI's crucial role in driving Morocco's economy forward.

The study also looks at the mixed effects of the current account balance and the growth of imports. The current account balance seems to help economic growth in the long run, but this effect isn't clear in the short run. Import growth has a positive impact in the short run, possibly due to the benefits of bringing in advanced machinery and technology. However, this positive impact doesn't last in the long run and isn't strong statistically.

The consistently negative yet statistically insignificant impact of trade openness on economic growth suggests that Morocco needs to be careful with its trade policies. The clear positive influence of FDI, however, means that policies should focus on increasing FDI because it has a significant and beneficial impact on the economy.

The study suggests that Morocco should focus on attracting and making the most of FDI while also being careful with how it opens its trade. The study provides guidance for economic policy and reform, indicating that FDI is key for Morocco's economic

growth and that a balanced approach to trade and other economic factors is essential for sustainable development.

The results of this study align with several empirical research findings on the effects of Foreign Direct Investment (FDI) and trade openness on economic growth. Notably, Ayanwale (2007) discovered that FDI positively influences economic growth, particularly when FDI interacts with other factors. This is in line with Pegkas (2015) and Har et al. (2008), who found a long-term cointegrating relationship between economic growth and FDI, with Har et al. (2008) specifically noting direct positive impacts on real gross national income (RGNI) and real gross domestic product (RGDP).

Asghar et al. (2011) also confirmed a positive connection between FDI and economic growth. Supporting this, (Bakour et al., 2022) identified a bidirectional causality between GDP and FDI, suggesting a dynamic interaction where each influences the other. Additionally, Zekarias (2016) investigated the influence of FDI on the economic development of 14 countries in Eastern Africa. This analysis spanned over three decades, from 1980 to 2013, and utilized panel data. The motivation for attracting FDI in these developing nations stemmed from the desire to bridge gaps in resources and technology, reduce unemployment, and mitigate trade deficits. In the same context, Yucel (2014) discovered that FDI exerts a positive impact on the economic growth of the Baltic nations.

Elboiashi (2015) provides evidence that Foreign Direct Investment (FDI) generally acts as a stimulant for economic growth. The impact of FDI, however, is not uniform and depends on the specific conditions within the host country. These conditions are crucial for fostering both economic growth and sustainable development. The study indicates that factors such as strong domestic investment, high-quality human capital, modern infrastructure, developed financial markets, openness to trade, and institutional integrity positively correlate with economic growth. Conversely, the study also reveals that a widening technology gap is negatively associated with economic growth, suggesting that a significant technological disparity can hinder economic progress.

In contrast, Alvarado et al. (2017) investigated the relationship between foreign direct investment (FDI) and economic growth across nineteen Latin American nations. Through the application of panel data, the study revealed that FDI's influence on

economic growth doesn't hold statistical significance when considered in aggregate terms. However, this outcome changes when taking into account the varying levels of development among these countries. In nations with high income, FDI is shown to have a positive and noteworthy impact on the economy aligning with our result. Conversely, in upper-middle-income nations, FDI's effect is inconsistent and not significant. In lower-middle-income countries, the impact is negatively significant. The findings suggest that FDI, with the exception of its role in high-income countries, is not a reliable tool for expediting economic growth in Latin America.

Additionally, Mehrara & Musai (2015) conducted an analysis on the cause-and-effect dynamics between Foreign Direct Investment (FDI) and GDP within countries of the Middle East and North Africa (MENA) region, utilizing panel unit root tests and panel cointegration techniques over the period from 1970 to 2010. The findings indicate a pronounced causative influence of economic expansion on FDI within these nations. However, the impact of FDI on GDP is negligible, neither in the short term nor in the long term, offering no growth advantage to the host country. This suggests that it is the GDP growth that propels FDI in the countries under consideration, rather than the other way around. The results imply that policymakers should implement strategies to leverage FDI more effectively to foster greater economic growth, which could include enhancements to the financial systems, financial market oversight, infrastructure, skill development, macroeconomic stability, and institutional robustness.

In terms of trade openness, the study's findings resonate with those of Yanikkaya (2003), who observed that trade barriers positively affect economic growth, implying that trade openness might have the opposite impact. This is echoed by Huchet-Bourdon et al. (2018), who proposed that trade openness could negatively affect growth, particularly when a country specializes in exporting low-quality products. Additionally, Jawaid (2014) found that both the total trade volume and the volume of imports have a significant negative impact on economic growth in Pakistan.

In contrast, Karras, (2003) explores the topic by analyzing two datasets: the first comprises 56 countries spanning from 1951 to 1998, and the second includes 105 countries between 1960 and 1997. The findings indicate that the impact of trade openness

on economic growth is positive, enduring, statistically meaningful, and substantial in economic terms.

Additionally, Raghutla (2020) discovered through empirical analysis that there is a sustained correlation between trade openness, economic growth, financial development, inflation, labor force, and technology. Furthermore, the long-term elasticity results demonstrate that trade openness significantly and positively affects economic growth.

These comparisons highlight a broader consensus within the academic community regarding the complex and varied impacts of FDI and trade openness on economic growth. This study contributes to this ongoing discourse, providing specific insights into the Moroccan economic context and reinforcing the nuanced nature of these economic relationships.

Based on these findings, the study concludes with a recommendation for Morocco to actively pursue higher-quality Foreign Direct Investment (FDI), which has shown a clearly positive effect on stimulating the economy. While the impacts of other variables such as trade openness are complex and less definitive, it is crucial for Morocco to focus on attracting and maximizing FDI, given its proven benefits. This should be done with careful consideration and caution towards its trade policies.

Additionally, due to the ambiguous and intricate nature of the relationships between other economic variables and growth, further research is encouraged. Deeper investigation would provide more clarity and aid in the formulation of more effective and targeted economic policies. Such research is essential to ensure that policy decisions are well-informed and tailored to advance Morocco's economic objectives effectively.

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