



The impact of foreign direct investment on GDP and inflation in the Iraqi economy: a comparison with selected countries in the Middle East

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ABSTRACT:

Interest in foreign direct investment started recently from developed and developing countries alike, and economists became more interested in it and published many studies. This study examines the relationship between foreign direct investment, GDP and inflation, as determining factors for attracting this investment to the Middle East in general and to Iraq in particular.

The data source is the World Bank's World Development Indicators, last updated: 01/07/2020, and the United Nations Conference on Trade and Development, last updated: 07/01/2020. The study covers the years from 1960-2019.

The VAR plate test, the Fisher unit root test, and the enhanced Dickey-Fuller tests were used to analyze the study data. Also, use Granger's causal test father, the series has been stable. The results of the tests were not strong, as the effect of foreign direct investment was absent or weak on GDP, inflation.

The null hypothesis H_0 is rejected, as the probability value is zero in more than one condition. Concerning the causality test, the results showed that there was no effect or relationship between foreign direct investment and GDP, and the relationship between foreign direct investment and inflation was causal in one direction, from inflation to foreign direct investment.

Finally, it can be seen that the results were in most cases inconsistent with the previous literature, as the results of this literature concluded that foreign direct investment positively affects GDP, economic growth, and negatively affects inflation.

KeyWords: - Foreign Direct Investment (FDI), Multinational Corporations (MNC's), Gross domestic product (GDP), Inflation.

INTRODUCTION:

The main objective of the research is to demonstrate the extent of the impact of foreign direct investment on macroeconomic variables [gross domestic product, inflation rate (consumer price index)] in Iraq and some countries in the Middle East region.

Choose annual data for the period 1960-2019. The plate data analysis method was used. The main variable is foreign direct investment and the dependent variables [GDP, inflation]. Through this research, we obtained forecasts of changes in macroeconomic variables [foreign direct investment, GDP, inflation rate], to clarify the positive or negative impact or the absence of an effect between these variables first. The countries of the Middle East suffer from many political, economic and social problems, and their performance is weak compared to other countries in the world, as many of these investment flows are concentrated in a few of them, and most of them are directed towards oil sector operations. As for the rest of the sectors, the percentage of this investment is modest, as is the case in the tourism, communications and agriculture sectors, where its size is still disappointing and does not correspond to its size in the rest of the world.

The research is concerned with clarifying the impact of this investment by multinational companies on the development and improvement of sustainable economic growth and the economic environment in Iraq and many countries in the Middle East region. Foreign investment has a significant impact on GDP, as increased investment leads to a surplus in production. It also



contributes to reducing inflation through various means, including the transfer of capital, technology, and knowledge; the application of advanced scientific methods; the training of administrative and technical personnel; the transfer and development of expertise; job creation; and the reduction of unemployment in the host country. It is considered important for the Iraqi economy in general. The strength of this investment depends on the volume and speed of the flow and its contribution to adding new production capacities, increasing GDP, finding similar products, and importing alternatives at lower prices and higher quality.

This research encountered some limitations, as outlined below.

The limitations lie in the selection of research variables, as the impact of foreign direct investment is not limited to a country's GDP or inflation, but extends to other variables. Furthermore, choosing countries with different economic, political, and social conditions complicates comparisons due to these differences. The research period extends from 1960 to 2019, which presents another obstacle to obtaining accurate economic data for a large number of selected countries, as most of them received this investment in the last few years, so the opportunity for comparison was difficult and may lead to misinterpretation of the results.

The research was divided into four Chapter: The first Chapter deals with the methodology and a number of previous studies, the second Chapter explains the theoretical aspect, the third Chapter deals with the practical aspect, and the fourth Chapter presents the conclusions and recommendations.

The research focused on assessing the impact of foreign direct investment on macroeconomic variables in the Middle East region in general, and the Iraqi economy in particular, and measuring and analyzing the positive and negative impact, or lack of impact, of foreign direct investment on these variables. Focus on developing, encouraging and attracting foreign direct investment, given its impact on increasing GDP and reducing inflation rates in the region and Iraq.

Chapter One

Research Methodology and Literature Review

1. Research methodology

1.1 The Problem Statement

- A. The dynamic environment in which we live has imposed many problems, conflicts, and competition, leading to the need for openness to the macroeconomics.
- B. The main tasks of foreign direct investment (FDI) are to create an appropriate working environment and to remove obstacles to efficient cooperation between countries to achieve macroeconomic goals.
- C. This reality has stimulated research and development in Iraq to detect the impact of (FDI) on macroeconomic liberalization, openness, exchange of ideas, knowledge, and contributions from the mother country to benefit from them in Iraq. (World Bank, International Finance Corporation, 2013)
- D. As we know, foreign direct investment (FDI) capabilities are instrumental in positively influencing macro-economic components.
- E. Furthermore, to stay at the top and develop, multinational corporations must have a proper impact on the economy of the host country, reach its high participation, develop its economy, and not cease their activities in the home country.

1.2 The Purpose and Importance of Research

- A. It provides a forecast of change in macroeconomic variables in Iraq and comparison with each of the Middle East regions.
- B. The extent to which foreign direct investment practices are applied is that work to (increase the rate of gross domestic product and reduce inflation rates.



- C. Measuring and analyzing the impact of (foreign direct investment on the gross domestic product, the rate of inflation in Iraq.
- D. The extent of the application of foreign direct investment practices in improving the economic environment in Iraq. (World Bank Investment Report 2018)

1.3 Significance of Study

- A. The importance of foreign direct investment in innovation and development and giving a strong impetus to economic development in Iraq and the countries of the Middle East.
- B. Pay attention to infrastructure for the gross domestic product and add new production capacities that raise productivity to reap profits.
- C. The importance of foreign direct investment is reducing the rate of inflation by reducing the cost of imported goods and services through the production of similar or alternative goods in these host countries, which in turn reduces inflation.
- D. The importance of foreign direct investment in developing the skills of local workers and granting high wages. In addition to employing many local workers by creating additional job opportunities for the large size of these companies.
- E. The role of (foreign direct investment) in transferring capital, technology, and expertise to the country.

1.4 Hypotheses

- 1. **Hypothesis (1):** This hypothesis assumes the following: An increasing volume of foreign direct investment in the economy of any host country leads to an increase in the gross domestic product, and then to an increase in the economic growth of the host country, that is, there is a positive mutual effect between the two variables.
- 2. **Hypothesis (2):** This hypothesis assumes the following: The increase in foreign direct investment inflows leads to a reduction in the inflation rate, meaning that the expected relationship between foreign direct investment flows and the inflation rate is a negative relationship.

1.5 Limitations (Difficulties in research)

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

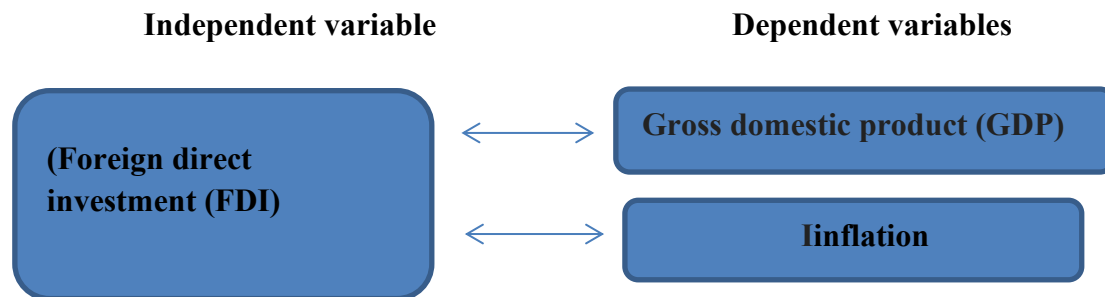
This study has been associated with restrictions to determine the direction of this effect, and among these restrictions are the following:

- A. The first of these obstacles that faced the research is that the effect of foreign direct investment is not limited to the country's GDP, inflation, but on the rest of the macroeconomic components.
- B. The second hurdle is the group of countries included in the study. Since countries have different economic conditions, the inclusion of rich and poor countries in the scope of the study eliminates the opportunity to make good comparisons, which leads to incorrect results. It is a fact in the research sample that it can cause interpretation. While countries' similar conditions are an important criterion for making comparisons.
- C. Given the difficulty of obtaining accurate economic data on several of the sample countries, and the limited study for the years 1960-2019, these are other limitations.

1.6 Research Models The framework of this research is presented in Figure (1) And Figure (2) which shows the relationship between foreign direct investment (FDI) and Macroeconomic Variables: {Gross domestic product (GDP)/ Inflation rate }

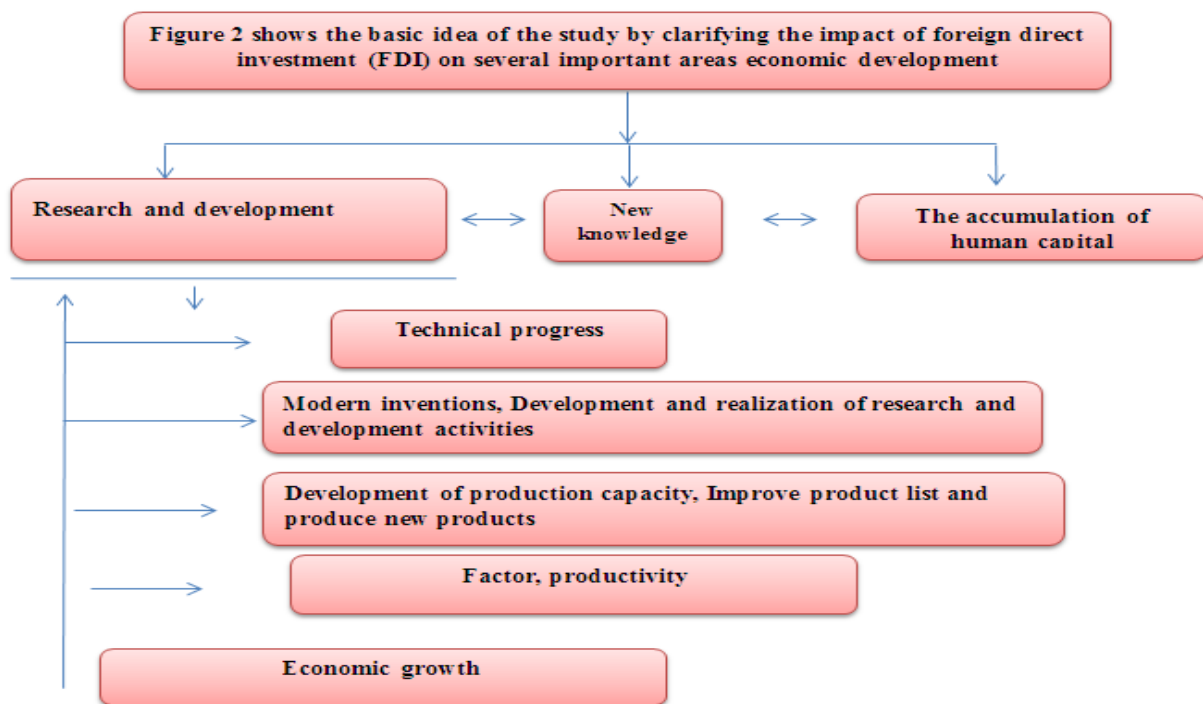
Figure1.2: shows the basic idea of the study by clarifying the impact of Foreign direct investment (FDI) on several important areas of economic development

Model. (1) Figure 1.1: Conceptual framework



(Source: Researcher's Work 2021)

Model. (2)



(Sours: The work of the Researchers 2021)

1.7 Methodology Used in the researcher

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

1.7.1 Method

- Method for Data Process:-

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



1.7.2 Area of the Study

- Scope and Sample:- To examine the impact of foreign direct investment for multinational companies (MNCs), we focused on multinational companies operating in Iraq, and several countries in the Middle East and (ME) region.

1.7.3 Sample Size

The sample size of the MNCs operating in several ME countries ranged from 12-13.

The period in which the analysis was conducted was from 1960-2019.

2. The Literature Review

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

The study, (Eduarda Martins Correa da Silveira, et.al, ٢٠١٧) examined the determinants of foreign direct investment flows in Middle Eastern countries. The research results, based on a 60% regression analysis with the highest value of the coefficient of determination (R^2), showed that GDP is strongly affected by these investment flows. Therefore, (Mohamed Masry, 2015) This study examines the relationship between foreign direct investment and economic growth in Egypt, and the economic factors that influence the attraction of this investment, during the period from 1961 to 2012. The results of the study indicate that this investment has a minimal impact on the growth of the gross domestic product in Egypt. Through the study of, (Gammoudi Mouna, et.al, 2016); as this study showed that the countries of the Middle East suffer from the lack of the flow of these investments to them. Although they possess most of the elements to attract foreign direct investment. Moreover, (Emmanuel O N, ٢٠١٤) concluded that foreign direct investment (FDI) had a positive impact on economic growth and GDP in Nigeria for the period 1981 to 2015. The Central Bank of Nigeria and the National Bureau of Statistics used secondary data. However, Concerning Iraq (Khalid Al Ansary, 2018). the study revealed that Iraq is a country rich in natural resources and suffers from conflicts, wars, and state control over the structure of the economy. The study focused on the relationship between foreign direct investment and geopolitical events. It concluded that the development of the regulatory, legal, and economic framework, the transition to the market economy, and the improvement of the country's relations with other countries attract that investment. According to, (Nasser Bouyahiaoui & Souria Hammache, 2017), aims to clarify the relationship between political, economic, and social risks and determinants in the ME region that control the attraction of foreign direct investment. Therefore, (Ghaith Alzaidy, et.al, 2017), this study indicates that foreign direct investment leads to increased productivity of local companies because this investment transfers advanced technology from foreign companies to local companies. Concerning other countries of the world. Through the study of (Sheila Mishra, et.al, 2017), that examined the impact of foreign direct investment in Nepal, data from 2004 to 2014 were used. The results showed a significant impact on the real GDP growth rate, while it had no impact on GDP per capita. Therefore, this study (Cheong Chia Sin, et.al, 2017); confirms that the good management of FDI in Malaysia and the growth and sustainability of the financial system make it an attractive FDI country. This investment plays an important role in the Malaysian economy and increases economic growth by increasing capital which expanding productive capacity and increasing GDP.

According to (Raja Nurul Aini Raja Aziz & Amalina Azmi, 2017), this study investigated the relationship between Malaysian GDP growth and foreign direct investment data used for the period 1982 to 2013 and used Dickie Fuller (ADF) and Ordinary Small Square (OLS) methods in the analysis. This had a significant positive impact on GDP growth. The industrial sector grew and contributed approximately 25% to GDP growth. On the other hand (Anis Omri, et.al:2015)

claims that foreign direct investment increases the development of the host country's GDP, for example, Turkey, and the inflows of this investment have achieved an improvement in its



production structure. And local companies have resorted to innovation and produce products like foreign products, and this is a positive thing, meaning that this investment stimulated the local industrial policy. Therefore, (Aliya Zhakanova Isiksal et.al, 2017); focuses on assessing the relationship between the impact of FDI and the economic situation in Turkey for the period between 2010 and 2016. Per capita purchasing power of GDP, Gross Domestic Product, and Variable Gross Domestic Product (PPP) were studied and the causal relationship between them was strong, and it is presented at REER level. The results concluded that the Turkish economy is competitive and growing globally. Foreign direct investment plays a key role in increasing Turkish income and GDP. Furthermore, (Mohamed Ibrahim Mugableh & Mohammad Salem Oudat, 2018) the study examined the causal relationships and the balance between FDI inflows and GDP. Descriptive statistic tests, KPSS integration, ARCH unit root, Johansen and Joselius, and ARDL balance relationships were used. Causal VECM Granger in Malaysia during the period (1971-2013). The results of the study showed that there is a linear relationship between the racists in the end and that the increase of foreign direct investment flows leads to an increase in the gross domestic product and enhance the long-term economic growth in Malaysia. A study, (Yilmaz Bayar, 2018) among the determinants of the flow of foreign direct investment in the countries of the European Union for the period 1997-2011. This study concluded that financial development positively affects the flows of this investment.

(Debraj Kalyan Roka, 2019), the examination of the impact of foreign direct investment on the GDP growth of the dependent variable, inflation, and foreign direct investment are the independent variables of the countries of the South Asian Association for Regional Cooperation. The data covered the period from 2001 to 2010. (UNCTAD, 2018) Iraq faces difficulty attracting foreign investment due to the deteriorating security situation and a lack of competitive domestic companies. Most of this investment is concentrated in the oil sector, which accounts for approximately 5.3% of GDP. This research focuses on enhancing the impact of this investment on Iraq's GDP and inflation rate after 2008. According, (Elma Satrovi, 2019) The relationship between economic growth is evident through flows of GDP and foreign direct investment. Data included the period 1993-2015. It included 75 countries (35 developing countries and 40 developed countries. A GMM estimator was used for the analysis. The result was that this investment had a positive impact on the GDP. And that the coefficient of financial development is large and positive, and the flows of this investment accelerate economic growth in all countries. According, (Mohamed Abdelaziz Eissa, & Mohammed M Elgammal, 2019) The study examined the determinants of foreign direct investment in resource-dependent countries, such as oil, with the aim of attracting this type of investment. It focused on the Gulf Cooperation Council (GCC) countries and covered the period from 1990 to 2015. The study concluded that there is a close relationship between inflation and investment.

(Patrick Emu & Emmanuel Dodzi K Hav, 2014), this study illustrates the determinants of macroeconomic inflation in Ghana, as it adopts the co-integration approach and empirical analysis of time series econometrics. I found the relationship between inflation and foreign direct investment in the long term, affecting inflation negatively and significantly. It is also higher in the short term, but it is not important. The study suggested allowing foreign investors and creating a suitable business environment. According, (Nazer Y, 2016), this study aims to know the phenomenon of inflation in the Kingdom of Saudi Arabia. The period was taken from the last 13 years until 2016, and a regression model was used to analyze the data. The result was that international external economic factors such as the fixed exchange rate, the money supply against the US dollar, the value of both imports and exports, and the price of oil greatly affect the phenomenon of inflation in the Kingdom. As for the local economy, its effect on inflation has disappeared during this period, so the phenomenon of economic inflation can be considered linked to globalization.

Therefore, in this study, (Mohammed Ershad Hussain & Mahfuzul Haque, 2016), The relationship between foreign direct investment and per capita GDP growth rate, and the long-term



relationship between all study variables in Bangladesh. The data, covering the period from 1973 to 2014, were analyzed using a vector error correction model (VECM). The analysis revealed a significant impact of foreign investment on GDP per capita growth. Diagnostic tests showed no autocorrelation, and the regressions followed a normal distribution (Sultanuzzaman Md Reza. Hongzhong Fan., et.al, 2018).

Chapter Two

Theoretical Aspect.

2. Foreign Direct Investment

Foreign direct investment is the phenomenon of the twenty-first century, and it is part of international investment that takes place outside the country with one or several countries, one company, or several companies. The growth of (foreign direct investment) inflows was faster compared to the growth of foreign trade between countries in the mid-nineteenth century and had a simple beginning in the name of capital movement and the focus on the minerals, agricultural, and public services sectors after that in the twentieth century (Samsul Haris & Nevi Danila, 2018)

Foreign direct investment (FDI) is an investment made by a company or entity whose headquarters are in a country other than the host country. It is called direct investment because the foreign investor tries to control, direct, or influence the local company and the permanent interest in the host country. It is considered one of the important variables for the country's economic growth, the measure of openness to the global economy, and how it adapts to the rapid international development. (Mihaela Simionescu, 2016)

It is one of the influential variables in the development and growth of the country and an indicator of trade openness and its ability to deal with global development's historical Investment Framework. The FDI aims to transfer the work of companies' residents in the framework of the local economy (direct investor) to the international framework. It is worked to establish a company that practices its investment activities in a foreign economy permanently. Besides, foreign direct investment represents a person or organization from a particular country who invests its money in another country, whether through full ownership of the project or partial ownership and intending to achieve a return. (Laura Alfaro, 2016)

Moreover, foreign direct investment is a material investment, either it is an investment issued by the state and is represented in the material investments of citizens (institutions and individuals) outside their countries or an incoming investment. Besides, creating a long-term relationship between the direct investment companies and the direct investor, and in most cases, there is almost complete control of management by foreign companies. There may be direct, wholly or partially owned, or indirect ownership of 10% or more in the host country (John C Anyanwu ,et.al, 2016)

2.1. The Positive Effects (Benefits) of Foreign Direct Investments to the Country of Origin

Foreign direct investment is important for countries, and it can increase and diversify economic activities. It increases the competitiveness of production, which helps companies to overcome competition at home, the ability to enter foreign markets, develop the production sector, and produce high-quality products at a low price. It helps multinational companies achieve high profits. (Nelson Johnny, ,et.al, 2018)

2.2 The positive effects of foreign direct investment on the host country's economy.

Foreign direct investment has positive effects on the host country's economy.

This has a comprehensive quantitative and developmental impact on the host country's investment volume. Combining foreign direct investment with domestic investment creates linkages within the host country, resulting in a synergistic effect and increasing the volume of domestic investment. (Shila Mishra1, et.al, 2017)



This contributes to increasing the volume of local investment by encouraging and motivating local institutions to improve their products and services, enabling them to compete with foreign institutions. (Ondabu Ibrahim Tirimba & George Munene Macharia, 2014)

2.3 The Negative Effects of Foreign Direct Investment on the Country of Origin.

Foreign direct investment of multinational companies faces many problems in the host country that may lead to great losses. There are many reasons related to the political, economic, and social aspects of the host country. This leads to disputes between foreign companies and these parties, delaying projects and making investment risky for investors, potentially resulting in losses. This, in turn, discourages foreign investors from purchasing or investing in land and real estate in the country. Administrative Obstacles 1 of the most important of these obstacles is the corrupt bureaucratic system that disperses the investor's energy and wastes his time and money in the corridors of government offices when the initial procedures preceding the establishment of his project begin. The inefficiency of the local human resources in some cases and in the manner required to deal with foreign investment companies that may have a long history in investment activity is among the obstacles to investment. (Hayakawa K, et.al, 2013)

In addition, most local talent is not adept at using modern computers, nor is it proficient in English, which is essential for dealing with companies, since most foreign investment firms are of foreign origin, in addition to their weakness, and sometimes lack, of economic knowledge when dealing with investors. (Mohamed Masry, 2015)

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

2.4 The Negative Effects of Foreign Direct Investments on the host country's economy.

Foreign direct investment products may lead to the emergence of new consumption patterns in host countries that are incompatible with their overall development needs. These investments may affect the sovereignty and independence of the host country through political dependency, as they can interfere in public policies, especially in poor countries, given the size of their assets. Most of the foreign investment in weak developing countries is not aimed at strengthening this country, but rather at controlling the capabilities of this country in its preferences. (Hayakawa K, et.al, 2013)

Host countries are moving towards economic dependency, as host countries rely on multinational company funds for economic growth and GDP growth. (Mohamed Masry, 2015)

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

The Iraqi economy is currently suffering from declining economic growth rates and faces serious challenges. Iraq is considered one of the most corrupt countries, ranking 161st out of 168 countries on the Corruption Perceptions Index, and its economy is characterized by waste, extravagance, and the mismanagement of resources and wealth. (Joseph Sassoon, 2016)

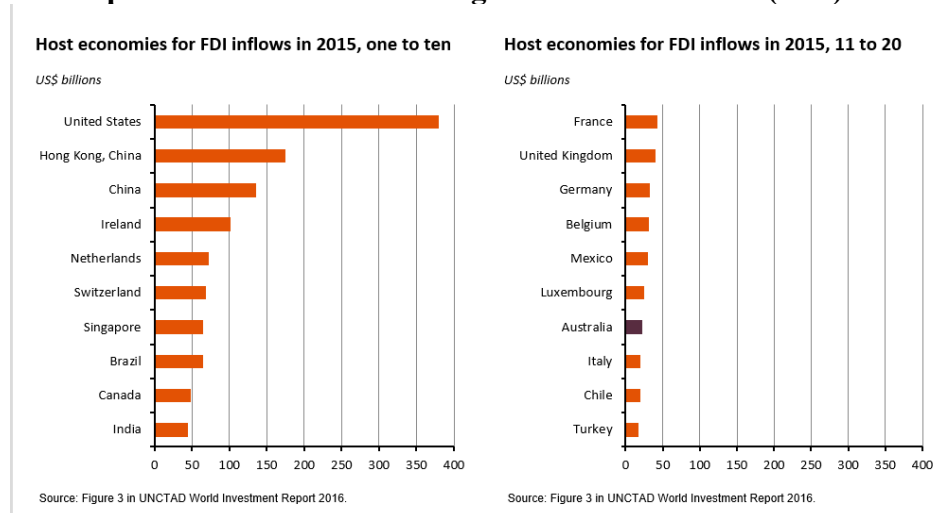
Furthermore, the Iraqi economy is a rentier economy with a single sector, where the oil sector is the primary source of income, accounting for 95% of public budget revenues. The Iraqi economy suffers from structural imbalances across its various productive sectors, in addition to a low GDP. The Iraqi economy suffers from high inflation rates, and investment growth is the best way to revive it. This is a major reason for its inability to attract foreign direct investment and direct it towards effective uses. (Ahmad Battal, 2018).

2.5.1 Foreign direct investment (FDI) in Iraq

As a result, foreign direct investment has a positive effect on economic growth in host countries and contributes to the transfer of technology and business knowledge to countries that

attract the largest investment and have the highest growth rate and significantly increase the volume of contributions to capital formation. (Central Bank of Iraq, 2019)

Figure 2.1 : Top 20 Destinations for Foreign Direct Investment (FDI) – in Iraq - 2015



(UNCTAD World Investment Report; 2016)

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

Table 2.1: Direct Investment (FDI) in Iraq for Years 2008– 2013

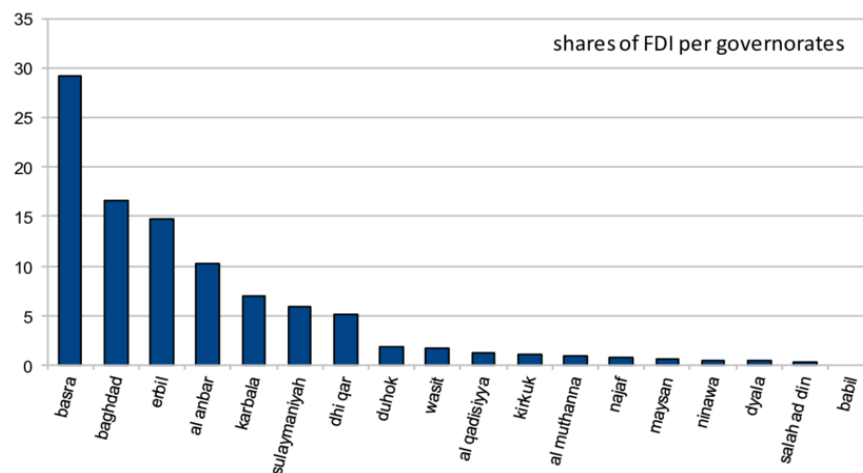
	2008	2009	2010	2011	2012	2013
Foreign Direct Investment Inflows \$ mil	1856	1598	1396	2082	2376	2852

	2008	2009	2010	2011	2012	2013
Foreign Direct Investment Outflows \$ mil	34	72	125	366	448	538

(Source World Investment Report, 2014)

To attract foreign direct investment, the Iraqi government should encourage investment in general and foreign direct investment in particular. Creating a more favorable investment climate for foreigners is crucial for increasing the volume of such investment flows and raising its annual growth rate in Iraq. (Calin-Adrian, et.al, 2018).

Figure 2.2: Flows of FDI to Iraq by governorates (percentage of total value)



(Source: IMF, 2018) (Irene Constantine, 2013)

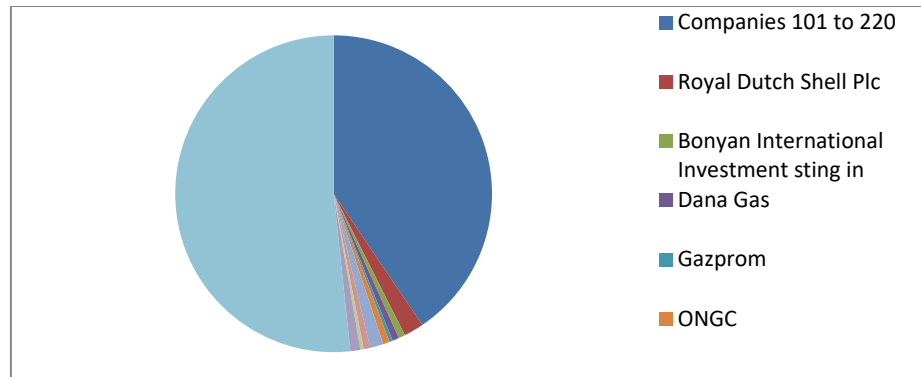
Iraq should seek and develop a strategy to attract this investment, achieve sustainable social and environmental development, strengthen national and international investment policies, find a balance between the role of the market and the state, international cooperation in productive capacity, and modernize, activate and encourage foreign direct investment tools. Although there is a large foreign trade activity in Iraq, which could be foreign direct investment, its economic activities are very weak and are constantly dependent on the more advanced economies and are vulnerable to financial and economic problems. Besides, there are trade deficits, low levels of foreign direct investment, and reliance on foreign goods. (Laura Alfaro & Jasmina Chauvin, 2017)

Table 2.2: Top 10 companies investing in Iraq 2003-2015

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

(IMF, 2016)

Figure 2.3: Top 10 Companies investing in Iraq between 2003-2015



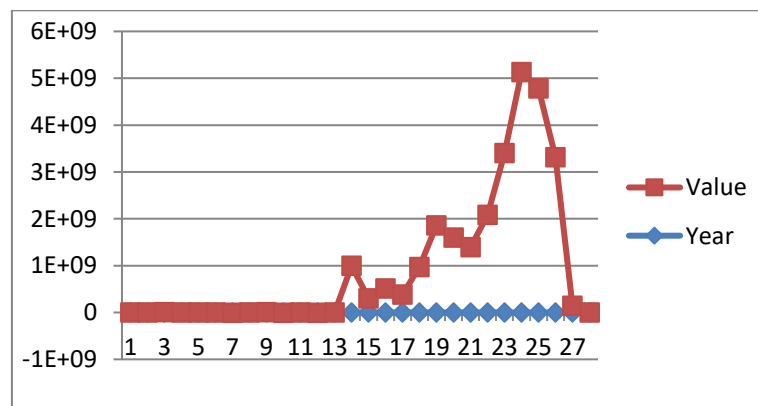
(Source: The work of the Researchers, 2021)

Table2. 3: Foreign direct investment, net inflows (% of GDP) 2005 -2016

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

(Source: I M F, 2016)

Figure 2.4 .10: Foreign direct investment, net inflows (% of GDP) 1996 -2016



(Source: the work of the researcher, 2020)

A country that achieves a trade surplus contributes to solving the problem of economic recession, which is a major economic problem. (Barka Ahmed Barka Kashtu, et.al, 2019)

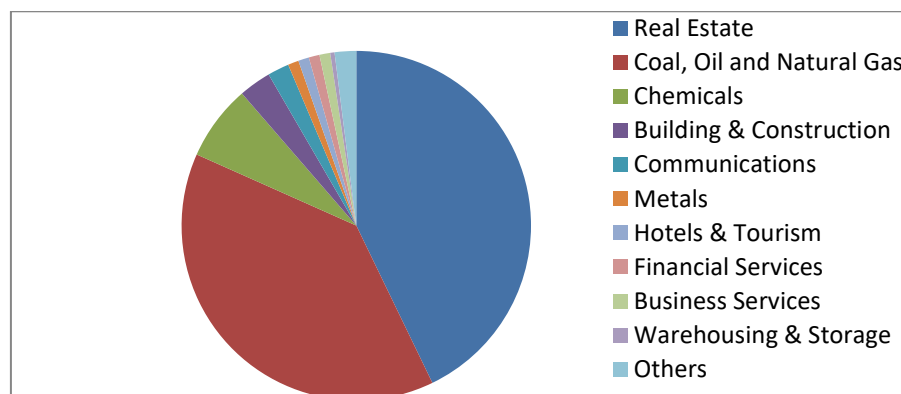
Besides, other economic sectors witnessed a rapid rise and recorded a growth rate of 4%. Also, several trade agreements were signed with neighboring countries. Besides, start normal reconstruction .(Ahmad Battal, 2018)

Table 2.4: Inward Investment in Iraq by the sectoral distribution between 2003 -2015

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

(Source: Ahmad Battal, 2018)

Figure 2.5: Inward Investment in Iraq by the sectoral distribution between 2003 -2015



(Source: The work of the Researchers, 2021)

2. ME COUNTRIES

Open economies with development prospects, attract more foreign direct investment than closed markets with highly regulated economies. These investments are beneficial to the country's economy because experienced investors find their way into the market to expand, expand the market, and improve their competitiveness. This leads to various benefits, including improved development efficiency and economic growth, the introduction of new skills and technologies,



knowledge transfer, and the creation of joint business opportunities between foreign and local companies. (Asiedu E, 2013)

Chapter Three

The practical aspect

3. The impact of foreign direct investment on GDP and inflation compared to some Middle Eastern countries

3.1. The purpose of the analysis

The main objective of the analysis to be carried out in the practical part of the research is to clarify the impact of foreign direct investment (the independent variable) on GDP and inflation (the dependent variables) in the Iraqi economy, compared to a selected group of Middle Eastern countries. The data covered the period from 1960 to 2019, and to analyze these variables, the panel data analysis method was used, which is an analytical method used to predict economic relationships using cross-sectional data series directly on the time dimension. The data related to panel analysis is defined as the data obtained by combining time series on the one hand, and cross-sectional series on the other, and then performing statistical tests on them. This analysis permits econometric analysis to be made even in cases where the observations are in the form of insufficient cross-sections and/or short time series. Panel data used for analysis can cause fewer problems between variables in terms of a polynomial linear relationship, and the reason for preferring analysis based on panel data is that estimates can give more detail than desired because of these analyzes. (Goswami G & Haidar S, 2014)\

In recent times, panel data analysis has been one of the applications used in various fields of research; while conducting time series analysis, the data changes that will be used in the study are examined over time. In analysis: The data are used to show that the values of one or more variables change over time, and it must be considered that not every series is a time series, because for a series to be a time-dependent situation, and time series analysis can be done. For various purposes, the most important of which is finding external data in the analysis. Panel data are time-series data with a cross-section. Panel data can contain group effects, temporal effects, or both, as these effects are fixed and random, and are analyzed using models. (Melissa P Johnston , 2014)

The panel data set contains observations of n individuals; each measured at the time point T . and the total number of observations becomes $N t$. Besides, the sample line data can be generated in the most general form as follows.

$$Y_{it} = \beta_{0it} + \beta_{1it}X_{1it} + \beta_{2it}X_{2it} + \dots + \beta_{kit}X_{kit} + u_{it} \quad (1)$$

In the model, $i = \text{one}, 2, N$ is the suction unit, and $t = \text{one}, 2, T$ is the period. Also, it is assumed that the error term is independently and normally distributed for all periods and units of time. Before estimating the model, several assumptions were made based on the unit of measurement (time) and the values of the coefficients.

This research examines the impact of foreign direct investment (FDI) flows into Iraq on certain macroeconomic variables, comparing them to selected countries in the Middle East. The research includes a comprehensive literature review and an in-depth analysis of statistical data from 1960 to 2019.

3.2 The countries selected as a sample in the research and the period in which the analyses were conducted.

Several countries in the Middle East, including Iraq, were chosen as a model in the study. Most of these countries were new to foreign direct investment, and the period in which the analysis was conducted was chosen from 1960 –2019. To obtain more accurate results, the more data are available and in an appropriate amount, the results are clear and more accurate.



Table 3.1 shows the sample countries and periods used for the analysis

Countries	Period
Bahrain	1960 -2019
Iran	1960 -2019
Iraq	1960 -2019
Jordan	1960 -2019
Kuwait	1960 -2019
Lebanon	1960 -2019
Oman	1960 -2019
Qatar	1960 -2019
Saudi Arabia	1960 -2019
Syria	1960 -2019
Turkey	1960 -2019
United Arab Emirates	1960 -2019
Yemen	1960 -2019

(Sours the work of the researcher, 2021)

3.3 Date Collections Methods.

To achieve the objectives of this research, both types of primary and secondary data sources were used.

3.3.1 Primary Data Collection Primary Data Collection One of the most important benefits of using primary data is to enable the researcher to identify the variables used in the study as well as methods and tools that require the adoption of measurement of those variables to obtain valid and credible results and analysis.

3.3.2 Secondary Data Collection Secondary data were also important to achieving the research objectives because they complement and enhance the primary data. Secondary data described by. As data that has already been collected and published by the person or organization not responsible for its collection, and in using this type of data the researcher has little or no control over the data collection method or the limitations that exist on their use. For the current research, the major sources of secondary data were books, academic journals, documents, research articles, and case studies. (Melissa P Johnston, 2014)

3.4 Variables Used in the Study

The following variables were used in the research to analyze the panel data: GDP, growth rate, and inflation, as dependent variables, while foreign direct investment was considered in the analysis as an independent variable. The task of identifying the specific patterns in the analysis has been accomplished; and consistency in this description, as is common in previous studies, has been demonstrated in the literature. (Anis Omri, 2015)

Table 3.2: The variables used in the analysis and a table of information about these variables.

Variable Name	Abbreviation for Variable	Unit of Variable
Foreign Direct Investment	FDI	Million USD
Gross domestic product	GDP	Million USD
Inflation	CPI	Million USD

(Sours: The work of the researcher, 2021)

World Development World Bank (WDI) Indicators Last Updated: 07/01/2020, and UNCTAD, Last Updated: 07/01/2020.)Each of the following variables was used in the study: foreign direct capital investments, GDP, inflation rate for the period 1960-2019. Data availability played an important role in identifying the selected countries included in the sample.

3.4.1 Gross domestic product (GDP)

Gross Domestic Product (GDP) is the market value of all domestically recognized final goods and services produced in a country during a specified period. (Qaiser Abbas, et.al, 2011)



GDP consists of government and private consumption spending, capital formation, and change in treasury bills. There is a close relationship between economic growth rates and the rate of investment, which is an important indicator that affects GDP. (Carlos & V Z Eddie, 2015)

Gross domestic product is one of the most used measures of economic performance, it can be determined for a specific country through its calculation in easy ways, as each country uses different methods according to the nature of its economy. (Shobhit Seth, 2019)

Finally, Gross Domestic Product (GDP) is an important indicator of overall economic growth and a country's economic well-being. It represents the value of all final goods and services produced within the borders of that country during a specific period not exceeding one year.

3.4.2 Inflation rate

Inflation is the continuous rise in prices, the continuous decline in the value of the local currency, and the continuous decline in the purchasing power of the monetary unit. (Emmanuel Amoah, et.al, 2015)

Likewise, every increase in money in circulation leads to an increase in the general level of prices. In other words, inflation is every increase for money in circulation that leads to an increase in the general level of prices. (World Bank, 2013)

Inflation can be analyzed as a monetary phenomenon, which is an increase in the amount of money that leads to an increase in prices through the money supply (issuing money or expanding credit creation) or the demand for money (money spending), assuming other elements remain stable at least in the long and short term. As for a commodity phenomenon: it is a constant and continuous trend towards rising prices. When we are faced with an inflationary situation, when the price is heading towards a permanent and continuous decline, this is deflation. (Ahmad Battal, 2018)

Finally, according to the researcher's vision, inflation is a continuous phenomenon in which the general level of prices for some goods and services rises as a result of an increase in demand for them beyond the supply them, regardless of the reasons for this increase, if it is in the amount of money, or the imbalance between the flow of goods or services, or other reasons.

3.5 Analysis application

The variables were examined. In the second stage, the Wald test for causality was applied using the VAR-Granger model to determine the causal relationship between the variables. In the third and final stage, the relationships between the independent variable, which is foreign direct investment, and the dependent variables (GDP and inflation rate) were estimated. The periodic movements of this time series are graphically represented, and the presence of a unit root in the dataset is tested. The unit root characteristics of all field series are then determined using the developed unit root test. Causal correlation and causal analysis of the cross-sectional data are also applied to identify causal relationships between variables. The relationships between independent and dependent variables were estimated for the period from 1960 to 2019.

The following are the assumptions regarding the foreign direct investment variable used in the models developed within this research. Causality is tested in our empirical model as follows:

If the following null hypothesis is accepted, then x is not the cause of y.

$$H_0: b_{21} = b_{22} = \dots = b_{2q} = 0 \quad (2)$$

If the H_a hypothesis is accepted, y is not the cause of x.

$$H_a: d_{11} = d_{12} = \dots = d_{1q} = 0 \quad (3)$$

If both H_0 and H_a hypotheses are rejected, there is a bilateral relationship between x and y. It turned out to be causation. . Xtunitroot fisher fdi_GDP, dfuller lags (5) drift

(304 missing values generated)

Fisher-type unit-root test for fdi_GDP. Based on augmented Dickey-Fuller tests

H_0 : All panels contain unit roots Number of panels = 13

H_a : At least one panel is stationary Avg. number of periods = 44.00

AR parameter: Panel-specific Asymptotics: T -> Infinity



Panel means: Included. Time trend: Not included

Drift term: Included

ADF regressions: 5 lags

Table 3.3: .Xtunitroot fisher fdi_GDP

Statistic		p-value	
Inverse chi-squared(38)	P	121.6006	0.0000
Inverse normal	Z	-6.9366	0.0000
Inverse logit t(99)	L*	-7.2857	0.0000
Modified inv. chi-squared Pm		9.5896	0.0000

(Source: The work of the Researchers, 2021)

P statistic requires the number of panels to be finite. Other statistics are suitable for a finite or infinite number of panels.

Table 3.3 shows taking a sample from 19 countries for the Middle East, Avg. number of periods = 44.00

The series is stable. The result confirms the absence of a unit root. The null hypothesis is rejected by Ho.

As that p-value zero. . xtunitroot fisher growth, dfuller lags(5) drift. (285 missing values generated)

Fisher-type unit-root test for growth. Based on augmented Dickey-Fuller tests

Ho: All panels contain unit roots Number of panels =13

Ha: At least one panel is stationary Avg. number of periods = 45.00

AR parameter: Panel-specific Asymptotics: T -> Infinity

Panel means: Included . Time trend: Not included

Drift term: Included ADF regressions: 5 lag

Table 3.4: .xtunitroot fisher growth

Statistic		p-value	
Inverse chi-squared(38)	P	189.5114	0.0000
Inverse normal	Z	-9.3775	0.0000
Inverse logit t(99)	L*	-10.9723	0.0000
Modified inv. chi-squared Pm		17.3796	0.0000

(Source: The work of the Researchers, 2021)

P statistic requires the number of panels to be finite.

Other statistics are suitable for a finite or infinite number of panels.

Table 3.4 shows a sample from countries for the Middle East

, Avg. number of periods = 45.00

The series is stable. The result confirms the absence of a unit root.

The null hypothesis is rejected by Ho. As that p-value zero

. xtunitroot fisher inflation, dfuller lags(5) drift (295 missing values generated)

Fisher-type unit-root test for inflation . Based on augmented Dickey-Fuller tests

Ho: All panels contain unit roots Number of panels =13

Ha: At least one panel is stationary Avg. number of periods = 44.47

AR parameter: Panel-specific Asymptotics: T -> Infinity

Panel means: Included. time trend: Not included

Drift term: Included ADF regressions: 5 lags

Table 3.5: .xtunitroot fisher inflation

Statistic		p-value	
Inverse chi-squared(34)	P	146.6489	0.0000
Inverse normal	Z	-8.7400	0.0000
Inverse logit t(89)	L*	-9.7869	0.0000
Modified inv. chi-squared Pm		13.6607	0.0000

(Source: The work of the Researchers, 2021)

P statistic requires the number of panels to be finite. Other statistics are suitable for a finite or infinite number of panels.

Table 3.5 shows taking a sample from countries for the Middle East, Avg. number of periods = 44.47

The series is stable. The result confirms the absence of a unit root.

The null hypothesis is rejected by Ho. As that p-value zero. .xtunitroot fisher export_GDP, dfuller lags(5) drift. (314 missing values generated)

Fisher-type unit-root test for export_GDP. Based on augmented Dickey-Fuller tests

Ho: All panels contain unit roots Number of panels = 12

Ha: At least one panel is stationary Avg. number of periods = 45.89

AR parameter: Panel-specific Asymptotics: T -> Infinity

Panel means: Included . Time trend: Not included

Drift term: Included ADF regressions: 5 lags

Table 3.6: .xtunitroot fisher export_GDP

Statistic		p-value	
Inverse chi-squared(36)	P	249.8866	0.0000
Inverse normal	Z	-11.4923	0.0000
Inverse logit t(94)	L*	-16.1938	0.0000
Modified inv. chi-squared Pm		25.2068	0.0000

(Source: The work of the Researchers, 2021)

P statistic requires the number of panels to be finite.

Other statistics are suitable for a finite or infinite number of panels.

Table 3.6 shows taking a sample from 13 countries for the Middle East, Avg. number of periods = 45.89

The series is stable. The result confirms the absence of a unit root. The null hypothesis is rejected Ho

As that p-value zero. .xtunitroot fisher import_GDP, dfuller lags(5) drift (314 missing values generated)

Fisher-type unit-root test for import_GDP. Based on augmented Dickey-Fuller tests

Ho: All panels contain unit roots Number of panels =12

Ha: At least one panel is stationary Avg. number of periods = 45.89

AR parameter: Panel-specific Asymptotics: T -> Infinity

Panel means: Included. Time trend: Not included

Drift term: Included ADF regressions: 5 lags

Table 3.8: .pvar fdi_GDP growth]

	Drisc /Kraay					
	Coef.	Std. Err.	Z	P> z	[95% Conf. Interval]	
fdi_GDP						
fdi_GDP						
L1. growth	.721455	.1243447	5.80	0.000	.4777438	.9651661
L1.	.0002013	.0001104	1.82	0.068	-.0000151	.0004176
growth						
fdi_GDP						
L1.	-.88.67198	50.6349	-1.75	0.080	-187.9146	10.5706
growth	.1535265	.0661565	2.32	0.020	.023862	.2831909
L1.						

(Source: The work of the Researchers, 2021)

Instruments : l(1/4).(fdi_GDP growth)

Table 3.8 Illustrates fdi_GDP (fdi_GDP- L1. Values $P>|z|$ Is zero, (0.000).

Meaning it is less than 5%. That is, there is an effect, and we will reject the Ho hypothesis

As for growth (L1 Values $P>|z|$ Is 0.068.

That is, it is greater than 5%. That is, there is no effect and we will accept the Ho hypothesis.

And about growth (fdi_GDP - L1. Values $P>|z|$ Is 0.080.

That is, it is greater than 5%. That is, there is no effect and we will accept the Ho hypothesis.

As for growth (L1 Values $P>|z|$ Is 0.020.

Meaning it is less than 5%. That is, there is an effect, and we will reject the Ho hypothesis.

. pvarstable, graph . Eigenvalue stability condition

Table 3 .9: Eigenvalue

Eigenvalue		Modulus
Real	Imaginary	
.6880709.	0	.6880709
.1869105	0	.1869105

(Source: The work of the Researchers, 2021)

All the eigenvalues lie inside the unit circle. pVAR satisfies the stability condition.

.pvargranger. panel VAR-Granger causality Wald test

Ho: Excluded variable does not Granger-cause Equation variable

Ha: Excluded variable Granger-causes Equation variable

Table 3.10: panel VAR-Granger causality Wald test

Equation \ Excluded	chi2	df	Prob > chi2
fdi_GDP			
growth	3.324	1	0.068
ALL	3.324	1	0.068
Growth			
fdi_GDP	3.067	1	0.080
ALL	3.067	1	0.080

(Source: The work of the Researchers, 2021)

Since **Table .10** fdi_GDP, the problem value> chi2 in the table is greater than 0.05, it is 0.068.

Therefore, the Ho hypothesis will be accepted, x is not the cause of y.

Ho: $b_{21} = b_{22} = \dots = b_{2q} = 0$

Therefore, the (independent) foreign direct variable does not explain the variance in the variable (dependent) GDP, and there is no relationship between the two variables, i.e. the absence of an effect of the (independent) foreign direct investment variable on the variable (dependent) GDP.

For the (dependent) growth variable, the problem value> chi2 in the table is greater than 0.05, which is 0.080

Therefore, the Ho hypothesis will be accepted, x is not the cause of y.

$H_0: b_{21} = b_{22} = \dots = b_{2q} = 0$

According to Granger's causal test, the (dependent) growth variable does not explain the (independent) foreign direct investment variance, and thus there is no relationship between the independent variable of FDI and the dependent variable GDP, which means that both variables do not affect each other.

. pvar fdi_GDP inflation, instl(1/4) gmmstyle . Panel vector autoregressions

GMM Estimation . Final GMM Criterion Q(b) .0321

Initial weight matrix: Identity. GMM weight matrix: Robust

No.of obs = 659

No. of panels = 13

Ave. no. of T = 34.684

Table 3.11. pvar fdi_GDP inflation

	Drisc /Kraay						
	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]		
fdi_GDP							
fdi_GDP	.8796668	.0860809	10.22	0.000	.7109513	1.048382	
L1.							
inflation	-.0036517	.0030628	-1.19	0.233	-.0096547	.0023513	
L1.							
inflation							
fdi_GDP							
L1.	-1.969634	.4897185	-4.02	0.000	-2.929465	-1.009804	
inflation	.8088936	.0656405	12.32	0.000	.6802405	.9375467	
L1.							

(Source: The work of the Researchers, 2021)

Instruments : l(1/4). (fdi_GDP inflation)

Table 3.11 Illustrates fdi_GDP) fdi_GDP - L1 Values $P>|z|$ Is zero, (0.000) .

Meaning it is less than 5%.

That is, there is an effect, and we will reject the H_0 hypothesis.

As for Inflation L1 Values $P>|z|$ Is 0.233.

That is, it is greater than 5%. That is, no effect and we will accept the H_0 hypothesis.

In addition, inflation fdi_GDP - L1 Values $P>|z|$ is zero, (0.000).

Meaning it is less than 5%. That is, there is an effect, and we will reject the H_0 hypothesis.

As for growth) L1 Values $P>|z|$ Is (0.000).

Meaning it is less than 5%

There is an effect and we will reject the H_0 hypothesis.

. pvarstable, graph

Eigenvalue stability condition

Table 3.12 Eigenvalue

Eigenvalue		Modulus
Real	Imaginary	
.9361752	0	.9361752
.7523852	0	.7523852

All the eigenvalues lie inside the unit circle. pVAR satisfies the stability condition.

. pvargranger. panel VAR-Granger causality Wald test

H_0 : Excluded variable does not Granger-cause Equation variable

H_a : Excluded variable Granger-causes Equation variable

Table 3.13 panel VAR-Granger causality Wald test

Equation \ Excluded	chi2	df	Prob > chi2
fdi_GDP			
inflation ALL	1.422	1	0.233
	1.422	1	0.233
inflation			
fdi_GDP ALL	16.176	1	0.000
	16.176	1	0.000

(Source: The work of the Researchers, 2021)

Since **Table 3.13** the FDI variable and the χ^2 problem value in the table are greater than 0.05, it is 0.233.

Therefore, the H_0 hypothesis will be accepted.

Besides, the (independent) foreign direct investment variable does not explain the variance in the (dependent) inflation variable, and there is no relationship between the two variables, i.e. the absence of an effect of the (independent) foreign direct investment variable on the (dependent) inflation variable.

For the (dependent) inflation variable, the problem value χ^2 in the table is less than 0.05, it is 0.000.

Therefore, the H_0 hypothesis will be rejected.

Referring to Granger's causal test in the convergence between the independent variable and foreign direct investment and inflation, the causal relationship was one-way, as there was no effect of the independent variable foreign direct investment and the variance of the dependent variable did not explain inflation and there was no effect of investment on inflation, and we accept the following H_0 hypothesis, So x is not the cause of y .

$H_0: b_{21} = b_{22} = \dots = b_{2q} = 0$

. pvar fdi_GDP export_GDP, install(1/4) style . Panel vector autoregressions

GMM Estimation

Final GMM Criterion $Q(b) = .025$. Initial weight matrix: Identity

GMM weight matrix: Robust

No. of obs = 705
No. of panels = 12
Ave. no. of T = 39.167

Table 3.14. xtsc inflation fdi_GDP

Inflation	Drisc/Kraay					
	Coef.	Std. Err	t	P> t	[95% Conf. Interval]	
fdi_GDP	-.6294927	.2972416	-2.12	0.039	-1.226822	-.0321632
cons	.1228642	.0192313	6.39	0.000	.0842174	.1615109

(Source: The work of the Researchers, 2021)

When **Table 3.14** : Is checked; The model is quite statistically significant. [F value=4.48] And P-value = 0.0393 $< \alpha = 0.05$

Both the fixed term and the FDI variables are statistically significant in the model [$P < \alpha$]. Model annotation $R^2 = 0.0066$.

In other words, foreign direct investment accounts for 1 %percent of the change in inflation.

The β value of the FDI variable was found to be = -0.6294927.

So, a 1% change in FDI changes the inflation by -0.63%

Since F value = 4.48, there is a significant relationship and the effect is very weak.

The explanation from $R^2 = 0.0066$, shows the very weak relationship between the flow of foreign direct investment and the change in inflation, which is also unlike previous literature that assumes a strong relationship between foreign direct investment and inflation.



. xtsc export_GDP fdi_GDP,fed

Regression with Driscoll-Kraay standard errors

Method: Fixed-effects regression

Group variable (i): IFS_code

maximum lag: 3

Number of ob = 747

Number of groups = 12

F (1, 49) = 6.29

Prob > F = 0.0155

within R-squared = 0.0149

4. Chapter Four

Findings AND Recommendations

4.1 Findings

- 1 According to previous studies in the literature, foreign investment affects the level of economic prosperity a country can achieve, because the real sector will enter a more active process with foreign capital coming into the country, and this process will have a positive contribution and impact on economic growth, and it is clear that foreign direct investment has a positive effect on the rate of growth of the gross domestic product, a negative effect on the rate of inflation,
- 2 From what was discussed in this study was a conclusion regarding foreign direct investment in Iraq the following: - The investment environment in Iraq lacks security, political and economic stability, and the government's political and economic process is unclear.
- 3 Tests were used unit root test in the board data, using a non-standard Fisher test that adopted a set of p-values for test statistics for the unit root in each sectional unit (ADF test). Besides, used Dickey-Fuller. This test checks the null hypothesis and that the unit root is present in the autoregressive model.
- 4 The alternative hypothesis varies with the test version used but is usually stationary in direction. It allows for the greatest possible unit heterogeneity. Also, Granger's test has been used to indicate causal relationships between variables.
- 5 According to the analysis conducted in the study, the percentage change in foreign direct investment (FDI) in the studied countries and its impact on GDP and inflation rates were examined. The results showed that the change in FDI had no statistically significant effect on GDP growth.
- 6 In this research, the results contradict previous literature which argued that an increase in the flow of foreign direct investment into host countries increases the GDP significantly. Because the change in foreign direct investment did not have any statistical significance on the rate of growth in GDP.
- 7 In other words, assuming a causal relationship is tested between foreign direct investment and GDP using the VAR-Granger model for cross-sectional data, the null hypothesis (H0) states that the independent variable does not affect the dependent variable in the equation. The alternative hypothesis (Ha) is the one we will accept according to the Granger test.
- 8 Lack of relationship: between the independent variable, foreign direct investment, and dependent variable GDP. In other words, both variables do not affect each other and there is no relationship between them.
- 9 Regarding inflation, the study showed no strong relationship between foreign direct investment (FDI) and inflation. Granger's causal test for FDI (the independent variable) and inflation revealed a unidirectional relationship; a 1% change in FDI resulted in a slight decrease in inflation of 0.63%.
- 10 Since there was no strong effect of foreign direct investment (the independent variable) on inflation (the dependent variable) and it did not explain the variance of inflation, we accept the following H0 hypothesis, so x is not a cause of y.
Ho: $b_{21} = b_{22} = \dots = b_{2q} = 0$.



4.2 Recommendations

Based on the results and statistical analyses conducted in this research on the impact of foreign direct investment on several components of the macroeconomy in Iraq and the Middle East region, several recommendations were made that would help increase the flow of this investment to the region in general and to Iraq in particular, as follows:

1. Adopting a policy of economic reform, creating favorable investment conditions to encourage investment, and reforming the monetary and financial system. Developing infrastructure, providing a legislative environment, and amending investment laws..
2. Directing this investment to all sectors at fair prices. Especially the production sector and the industrial sector, and work to increase the efficiency of production factors and apply the latest methods and modern technologies in production.
3. Introducing the concept of total quality in management and production in pursuit of global competition. Establishing modern and long-term investment projects that lead to investment and returns to the state from foreign direct investments abroad.
4. Finally, To promote the fair distribution of foreign direct investment revenues, to achieve justice and social protection for all members of Iraqi society and the societies of these countries, and to address unemployment and reduce its percentage.

Conclusion.

Since the nineteenth century, foreign investment has begun to emerge as an important type of investment that has a positive impact on both developed and developing countries. Globalization has contributed to this situation, pushing countries to integrate with the outside world and increasing interest in foreign direct investment. Currently, economic, trade and technological boundaries between countries have gradually faded away.

Therefore, foreign investment in its various forms has emerged as a crucial tool for financial expansion and integration on the international stage. Foreign direct investment in developing countries, and in the Middle East region in general, and Iraq in particular, is a key instrument for achieving sustainable growth. Most of these countries suffer from numerous problems, such as a deficit in savings and capital accumulation, as they allocate a large portion of their public resources to current expenditures and debt repayment and interest. These countries can avoid this deficit by seeking debt cancellation from other countries or institutions and by attracting foreign investment. If foreign capital had been directed towards the real industrial sector, it would have had a greater impact on the country's economic growth. In this research, several countries in the Middle East were selected, and Iraq as one of them.

As for Iraq, suffers from political, social, and economic problems. It suffers from many problems that have led to foreign investments staying away from it, and their presence is minimal and does not meet the country's needs, as most of it is limited to the oil and extraction sector. It suffers from high inflation rates, a major reason for weak investment. High inflation leads to higher prices for goods and services, weakens the national currency, and devalues it, undermining public confidence. It suffers from a lack of local financing and a gap between the available and actual funds and the need for economic opportunities in it.

All these problems threaten the chances of attracting foreign direct investment inflows. Therefore, it needs to implement major reforms and measures for its economic structure. Most of the foreign investment is concentrated in oil-producing countries and on this resource, as the growth of their economy depends on this sector, which constitutes a high percentage of their GDP.

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