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COMPARATIVE ANALYSIS OF THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN MOROCCO AND TÜRKİYE (1980-2020)

(FAS VE TÜRKİYE'DEKİ DOĞRUDAN YABANCI YATIRIMLARIN BELİRLEYİCİLERİNİN KARŞILAŞTIRMALI ANALİZİ (1980-2020)).

Doktora Tezi

Ayoub Bendriouch

İstanbul, 2023

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ÖZET

FAS VE TÜRKİYE'DEKİ DOĞRUDAN YABANCI YATIRIMLARIN BELİRLEYİCİLERİNİN KARŞILAŞTIRMALI ANALİZİ (1980-2020)

Küreselleşen dünyada, yoksul ve zengin ülkeler arasındaki eşitsizlikler son yıllarda daha da belirgin hale gelmiştir. Ancak gelişmekte olan ülkeler Doğrudan Yabancı Yatırımlarının (DYY) çekiciliğini doğru bir şekilde teşvik edebilirlerse kalkınma trenini yakalayabilir ve gelişmiş ekonomilere yaklaşabilirler. Bir ülkeye yapılan DYY'nin çekiciliği o ülkenin finansal gelişmişliği, dışa açıklığı, enflasyonu, beşeri sermayesi, yurtiçi yatırımları, tüketimi, ve pazar büyüklüğü ile doğrudan ilişkilidir. Bu çalışma, DYY belirleyicilerini analiz ederek, ve bunların Fas ve Türkiye'deki DYY girişleri üzerindeki karşılıklı etkilerini karşılaştırarak önceki araştırmalara katkıda bulunmayı amaçlamaktadır. DYY ile ilgili literatürde, çeşitli bölgeler hakkında farklı sonuçlar sağlamak için birçok yöntem kullanılmaktadır. Bu nedenle, vaka çalışması olarak Türkiye ve Fas'a odaklanılmıştır. Çalışmamızın amacı, her iki ülkenin sosyoekonomik durumunu karşılaştırmak ve ARDL Modelleme yaklaşımını kullanarak bu iki ülkedeki DYY belirleyicilerinin DYY girişleri üzerindeki etkisini araştırmaktır.

Ampirik bulgular, kısa dönemde, DYY girişlerinin piyasa büyüklüğünden olumsuz etkilendiğini, enflasyon ve dışa açıklığın ise her iki ülkede de DYY girişleri üzerinde olumlu bir etkiye sahip olduğunu göstermektedir. Kredi de sadece Türkiye'de DYY girişlerini olumlu etkilemektedir. Ancak, uzun dönemde, iki ülkedeki DYY'nin belirleyicileri arasında daha az benzerlik vardır, çünkü piyasa büyüklüğü her iki ülkede de DYY girişlerini olumlu etkileyen tek ortak belirleyicidir. Dışa Açıklık ve kredi uzun dönemde Türkiye'de negatif bir etkiye sahipken, enflasyon Fas'ta uzun vadede negatif bir etkiye sahiptir.

Sonuç olarak, bu çalışma Fas'ın işgücünü eğitmeye, finansal sistemini iyileştirmeye, altyapısını geliştirmeye ve dış ticarete açıklığını artırmaya daha fazla odaklanması gerektiğini önermektedir. Bu durumda ülke jeostratejik konumundan faydalanacak ve düşük maliyetle üretim yapıp Afrika'ya ve hatta Avrupa'ya ihracat yapmak isteyen Çok Uluslu Şirketleri (ÇUŞ) kendine çekebilecektir. Öte yandan, Türkiye'nin sürdürülebilir ekonomik büyümeyi garanti altına alacak yüksek katma değerli yatırımları çekmek için uzun vadeli stratejiler benimsemesi gerekmektedir. Ülkenin ayrıca enflasyonu kontrol altında tutarken ekonomik istikrarı da koruması gerekmektedir.

Anahtar Kelimeler: Karşılaştırmalı Analiz, Ekonomik Büyüme, DYY, DYY Belirleyicileri, Türkiye, Fas

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ABSTRACT

COMPARATIVE ANALYSIS OF THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN MOROCCO AND TÜRKİYE (1980-2020).

In a globalizing world, inequalities between poor and rich countries have become more pronounced in recent years. However, if developing countries can properly promote their FDI attractiveness, they can catch the development train and come very close to developed economies. The attractiveness of FDI into a country is directly related to its financial development, openness, inflation, human capital, domestic investment, consumption, and its market size. This study aims to contribute to the previous research by analyzing FDI determinants, and compare their mutual impact on FDI inflows in Morocco and Türkiye. In the literature on FDI, many methods are used to provide different results about various regions. Therefore, we have chosen to focus on Türkiye and Morocco as case studies. Our purpose is to compare the socioeconomic situation of both countries and investigate the impact of FDI determinants on FDI inflows in these two countries using the ARDL Modeling approach.

The empirical findings show that FDI inflows are negatively affected by market size, while inflation and openness have a positive effect on FDI inflows in both countries in the short run. Credit also positively affects FDI inflows only in Türkiye. However, in the long run, there is less similarity, because market size is the only common determinant that positively affects FDI inflows in both countries. Openness and credit have a negative effect in Türkiye, while inflation has a negative effect in Morocco in the long run.

As a result, this study suggests that Morocco should focus more on training its labor force, improving its financial system, developing its infrastructure, and increasing its openness to foreign trade. In this case, the country will benefit from its geostrategic position and will be able to attract Multinational Corporations (MNC) that want to produce at low cost and export to Africa and even Europe. On the other hand, Türkiye needs to adopt long-term strategies to attract high added-value investments that will guarantee sustainable economic growth. The country also needs to maintain economic stability while keeping inflation under control.

Keywords: Comparative Analysis, Economic Growth, FDI, FDI Determinants, Türkiye, Morocco

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ABBREVIATIONS

APT	Arbitrage Pricing Theory
ARDL	Autoregressive Distributed Lag
CAL	Capital Allocation Line
CAPM	Capital Asset Pricing Model
CML	Capital Market Line
CPI	Corruption Perceptions Index
ECM	Error Correction Model
ECB	European Central Bank
ECBs	External Commercial Borrowings
EMH	Efficient Market Hypothesis
ETFs	Exchange Traded Funds
EU	European Union
FDI	Foreign Direct Investment
FCCBs	Foreign Currency Convertible Bonds
FPI	Foreign Portfolio Investment
FEZ	Free Economic Zone
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
LC	Labor Cost
MENA	Middle East North Africa
MNC	Multinational Corporations
MNE	Multinational Enterprise
MPT	Modern Portfolio Theory
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OLI	Ownership, Location, Internalization
REITs	Real Estate Investment Trusts
REER	Real Effective Exchange Rate
SML	Security Market Line
TRY	Turkish Lira
UN	United Nations
UNDP	United Nations Development Program
UNICEF	United Nations Children’s Funds
USA	United States of America
WDI	World Development Indicators
WHO	World Health Organization
WTO	World Trade Organization
WWI	World War One
WWII	World War Two

1. INTRODUCTION

In the context of globalization, economic development is strongly tied to foreign capital movements between countries. Be it, through international trade, financial capital movements, or foreign investment relocation, international capital flows can be a source of wealth for transmitters as for receivers. By this mean, countries are influencing each other's economic, social, and even political situations. Capital flows between countries have several forms and contexts, which diversifies their effects on the exchanging parties. For example, Foreign Direct Investment (FDI) is one important tool for capital movements between countries. The expansion of globalization since the early 1980s made FDI flows increase at a phenomenal rate. In fact, FDI represents one of the most dynamic elements of international transactions where it is actively involved in the process of industrial restructuration.

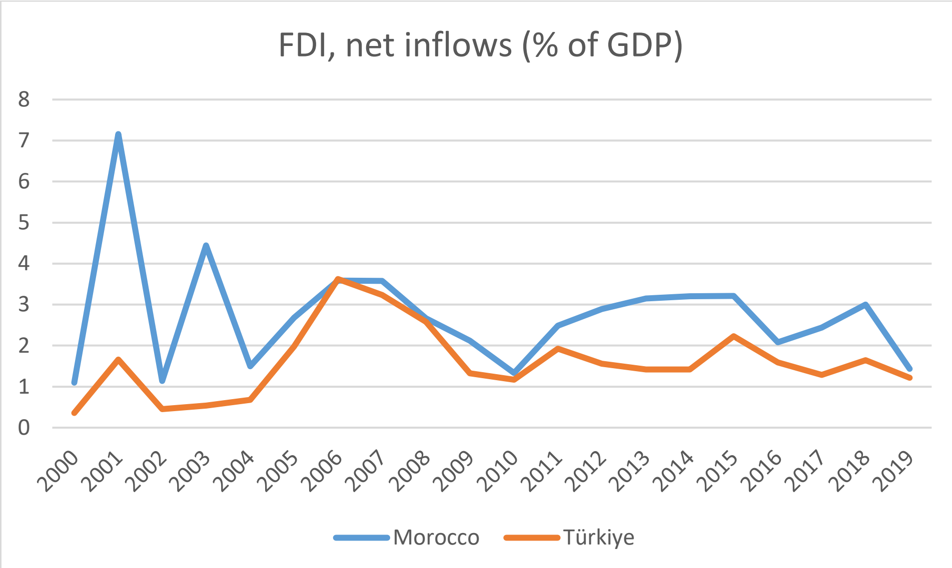
The main aim of FDI flows is a win-win arrangement between the investor and the host, no matter what is the development level of their respective countries. For example, according to UNCTAD's investment monitor, in 2021 the total FDI flows in developed economies reached an estimated $777 billion, while inflows to developing economies reached $870 billion. On the other hand, the global FDI flows reached a total estimated at $1.65 trillion. These numbers show the important amount of capital flows between countries, however, FDI does not transfer only financial capital, but also technologies, expertise, and even modern machinery. It is also responsible for important restructuration and infrastructure improvements in countries of destination. These latter also try to enhance their FDI attractiveness through different measures and incentives that would encourage foreign investors to relocate their businesses to their territories. Among these measures, several are related to FDI determinants such as; labor force, inflation rate, infrastructure, financial development, the openness of the economy, population, and many more. The better these factors are, the more likely a country will receive high amounts of FDI and thus ensure its economic growth. Furthermore, the relationship between FDI flows and economic growth made it an important subject for economic and social debates globally for several decades. This has also driven many researchers to conduct extensive empirical studies to investigate this relationship.

FDI is also considered by several theories as an important driving force for economic growth. It is argued that FDI can introduce new technologies, sets of skills, and know-how, and induce capital accumulation, which according to the Neoclassical Growth Theory is an important condition to ensure economic growth. Other researchers emphasize that FDI is a key pillar for economic growth in the host country, especially when combined with qualified human capital, and sufficient absorptive capability of advanced technologies (see Borensztein, et al., 1995). FDI is also assumed to reduce unemployment, increase productivity and production networks at a global level, and give access to external markets and resources.

Nevertheless, it is difficult to state that there is a commonly acknowledged theory that explains the phenomenon of FDI and its real impact on economic growth. Every empirical study finds different results and new elements that call into question the theoretical assumptions. Therefore, to understand FDI, it is important to comprehend the main motives behind business relocation for MNCs, and the main determinants that attract them to the host country. For this purpose, we decided to add on to the existing empirical studies with a new one examining FDIs in Türkiye and Morocco.

This study will contribute to the economic literature in several ways. First, we consider it important to compare between the socioeconomic situation in Morocco and Türkiye during the last decade to have an idea about the differences in the economic and social parameters of these two countries. Secondly, we aim to examine the main FDI determinants in Morocco and Türkiye separately and then compare the results in both countries to understand which factors play a better role in attracting FDIs. The reason behind the choice of these two countries is, on one side the value that they represent for me as an author, and secondly the nature of their economic structures which seems to be similar after analyzing their macroeconomic parameters.

There have been only few studies examining FDI determinants in Morocco, and their impact on the economic growth of the country. The overall findings of these empirical studies were not all adequate to expectations, either due to data limitations or to the chosen variables which do not properly explain FDI flows. The difference in the findings of these studies can also be explained by the fact that the Moroccan economy is barely relying on FDI as a source of income. For example, this can be observed in 2018 when Morocco received $3.54 billion but still, it formed only 2.8% of its GDP (World Bank, 2018). This means that Morocco's efforts to attract higher amounts of FDI are not precisely targeted, which shows a shallow effect of FDI determinants.



Source: Author's elaboration using data from WDI

On the other hand, there have been several empirical studies analyzing FDI determinants and their impact on economic growth in Türkiye. The general overview of the researchers' findings shows several differences in FDI effects in Türkiye's case as well. There is also a difference between FDI determinants effects in the short-run and the long run (see, Yılmaz, 2014; Koyuncu, 2019; Alper, 2018; Başarir, 2013; Ayaydın, 2015). We can thus assume that FDI inflows are not considered an important income resource in Türkiye, since the highest amount that the country received since 1970 was $22.05 billion in 2007 and it formed only 3.2% of its GDP (World Bank, 2021). This might be a reason why FDI determinants analysis does not explain the inflow amounts in the country.

Considering the previously stated observations, the purpose of this current work is to present a comparative analysis of the socioeconomic situations of Türkiye and Morocco. The aim is to put these two countries into a comparative context where we state facts about their economic performances based on the data gathered. Therefore, the main contributions of this study are:

- Analyzing and comparing the economic, social, and political situations of Türkiye and Morocco.
- Comparing the performances of both countries in terms of FDI attractiveness.

- Analyzing and comparing the main factors that impact FDI inflows in both countries.
- Verifying what can Morocco learn from the Turkish experience in terms of FDI attractiveness incentives.

Türkiye and Morocco are practically similar in several aspects. The first is their geostrategic position where Morocco is situated at the linking point between the European and African continents, plus the Atlantic Ocean and the Mediterranean Sea. This makes Morocco, the closest African country to Europe, which belongs to the Mediterranean basin and also has one of the longest sea coasts in the world. Türkiye on the other hand is the linking point between the European and Asian continents, and it also contains the Bosporus strait which is one of the most important natural canals in the world. Türkiye also has maritime borders with five countries and land borders with eight countries, which makes it an important linking hub, in addition to its airports with Istanbul airport as one of the biggest airports in the world. Adding to that, the religious and political orientations of both countries are similar, since the overall education of their respective populations is based on Islamic values, and their political interests with Europe are similar. Hence, all these elements make Türkiye and Morocco considerable potential destinations for FDIs. Consequently, and to achieve the aim of our study we state the following hypotheses:

- Morocco is following the same development path as Türkiye.
- FDI determinants have different impacts on FDI attractiveness in both countries.
- There is a difference between the effect of FDI determinants in the short-run and long-run.
- There are more effective FDI determinants in Türkiye and in Morocco.

To verify these hypotheses, we examined the economic and social parameters of both countries and based on that we selected similar variables that would allow us to use similar econometric models for both countries.

This study is thus organized into three main chapters. The first chapter presents the theory of foreign capital investments, introducing a definition of foreign capital movements, their historic course, their importance, and their aim. This chapter also exposes the majority of theories that studied foreign capital in general and FDI in particular, and their place in economic literature. The second chapter focuses on the different types of foreign capital investments and especially FDI. It also sheds light on the different forms of FDI, its strategies, and its determinants. Adding to that the main contribution of globalization and internationalization in the acceleration of this type of investment. The third chapter presents our comparative analysis of Türkiye and Morocco's general economic situation. This chapter includes two main parts; the first one is dedicated to investigating the general economic and social parameters of both countries and presenting them in a comparative framework to situate each one of them compared to the other. The second part examines the effects of FDI determinants on FDI inflows in both countries using the ARDL modeling approach and then compares the effects of these determinants in both countries. Finally, we proceed with a conclusion of our findings and present some measure advices together with the limitations of our study.

2. THE THEORY OF FOREIGN CAPITAL INVESTMENT

2.1. Foreign Capital's Definition, Historical Course, Aim, Importance, and Particularities

Capital is what defines the economic and financial strength of an individual, a company, or a country. It is mainly designed for money or assets that can also be used in investments and participate in a country's economic and financial development (Braun & Eduard 2017: 3).

Every economic, financial, or industrial development is related to capital, making it an important factor for every country seeking good wealth and a remarkably competitive position in the international field. A field in which there are some leading names in economic and financial development where populations benefit from decent living standards. But also, a lot of underdeveloped countries in which there is a shortage of capital that hinders them from improving their population's living standards. These countries need more capital to get their populations out of poverty and provide them with proper income and a higher level of employment. This will also increase their outputs and thus the general level of consumption along with economic growth. Therefore, the real problem of these underdeveloped countries is investment opportunities and capital scarcity. This capital can be acquired in the country through internal sources like savings, or as an inflow from abroad (Motamen-Samadian, 2005: 17). These inflows can be either from financial organizations, like the World Bank or the International Monetary Fund (IMF) who can transfer money to underdeveloped countries in form of aids or loans or from other more developed countries who decide to invest or place some capital in poorer countries. We talk here about foreign capital to the countries that should meet some criteria to be able to host these financial transfers or investments (Black & Dunning 1982: 7).

The flow of capital got also more important with the development of technologies and the rapprochement of countries by globalization and the wide openness of economies (Law, 2005: 5). Since more and more countries are taking advantage of this openness by allowing more capital movements and foreign investments, it is nowadays a key for development not only for poor and underdeveloped countries but also for developing ones.

2.1.1. Definition of Foreign Capital

Before explaining the meaning of foreign capital, it is necessary first to clarify the meaning of capital and then define its movements. In economics, there are two concepts of capital: physical tangible capital, which refers to produced goods, such as machines and materials that are used in factories for manufacturing, and financial capital, which is a purchasing power that can be deposited in accounts as monetary funds that can also be used in investments. The buildings and the facilities that are used in the production process or for storing the produced goods are also considered as capital (Butkova, 2020: 3). Capital is also different from money because it is more durable and can be used in investments to generate wealth and thus make more capital to generate more wealth. It is not like money which is a medium of exchange used to purchase goods and services for consumption (Butkova, 2020: 7).

While the rate of capital formation in developed countries is high, poor countries are struggling with low savings levels, making them capital deficient. As such, to meet the developmental requirement, these countries have to rely on foreign capital to some extent. This foreign capital refers to international capital flows from a resident entity of one country to the resident entity of another country. This so-called resident entity may be an individual, a corporate firm, or a government (Kuznets et al., 1967: 29).

2.1.1.1. Foreign Capital as a Source of Finance

Foreign capital is a non-domestic source of financing by foreign organizations or governments. It is an important factor for the growth of an undertaking and an emerging economy where domestic capital and supply are normally limited (Prasad, 2007: 26).

According to several economic theories, international financial movements have multiple potential advantages. Countries have more alternatives in case they experience a temporary recession or a natural disaster, by borrowing money from other wealthier ones. Moreover, emerging countries with insufficient capital, and wishing to foster their economic growth, can seek financing for their investments through different kinds of foreign investment. Additionally, rich countries' capital savings can be more productive and useful by their introduction into the international capital market, and make them generate more wealth, not only for their home countries but also for the host countries irrespective of their location (Meier & Stiglitz, 2000: 33).

International capital markets also have another important role to play in protecting domestic capital markets that may be exploited by policymakers. Risky strategies and unsound policies employed by governors can keep domestic markets captive to their exploitation. For example, in a financial openness, domestic interest rates might increase because of speculative capital outflows due to inappropriate bank regulations or excessive government borrowing. These risks can theoretically keep governments from taking reckless decisions and adjust to international requirements (Motamen-Samadian, 2005: 41).

In the post-globalization era, it was difficult for corporations to grow and foster in a highly competitive and volatile market scenario when the domestic capital and supply is limited. As the abundance of capital can be a chief impelling force to the economic development of a country, its lack can be a real constraint for the growth of an organization, especially in most emerging economies. However, capital is no more an obstacle to growth in countries where it is scarce since with rapid liberalization domestic markets are getting more and more integrated with world markets. This facilitates the transfer of capital, technologies, know-how techniques, intellectual property rights, and expertise among different countries. Because of this new global liberalization, every country that has a good growth potential with a favorable business environment is susceptible to attracting a huge amount of foreign capital. In terms of Investments, every foreign investor is seeking returns from his investments like any other investor, and so host countries that can generate more returns for foreign investors, are the most likely to get capital inflows. In addition to the investment returns, the host economy needs to have sound laws and regulations to insure the confidence of foreign investors in their domestic economy (Protsenko, 2004: 3).

In addition, foreign capital can play an important role in filling in the shortage of domestic resources in a rapidly developing economy, by purchasing industrial tools and modern machinery from more advanced nations. Foreign capital can also meet the penury of foodstuffs caused by the rapid gravitation of farmers towards industrial cities. It can even help in the decentralization of big cities and the creation of industrial zones near these rural populations and keep them from moving elsewhere by creating new local job offers (Meier & Stiglitz, 2000: 249). Consequently, to participate actively in the process of economic development, foreign capital needs to be properly managed by each nation.

Therefore, according to some economists, capital is the major pillar of the process of economic development (Prasad, 2007: 1). It is essential to economic growth and capital-deficient countries should be resorted to foreign capital as the most effective means to improve their economic situations. Consequently, the easy flowing of private capital is increasingly becoming a requisite source of finance for investments in developing countries and thus making their economic development more important. However, their high degree of integration into the global economy can also expose them to external financial shocks. Then, the growth experience of many of these countries would not be very satisfactory and, as a result, they would accumulate a large external debt and face serious debt problems instead of economic fulfillment.

2.1.2. The Historical Course of Foreign Capital

After the industrial revolution, the international economy transmitted progressively industrialization and modernization between countries, not only by trade in goods and services but also by participating in the production process and sharing some of its basic factors such as capital and labor. This redistribution of the factors of production at that time was the reason behind the growth of international trade, and the starting of international capital flows.

The emerging markets have seen an important uphill of private capital flows during the last 140 years. Starting from about 1870 the progress of international capital flows knew four major stages. The first occurred from 1870 to the pre-1914 and the beginning of the First World War (WWI) (Bloomfield, 1968). The second lasted from post-WWI until the great depression in late 1929 (Collins & Williamson, 2001). The third emerged after the oil price shock in 1973 until the Mexican crisis in 1982. And finally, the fourth surge happened recently starting from the 1990s (Hernández et al., 2001).

These four temporal stages were the reason behind a strong evolution in international trade and investment. However, they were also simultaneously a source of financial instability and maladjustment of the currency for the receiving countries, which caused a general political and economic crisis. Despite all the success of this new change in the global economic environment, capital flows were dragging every new era into a crisis worse than the previous one. This historical survey shows that the economic and social situation of the receiving countries at that time was not adequate to realize the aim of globalization based on free capital flows between countries. It is also proof that our modern world has systematically changed to become adaptable to this new internationalization with greater stability. To understand the reasons behind these facts let us present every temporal era apart.

2.1.2.1. First Period (1870 – 1914)

To understand better our actual international financial world today, we should first look at the earliest periods of globalization that were similar to our times nowadays. Among these periods, the starting point in 1870 of the sovereign bond finances that made several changes in the economic and financial world at that time, and ended up on the eve of the First World War (Morys et al., 2008: 4-6). Emerging markets at the time also benefited from international sovereign bonds as a source of finance, they received an unprecedented amount of capital flows for the first time in economic history (Mauro et al., 2007: 2).

During this first economic transition, international capital markets knew a very important integration. Capital movements were unconditional and free of any government controls. Capitals started moving to all kinds of regions of the world, developed and even less-developed combined. Countries, like Great Britain, with an important level of savings, were the essence of this global financing. Borrowers from all over the world were seeking capital inflows from Great Britain, which significantly increased the importance of international capital flows.

The British Empire and mainly Canada, Australia, New Zealand, and the United States, were one of the most important capitals receiving British lending. Countries from inside the empire were more reliable in terms of public borrowing; they carried a lower risk of debt paying. Also, the relationships between Great Britain and its colonies were politically and economically tied due to property rights and joint stock companies in terms of foreign investments for example. In terms of borrowing, many borrowers also were an outflow of immigration deriving from the granting countries, which means that capital flows were also supporting an extension of the European populations and institutions over the newly established colonies (Esteves & Khoudour-Castéras, 2011: 444). These ties were an important ensuring tool for investors that their lent money would be repaid by those countries.

On the receiving side, countries were seeing foreign capital as an important factor in promoting investments and increasing their wealth; the benefiting countries were thus practically borrowing revenue and development (Fishlow 1986). Foreign inward investments were thought to revive the economic potential of the constrained countries and help them nourish their economic growth. The thing that pushed policymakers of that period to join the gold standards and fix their exchange rates to the British currency was to attract greater foreign capital.

Thus, Great Britain was the leading exporter of the majority of the capital flowing in the world during that period (Stone, 1999: 6). The total capital exports of the rest of the countries with a vast surplus in savings such as Germany, France, and Holland were small compared to that of Great Britain. France for example, the volume of its provided capital was approximately half of that of Great Britain, which made it the second most important capital exporter of that period (Esteves, 2011: 1).

Indeed, capital flows nowadays are the main stimulator of economic development covering all the emerging markets of the planet with a massive flowing size. However, it is not new for the British investors who already knew about this experience in the pre-first world war. The various characteristics of that period were examined by several academic researchers who attested that capital flows in that time founded a global economic integration similar to the one of nowadays. This integration reached its peak in the late nineteenth and early twentieth century and crashed down because of the world wars and economic depressions.

Since barriers to labor and capital movements at that time were practically absent, outflows from Great Britain, France, Holland, and other countries towards developing economies were very high and without any systematic control from governments. The productivity of capital in these capital-receiving countries was high, lands were fertile and human capital was very abundant. Many of these countries seem to have benefited from the free movement of capital. Signs of rapid economic expansion started appearing in some areas of European new settlements like the United States, Canada, Australia, and even some parts of Latin America, where the standards of living were also high (Stone, 1999: 6). The number of foreign investments coming mainly from Great Britain towards these areas was very important in the period before 1913. Infrastructures and railroads were financed in major part by fixed interest rate long-term bonds issued by the governments and local companies of these countries to Great Britain. Thanks to these funds, infrastructures, and roads were necessary to improve production capacities and also spread goods into larger markets. However, many of these same countries often dissipated those funds in inappropriate ways covering futile military campaigns, excessive public consumption, or financing useless and poorly engineered projects.

In the meantime, many of these countries accumulated a large dependency on these foreign capital inflows and were dangerously unready for a sudden stopping of these flows. Financially impotent countries that were exposed to this risk experienced a release of financial crises, currency crises, and even a banking crisis that caused a debt economic fiasco in several nations.

Consequently, and from a general point of view, we find that economic growth in the short and medium run of that period was directly related to foreign capital. But there was also a misdirection of the incoming funds by some of the receiving countries, causing long delays in the realization of infrastructural projects that were funded by foreign investments. Furthermore, global financial openness was also a cause of some financial difficulties for countries that borrowed massively abroad, their current accounts got distorted and their economies started facing output losses dragging them into deep financial crises (Morys et al., 2008: 5). Their financial system got weak, which also created a currency crisis deteriorating their balance sheets and leading them to debt servicing problems.

The assessment of economic growth and its relation with international capital flows during this period is thus unclear. However, we can conclude after this analysis that many countries did not benefit directly from the financial market integration. Moreover, the occurrence of financial crises in these countries was behind a temporary slow economic growth which resulted in a low level of output per capita. Also, in some countries that experienced lasting financial crises got their wealth level deteriorated more than before entering the international capital market (Flandreau & Zumer, 2009: 57). On the other hand, countries with firm fundamentals and policies benefited fully from foreign capital flows, even by acquiring some other additional benefits like improved risk sharing, and therefore escaped financial crises.

This first period of capital booms came to an end by late 1913 and the onset of WWI (Bloomfield, 1968: 2). The origin of this end was mainly related to systemic shocks in the global economic and political system, and not because of a global financial crisis or the excessive amount of capital flows. Furthermore, the start of the war suspended all kinds of relations between countries all around the world, and thus the break of the international capital market.

2.1.2.2. Second Period (1914 – 1929)

2.1.2.2.1. During the WWI

Until the beginning of 1914, almost all the important countries of the planet were on the Gold Standard, capital movements were fluent between countries and the gaps between international exchange rates were regulated by the buying and selling of international bonds that were listed on all the stock exchanges of the world. This made the global financial market and especially the European stock exchanges a single integrated market (Eichengreen, 2003: 3).

During pre-World War I, the capital was also transferred easily between countries thanks to the telegraphic wires that were installed through the oceans. Shares and bonds were sold instantly all over the world, the thing that created a fear of massive selling due to the probable repatriation of foreign investors' money and thus a severe fall in prices, plus an outflow of large amounts of capital from some countries to others. This would shut down the European exchanges, and drive the global financial market and capital movements into an international crisis. However, the source of this global crisis was not totally financial at that time, but political. Countries had to stop all kinds of exchanges and declare war on each other (Aldcroft & Morewood, 2014: 64).

After the first era of the global financial market boom, which witnessed unprecedented international economic cooperation between the countries seeking common wealth, the WWI boom started in Europe in 1914 and spread all over the world. As a result, the bank of England approached bankruptcy, the European economy got devastated and most of the industrial productions of the world experienced a general distortion blocking all kinds of economic cooperation that started in 1870 (Aldcroft & Morewood, 2014: 54).

The expenses of the war were tremendous, so to finance their military operations countries started printing paper money and thus suspended the convertibility of gold that was settled as the gold standard (Eichengreen, 2003: 42). Likewise, all kinds of cooperation between nations were terminated, and instead of helping each other economically in a global financial market, they declared war on each other in a global political crisis. Europe sank into a global financial blockade, exchanges inside and outside Europe were closed, and thus international capital movements as well, reflecting the war's huge impact on global financial markets.

2.1.2.2.2. After the WWI

After the end of the Great War, all countries decided to restart an economic recovery by readopting the gold standard which would stabilize the prices and reanimate the suspended capital and trade exchanges. This could revive the international cooperation that was established before the War, and capital would easily flow again between countries. For this purpose, leading countries with important capital as the US and Great Britain reestablished Gold Standard in 1925 (Kitson, 2012). In 1926 France was next to restore the convertibility of its currency, Italy in 1927, and by the end of 1928, almost all countries of the world went back to the gold standard (Eichengreen, 1997: 188-191). Eichengreen emphasizes in his theory two key factors that the Gold Standard was based on; “credibility” and “cooperation”; After taking advantage of these two factors since the first establishment of the Gold Standard in 1821 by England (Eichengreen, 1997: 3), they were destroyed by the advent of the War, which failed the attempt of an economic recovery as people expected.

According to Eichengreen, the first failure of the Gold Standard was the failure of credibility; the commitments of the governments towards the Gold Standard during the after War were insufficient compared to the pre-war. Thereby it took these countries many years to again adopt these commitments that they allegedly forsook during the War.

In terms of investments, the new level of commitment to gold made private investors doubt the reliability of the gold standard, and the regulation of the gold stock levels between countries no longer happened during the after-war period, which distorted the automatic capital flows between these countries. Consequently, when the gold reserve level decreased in a country, its local currency could also depreciate discouraging private investors, who fear a fall in capital gains, from investing in this country.

The second failure of the Gold Standard was a failure of cooperation according to (Eichengreen, 2008: 62). The beginning of 1924 was again a period of international cooperation between the after-war European countries and the other parts of the world as well. Countries like Britain, the USA, France, and Germany were constantly in loan arrangements in order to reconstruct what was destructed by the war. Britain and France asked Germany for high amounts of reparations after it lost the war, which it could afford only by borrowing from the United States (Aldcroft, 2001: 58). On the other hand, France and Britain were at the same time paying back their debts to the US after taking loans to finance the war. As for the other countries as well, they had their central banks collaborating between each other and responding to requests from the distressed countries to finance their public sector deficits in an international bond lending initiative. This cooperation between central banks took also a form of lender of last resort (Aldcroft, 2001: 21) for countries who were in difficult financial situations, which also helped create a synchronization of the global open market operations.

The cooperation between countries took also another form consisting of regulating the discount rates of wealthier countries according to gold reserves in other countries. For example, when a country experienced a deficit in its balance of payment which would cause a loss of its gold reserves, other countries facilitated the outflow of their gold through their central banks which would lower their discount rates. Thereby this financial cooperation reestablished capital flows between countries again in this second period, resulting in a financial recovery based on stabilizing loans that could reinstate the balance of payments and also fix the price levels (Eichengreen, 1997: 46).

This second period of high capital mobility was an attempt to reconstruct the global capital market that prevailed before WWI. However, by the start of 1927, the global financial situation started to take a sharp turn again, influencing international cooperation and the level of capital flows, which resulted in a great depression by the year 1929. Subsequently, during this second period, and before the crisis, the global financial environment experienced some major changes that shifted the relationships between countries. Great Britain, after being the major source of capital flows before the war, changed its lending strategy and directed its capital flows only toward its colonies after the war. The United States became then the new hub of international financial movements during this second period; by taking up the role of the main purchaser of financial bonds deriving from distressed European borrowers and Latin American countries. Moreover, developing investments were no more financed by the international lending of this second period, since a major part of the capital flows was destined to finance public sector reparations and expenditures.

Capital flows of the 1920s took place in an opposite form to the earlier classical gold standard period; they made the global financial system unstable and near to crisis. As a new capital exporter, the United States had a different financial strategy; its capital exports were conditioned by its economic and financial situation, and when its domestic investments increased, its capital exports also increased in a pro-cyclical way. This could be explained by the fact that domestic investments in the US at that time were accompanied by an important rise in savings as well. The situation changed also from the capital-importing countries' side, which got their creditworthiness increasing along with the commodity prices, based on the resources they had (Eichengreen, 1996: 39).

Thus, great capital availability in the United States was often accompanied by massive capital exporting to countries with high creditworthiness levels. Also, on the other hand, when the United States economy slowed down, its foreign lending and capital exporting decreased as well, reducing thereby the number of international capital flows.

The two main financial sources of that time had also different perspectives on capital exporting; during the first era of international capital shares Great Britain was exporting capital to countries with a good potential in producing goods that it imported later at a good price. However, the United States was exporting capital to countries that produced identical products to its exports, which put these emerging markets in a difficult competitive situation with their financial lender. At the same time, while the British economic policy was more for free trade and global laissez-faire, the United States' economic policy was more protectionist preventing its market from foreign invasions (Eichengreen, 1996: 8).

Despite all the differences, these two historical eras of capital movements had also some similarities; capital flows during both periods had variable aspects, characterized by sharp upswings in movements frequently followed by sharp downswings. The downswings of capital movements in these two periods ended up evolving into major economic or political crises; the first era ended with a great war and the second one ended with a Great Depression in 1929 striking almost all countries of the world.

2.1.2.3. Third Period (1973 – 1989)

Since the very beginning of international capital movements with the establishment of the Gold Standard, capital has always been necessary for economic development, also the financial cooperation between countries nowadays has many similarities with the one of that time. Despite the enormous structural changes that the financial system went through during this time of evolution, the concept of capital flows is still the same, with the same aims and objectives. The relationship between emerging markets and the countries considered as financial centers is outlined through a cyclical pattern of capital flows characterized by sharp changes according to the situation of the global capital market. Crises and recoveries also accompanied capital flows through this entire journey, after the Great Depression of 1929, and the financial recovery that followed; capital flows experienced again a new stage after the first oil shock of 1973 (Fleming, 1981: 123).

The beginning of the 1970s was again a revival of international capital flows after nearly 40 years of break, characterized by two big economic and political events, which are the Great Depression and World War II (WWII). Capital was getting more and more controlled in the 1950s and 1960s, and financial resources deriving from wealthy countries towards emerging markets were dominated mainly by Foreign Investments and official capital flows.

However, starting from 1973 to 1982, oil revenues started being recycled which made capital flows freer and witness a remarkable increase again as in the first and second periods of the global financial market. Financial cooperation reestablished back the balance of payments equilibriums in emerging countries, thanks to bank loans that were the main intermediating form of capital flows in this period (IMF, 1997: 239).

The international financial system always played an important role in facilitating capital flows and especially the recycling of oil revenues after the first oil shock. The period between the first oil shock in 1973 and the second shock in 1979, seemed to have forged the financial system and made the flowing of capital easier, especially for borrowers from Asia and Latin America who benefited in many ways from this second recycling (IMF, 1997).

However, the economies of many countries became fragile because of this mass of borrowing. Inflation and the need for more capital made these countries financially more unstable. As a result, the flowing of capital became more difficult because of the real interest rates that kept rising prohibiting these countries from borrowing more capital.

Thus, despite their economic booming thanks to the cheap borrowing of foreign capital, the emerging countries from Asia and Latin America found themselves heavily indebted by the end of the 1970s and early 1980s. They were consequently unable to repay back their debts, which drove the global economy into a great recession still remembered as one of the worst debt crises in the history of finances (Anderson, 2013: 48).

Capital inflows to Latin American countries such as Brazil, Argentina, and, Mexico were supposed to finance industrialization in that area and participate actively in its economic growth; however, the massive borrowings drove these countries into a financial dead end. Their failure to meet the scheduled payments forced these developing countries to seek other loans to repay the old ones; facing higher real interest rates that made them run into more debts, which reduced their creditworthiness and thus limited the capital flows to that region. By 1983, the Latin American debts were evaluated at $315 billion which makes 50% of the total GDP of that region. The accumulation of this amount of credit was difficult to pay back since the local currencies depreciated. The import costs of oil increased which accelerated inflation slowing down their economic growth and the real interest rates in the western countries rose tremendously stopping all kinds of capital flows to that area (Ghosh & Karmakar, 2014: 510). By the end of 1985, the total Latin American and Caribbean Debts formed 43% of the total debt of all developing nations of the world; it was thus higher than any other developing nations in the world (Geiger, 1990). All these factors made the IMF instore new lending commitments and conditions based on export-oriented trade policies instead of import substitution, with a total removal of tariff barriers, plus the privatization of a big number of companies. Following this great recession, capital movements declined sharply altogether with the macroeconomic performance of several emerging countries.

This debt crisis started influencing the international financial market step by step; the rescue process of these heavily indebted countries was a difficult task that lasted for several years. Despite the efforts of the IMF to adjust the economic situation in that area by initiating a new form of concerted lending (Pollock et al., 2013; Claessens et al. 1990), the reintegration of these countries into the international financial market was still a source of skepticism until the early 1990s (IMF, 2014: 6).

2.1.2.4. Fourth Period: Capital Flows After the 1990s

By the end of the 1980s and the beginning of the 1990s, capital movements in the international financial market got released from the blockade caused by the debt crisis in Latin America. International lending revived again, and the most recent surge of capital movement had taken place in the form of private-to-private portfolio flows and Foreign Direct Investments (FDI) to emerging countries.

Despite the skepticism that the debt crisis generated in the international capital market, the economic situation in Latin American countries had recovered by the first decade of the 1990s, and capital movements towards this area increased again accompanied by the surge of capital inflows to Asia as well. Between 1990 and 1996 the total net capital flows to emerging economies was seven times more than the amount of capital movements during the previous period between 1973 and 1982 (Commission of The European Communities, 2002: 11). However, the geographical distribution pattern of these capital flows was uneven. African countries where capital is mostly needed, received only 5% of these flows, together with transition economies which received around 8%, while Asia and western countries benefited from 40% and 30% respectively (IMF, 1997: 241).

This new surge in capital movements was also marked by a dramatic change like cross-countries capital flows; passing from total dominance of bank loans to FDI with a proportion of 40% and portfolio investments (mainly Bonds) at 39%, making them the most important instruments of capital movements until now. This new form of capital flows influenced greatly domestic investments in emerging economies that was consisting of 3% of private capital inflows in 1990 and increased to 13% in 1996.

The continuous implication of these emerging economies in the international financial system through capital movements, allowed them to expand their financial institutions to improve their foreign exchange reserves management and participate actively in the major financial centers of that period. Consequently, the active participation of these countries in the global financial markets encouraged capital flows among them and brought a new intraregional capital movement aspect in the form of foreign investments between emerging countries. In Latin America, for example, the FDI in 1996 increased considerably thanks to the Chilean companies who attributed to foreign acquisitions in the area by approximately $2.3 billion (IMF, 1997: 241). In other countries such as Brazil, Argentina, Peru, and Colombia foreign capital movements resurged again in form of bank loans and bond issuances that introduced a new form of investment where most of the acquisitions were privatization of the state-owned assets.

As the era of the 1990s had also witnessed a surge of foreign capital movements toward emerging Asian countries, this area also experienced intraregional capital flows. Excluding Japan, the major actors in this cooperation were China and Hong Kong. China with its vast population and its important economic potential remains until nowadays the largest capital exporter in Asia, and the largest foreign investor in other emerging markets. It is the most important investor in Hong Kong so far, and by the end of 1995s, China had invested in almost all the southeastern Asian countries such as Singapore, Thailand, Philippines, Malaysia, and Indonesia. Despite its massive outward capital exports and investments, China is also an important capital importer since the beginning of the 1990s; it received 65% of the foreign investments of Hong Kong between 1990 and 1995 (IMF, 1997: 241). Malaysia had also started investing regionally mainly in Cambodia which had seen 75% of its capital inflows coming from Malaysian investments. Thus, it is said that 40 % of the total FDI in southeastern Asia was formed by intraregional capital movements between all these countries, which participated positively in the global economic development of this area.

The liberalization of the domestic financial markets and the capital account transactions in emerging economies was the most important factor that influenced the expansion of capital movements in the 1990s. These structural changes in the domestic financial markets altogether with the international financial markets made intraregional capital flows between the emerging countries smoother and increased capital inflows from more developed countries until 1996. This year the net capital inflows towards emerging markets peaked sharply altogether with FDI. Even though net portfolio investments were in a lesser proportion than in 1994, generally the different forms of capital movements were leading an important economic development in the emerging countries. However, after 1996 capital flows were characterized by a structural transformation in their composition since the bank loans and portfolio investments were gradually replaced by FDI, which decreased the total net capital flows and made the financial conditions in the emerging markets to be considerably tightened. The multiple crises that the emerging markets had experienced evolved a growing risk perception among the borrowers as well as the investors in those countries. The thing that kept net capital flows unrecovered until 1999 when the capital flows increased again, but this time towards the west (WESP, 2010: 74). Thus, net capital flows kept toggling between 1997 and 2002 due to the volatility of global equity markets, even though FDI flows were not affected by the crises, and remained stable.

The openness of financial markets made the progress of financial globalization much faster than trade globalization during these last two decades. However, unlike the developing countries that had seen total market liberalization, thanks to their financial integration, the financial systems of developing countries had only opened up partially, despite their financial liberalization.

Correspondingly, over the last two decades, private capital flows toward developing economies had experienced two main surges. One with the emerging market crises by the end of the 1990s as a first break (Mathieson et al., 1998: 30), and a second one that was suspended by the global financial crises of 2008. These surges were a result of the monetary policy reforms and business cycles in developed countries that had a leading role in global capital movements. By mid-2008 private capital flows toward emerging countries halted suddenly due to the global financial blockade that had started in the United States and spread all over the financial centers of the world. The thing that caused a reverse direction of these flows toward the capital senders, who started withdrawing their money from the receiving countries (Binici & Yörükoglu, 2011: 323).

Subsequently, the recovery of the global financial system started in mid-2009 with a series of reforms established by the central banks of developed countries where the crisis emanated from, which created another surge of capital inflows toward developing countries. Nonetheless, the financial volatility remained at high levels, which worsened the debt crisis among the European countries during 2011, and by the same token, disturbed the exchange rate courses between the Euro and the US dollar. This reduced once again the private capital flows' tide toward developing economies and consequently destabilized the global financial system (Binici & Yörükoglu, 2011: 327).

An equally significant aspect of capital movements since the beginning of the 2000s was the outflows of capital from developing countries as well. These latter, started exporting private capital in the form of financial holdings, as well as acquiring foreign assets and liabilities, and establishing some cross-border investments. This improvement in their current and capital account positions abroad explains the important progress of financial globalization, in which developing countries are also taking an active part. This global financial interconnection allows the countries, that are running a current account surplus position to recover their balance of payment, reduce their foreign debts, and even acquire some foreign assets. Private capital inflows also helped developing countries increase their international reserves during these last two decades, in order to keep self-insurance and reduce their overall reliance on foreign loans (Binici & Yörükoglu, 2011: 325).

To conclude, the concomitant foreign capital movements and global financial liberalization had witnessed a series of successes and difficulties throughout its historical course. Every emergence of international capital flows was suspended by different kinds of crises, its success or failure was always depending on the procedure and type of the exchanged capital. whether it is a foreign bank loan, external financial aid, portfolio investment, or FDI. The capital-receiving countries also played an important role in its success or failure. Either it is a poor country, with poor financial management, that uses foreign bank loans to finance its infrastructures without being able to repay them back, or a developing country that receives foreign investments and makes important benefits out of it. In all cases foreign capital movements had played a very important role in the economic prosperity of many countries, it was the key to success for a series of developing countries that became economic leaders nowadays.

2.1.3. The Aim and Importance of Foreign Capitals in Literature

Foreign Capital has been an essential turnkey in the economic development that our world is experiencing nowadays. For centuries capital flows led nations to substantial economic growth and restructured their Macro and Micro economic parameters; which arouses the interest of many scholars to study this economic phenomenon.

There have been several studies about foreign capital investments and their impact on the economic growth of nations, among these studies many were recently made to emphasize on advantages and disadvantages of economic openness and international interdependencies related to these capital movements. This brought us different opinions about international capital movement's effect on countries' local economies, and whether it is beneficial for a country to open its economy to foreign capital, or it is rather more beneficial to use a country's local resources and put a strict control on its capital inflows and outflows. Some studies demonstrate that capital movements can be only beneficial for the economic expansion of developing countries and add value to their domestic investment and also increase their growth rates (IMF, 2010). While others emphasize that countries should restrict foreign capital entries into their market because of the dependence and the instability that they create.

It is stated that foreign capital investment in developing countries balances the economic growth and the living conditions of the people (IMF, 2010). The rapidly growing East Asia economies are the best example describing how foreign capital growth removes poverty, creates more jobs, and improves education and overall living conditions (Siddiqui, 2014). In fact, after WWII Japan, South Korea, Hong Kong, Taiwan, and Singapore economies have been rapidly growing only because of the support of foreign investments. Siddiqui (2014) noted also that sub-Saharan Africa and other developing countries with low domestic incomes are benefiting from foreign capital inflows. For example, these countries "can undermine their own domestic investors, lend their own savings to other countries, and increase their dependence on foreign investors to sustain economic growth" (p. 44).

On the other hand, Crouch (1973) states that philanthropy foreign capital flows can also benefit the receiving country but only temporarily. Whereas Paul and Truong (2004) declared that foreign investors are required to invest more money than the host countries' savings. Prasad et al. (2007: 156) also highlighted that foreign capital should go from rich countries that have high capital-labor to poor countries that have relatively low ratios. So, in this case, foreign capital fulfills the gap between domestic country savings and foreign investments. As Jain and Arya (2015: 34) noted, foreign capital plays as a bridge between "the domestically available supplies of savings, foreign exchange, and government revenue". Nonetheless, foreign firms are attracted to invest in other countries where the labor force is cheap, which is the main comparative advantage (Merkova & Rajnoha & Dobrovic, 2016: 154).

Also, countries with low economic development are generally lacking in technical knowledge not only in human resources but also in information technologies and modern machinery. This brings-in the importance of foreign capital as an important resource to fulfill these lacks and generate an economic and technological development at the same time. Jain & Arya, (2015: 35) state that the need and desire for industrialization creates the necessity to reduce technological gaps by establishing education, research, or training institutes. Moreover, according to Singh (1965), external assistance of foreign capital helps to mobilize the resources in a country, and it assures the performance of development programs.

Foreign capital can also help improve infrastructures in the receiving countries, for example, roads, ports, railways, or other social and economic overheads that can also be covered by foreign financial interference. These improvements can lead to rapid economic development by attracting foreign investors and encouraging local businesses, and thus, guarantee sustainable development (Jain & Arya, 2015).

Nurkse (1953) also noted that foreign capital helps to maintain and even expands countries' economies and breaks the vicious circle of poverty. Furthermore, foreign companies can take over risky projects in the country that local small companies are unable to invest in. Such projects can for example be the extraction of some raw natural resource from an inaccessible area that requires special machinery that only a large multinational can possess. For example, many developing countries have important mineral resources and low accessibility as well as low economic savings to exploit them. So, in this case, the interference of a foreign multinational can help undertake the exploitation of this mineral wealth (Jain & Arya, 2015: 35).

From their end, Truong and Paul (2006: 69) explain that foreign capital can improve the economic conditions of some countries, only if there is a particular steady equilibrium that is asymptotically stable. Furthermore, the new technology and knowledge that accompany foreign investment have a positive effect on both the steady capital-labor ratio on the steady-state proportion of foreign capital in the aggregate capital.

The importance of foreign capital dates back to before WWI according to Lipson (1985). However, back then the talks about foreign property or foreign capital were not that widely spread (Lipson 1985: 19). As noted, international commerce in the nineteenth century started within the Western standards "of individual ownership around the world" (Lipson 1985: 20). The main meaning of foreign capital appeared only in the twentieth century. Before it was ranging from "colonialism to extraterritorial laws and to informal commercial empire" (Lipson 1985: 21).

To conclude, we see that the importance of foreign capital movements is demonstrated by several scholars. All types of capital flows between countries are described as beneficial for both, issuing and receiving parties. FDI is particularly considered the most important type of foreign capital inflow in developing countries by their contribution to the economic and social development of these countries (Mallampally & Sauvant, 1999: 35). This brings us to analyze further the components and characteristics of foreign capital movements which we will present in the following section.

2.1.4. The Components and Characteristics of Foreign Capital Movements

The economic development of many countries nowadays is mainly based on their international commercial or financial relationships with external partners who are also seeking a win-win partnership. Among these partnerships the movements of foreign capital are the most important tool for the economic development of a country; it is a major source of income and employment through FDI and also local investments financed by foreign funds. In this section, we will try to examine the different components of foreign capital movements and their characteristics.

Foreign capital is the total of different cross-border capital flows that are exchanged between two or many entities residing in different countries. These international capital movements can be between individuals, corporate firms, or even governments of different countries. The components of foreign capital can be split into three different types (Prasad, Rajan, Subramanian 2007: 219):

- Foreign Capital Investments;
- Foreign Aid;
- External Commercial Borrowings;

2.1.4.1. Foreign Capital Investments

Foreign capital investments are the total foreign capital inflows that are emanating from foreign countries for investment in the receiving countries. Foreign capital investments can be divided into two main types, **Foreign Direct Investment (FDI)** and **Foreign Portfolio Investment (FPI)** (Humanicki, et al., 2013: 1).

2.1.4.1.1. Foreign Direct Investment

FDI is a form of capital movement involving a foreign investor in taking part in an investment in another country, either by controlling the full functioning of an enterprise or by acquiring more than 10% of its shares. The foreign investor can either be an individual or a corporate firm that is looking to spread its activity abroad either by implanting a fully independent enterprise or taking part in an already existing one (Griffin & Pustay, 2007).

The FDI flows can be influenced by many important factors such as; geographical proximity, the trade agreements between countries, and also the political and economic stability of the receiving countries. The volume of FDI towards one country is highly dependent on its political and economic situation. Foreign investors are reticent to establish businesses or take part in the ownership of an enterprise in a politically, socially, or economically unstable country. Newly industrialized countries are most likely to receive important flows of FDI because of their unconquered markets that allow foreign investors better distribution networks. Another important factor fostering the flows of foreign capital investments toward industrial countries is the low production costs in the recipient countries including workforce wages and taxes (Dunning, 1993). For example, the growing markets of Asia with their workforce abundance and the privatization of many state-owned companies in Latin America and Western Europe were some key factors encouraging FDI in these regions (Dunning & Lundan, 2008).

FDI is thus the physical form of cross-border capital flows; it refers to the physical investments made by investors from one country into another foreign country. These capital flows are generally emanating from a home country to finance some building, machinery, or equipment businesses in the host country. It is the process when a foreign resident takes up the ownership of a domestic enterprise in the host country in order to partially or fully control its production and distribution (Fadhil & Almsafr 2014: 207). The foreign investor can be an individual, a public or private corporation that can also refer to a multinational corporation (MNC), or even a foreign government, who tends to influence in a high level the management of the acquired entity (De Mello, 1999: 135).

As for all kinds of investment operations, there are two essential options when it comes to investing abroad: either through equities or debt instruments. Equity investment is based on owning something such as stocks or properties in form of real estate. While debt investment is based on loans granted to a company with the expectation of receiving a benefit from the initial borrowed amount with interest. Debt investment figures as a ban certificate of deposit or a form of bond. Despite being less risky than equity investments, debt investments can also produce a loss of capital. Thus, most FDI can be classified into three categories; equity investments, debt investments, and retained earnings of FDI.

2.1.4.1.1.1. Equity Investments

An equity investment is when a foreign investor purchases a domestic asset that generates profit according to its performance. It is the operation of purchasing the shares of a company in another country which makes it a form of FDI. The shares of these companies are generally traded on the stock exchange, and foreign investors acquire them with the purpose of making benefits after they rise in value and generate dividends from the company's capital. Once the value of an equity investment rises, the foreign investor can only benefit from the monetary difference of his purchased shares after they get sold or when the totality of the company's assets is liquidated after meeting its obligations. Thus, equity investments are made with the expectation of an increase in the value of the initial amount invested. Furthermore, with a minimum initial investment amount, the equity fund also gives the investor the possibility to diversify his investment options (Dunning & Lundan, 2008: 7). For example, a foreign investor can purchase shares of different companies operating in different fields at the same time without being dependent on one single activity, and this can be made with only a small amount of capital for each company. This portfolio diversification will obviously require much more capital to cover the different investments.

The benefits of equity investment can be very important as their risk is also very high. They can be directly impacted by market risks. The investors can benefit from the increase in the value of their investments as they can also lose some or the totality of their invested amount according to the market forces that drive the values of shares. Equity investments can also face other kinds of risks mainly related to foreign currency volatilities, credit, political and economic instability, inflation, liquidity problems…

2.1.4.1.1.2. Debt Investments

This kind of debt-based investment can be described as corporate borrowing. Such debt instrument allows companies to borrow directly from multiple investors rather than seeking a loan from banks. Bonds and mortgages are one of these instruments that generate a fixed interest rate similar to normal bank loans. The profit, in this case, is not directly related to the performance of the borrowing entity, it is however stated even if the borrower loses or gains; this latter can be an individual, an enterprise, or a government institution. In the case of a corporation, investors as bondholders are the first to take back their invested amounts if the firm is being liquidated (Fabozzi, 2022).

Furthermore, despite the consistent profit that debt investments tend to provide, the value of this profit is usually lower than the profit generated by equity investments. In terms of risk, debt investments are less risky than equity investments, since the volatility of stock markets makes the value of shares increase or decrease according to the market forces while the interest rates of debt investments are stable. Also, in the case of a corporation that is about to be liquidated, bondholders get their invested money paid back first. However, debt investments can also be risky in the case of a borrower who refuses or doesn’t have money to repay his debt, or a company who declares bankruptcy to legally avoid paying the investor, which makes this latter, lose the totality of his investment. Inflation can also be a concrete risk for debt investments; while the amount invested is held by the borrower, its value decreases in case of a growing inflation rate, since debt-based investments’ rates are generally less than the rate of inflation (Holmstrom & Hildebrand & Thadden, 2015: 7).

Investments based on debt instruments include (investor sales, 2017):

- Government Bonds;
- Corporate Bonds;
- Municipal Bonds;
- Saving accounts;
- Certificates of deposit;
- Annuities;

We can also add to these two investment categories a third kind of reinvested funds that consists of retained earnings of FDI.

2.1.4.1.1.3. Retained Earnings of FDI

When the shares of profits from an FDI are reinvested in the receiving company and are not distributed to the investors, it is called ‘’retained earnings’’. Retained earnings are the profits generated by a company minus the distributions in form of dividends to investors. Every time there is an operation affecting the company’s account as a revenue or expense, the amount of the retained earnings is adjusted. A consistently increasing amount of retained earnings means that the financial situation of the company is also improving. On the other hand, the balance of retained earnings can also be negative if the company’s losses are more than gains or if the dividends distributed are more than the initially retained earnings (Dunning & Lundan, 2008: 15).

The final amount of retained earnings can be explained with this formula (corporate finance institute, 2022):

Beginning retained earnings + Profits/losses – Dividends = Ending retained earnings.

A company desiring to grow through reinvesting its earnings limits the payment of dividends to its investors in order to use them in funding other business expenditures such as new acquisitions, research, and development, advertising, or marketing. Retained earnings can also be used to pay off the company’s debts, or saved as a reserve to face possible future losses.

However, once a company is mature enough and no longer desires to grow as fast as in its beginning, the share of its retained earnings decreases and it starts distributing more dividends to its investors. Furthermore, a company that generates important profit percentages tends to retain higher levels of earnings in form of reinvestments. On the other hand, a company that continuously distributes dividends will retain lesser levels of earnings.

As a result of this classification, cross-border capital movements can be in different forms such as:

- **Foreign Collaborations**:

This can be a financial or technical collaboration between a resident entity (domestic) and a non-resident entity (foreign).

- **Joint Ventures**:

This is a business agreement between two or multiple international parties who join their resources together in order to create a new project abroad. In this business creation, the participants are equally responsible for cost and expenses, losses, and also profits according to their percentage of participation; each investor can contribute with a specific percentage that generates a level of profit or loss accordingly. The venture is also a separate entity from the participants' corporations; it has its own identity (Dunning & Lundan, 2008: 269).

- **Capital Market**:

it is a market created to organize trade operations of financial securities such as bonds, and stocks… between buyers and sellers, these latter can be particular individuals or corporations. These operations are made by different entities that experience a surplus of capital and decide to gather a percentage of their money and put it in the disposition of other entities that experience a lack of funds for their projects. Thus, capital markets manage financial transactions between savers who benefit from a surplus of funds and organizations who are willing to invest in productive projects. This exchanged capital is generally in form of long-term securities (Pradhan, 1993).

- **Private Placements**:

It is called private placement because the equity and debt securities are not offered for sale publicly in order to increase capital, but only to a selected number of investors (or lenders). The reason behind this kind of investment is that companies, either public or private, that are wishing to grow and develop their businesses, might have access to a long-term investment with a fixed rate, and can also diversify and increase the number of their financing sources. In this case, companies take advantage of the longer maturities in order to pay back their investors' private placement, and thus be sure of having accumulated sufficient funds during that time. Private placements are also advantageous for companies that have growth opportunities but without certainty of an immediate return on their investment. Furthermore, Private investments establish long-term business relationships between investors (or lenders) and the receiving companies, the thing that gives the latter more confidence and security about their financial sources for a long period (Dupont-Barton & Basu, 2015).

2.1.4.1.2. Foreign Portfolio Investment (FPI)

This form of investment is different from the FDI; it is a passive investment of securities in a portfolio with the assumption of getting a return on investment. This expected profit on investment is accompanied by an important risk of loss because Portfolio Investment is far more volatile than direct investment. It is based on a short-term investment in tradable securities in a foreign financial market; it subsequently signifies the purchase of government or corporate bonds, short-term notes, and securities by foreign investors (United Nations Development Program, 2011: 102). By 2002 nearly 50% of the global foreign capital flows was in form of FPI. Portfolio Investment flows are mainly influenced by the economic and financial conditions of both sides, the investor and the receiving company. Also, the sales operations of financial securities such as stocks and bonds are easier than selling a factory for example, which makes the portfolio investments' market more liquid than direct investments' markets. Consequently, this allows investors to easily draw back their portfolio investments in case of any uncertainty about their purchases. For instance, a country that received an important amount of FPI inflows in one year, and then experienced some economic or political difficulties, can easily see these investments getting withdrawn by the investors because of their liquidity.

Portfolio investment can cover a big range of financial instruments such as (UNDP 2011: 111):

- Stocks,
- Government Bonds,
- Corporate Bonds,
- Certificates of Deposit,
- Mutual Funds,
- Treasury Bills,
- Exchange Traded Funds (ETFs),
- Real Estate Investment Trusts (REITs),

Portfolio investments can also be physical such as purchasing land, timber, commodities, or real estate, and nonphysical such as managed futures and warrants. Its composition also depends on multiple factors related to the investor, such as the amount to be invested, the risk tolerance, and the investment horizon. For example, mutual funds and exchange-traded funds would be more suitable for an investor who is willing to invest a small amount of money or who has a limited vision for the investment funding, while portfolio investments in real estate, commodities, bonds or stock would be more appropriate for a bigger investor with more important funds. Also on the other hand, portfolio investment opportunities in infrastructures such as roads and bridges are more appropriate for institutional investors or states through pension funds and sovereign wealth funds (Dunning & Lundan, 2008: 75-76).

In conclusion, FPI is a short-term investment made by a foreign entity in a domestic financial market. It is an indirect investment in tradable securities such as bonds and shares of companies on the financial market of a foreign country. Furthermore, contrary to FDI, in FPI the investment-receiving enterprises are not directly managed or submit to any kind of control from the Foreign Portfolio Investor; in this case, the investor's expectations are based on a short-term appreciation of the capital invested.

2.1.4.1.3. The Difference Between FDI and FPI

FDI and FPI are the two most important aspects of foreign capital movements between countries; however, there are some differences in their implementation modes and processes. The first and main difference between these two kinds of capital movements is the results generated by each one of them in the receiving countries. For example, while FDI evolves more positive spillover effects by transferring technologies and high managerial skills between international companies and helps develop research and development in order to bring the receiving companies to a higher level of international competitiveness, FPI is only using the internationally gathered funds to benefit a country from a short-term investment. With FDI domestic companies experience a rapid growth process and benefit from the experience and knowledge of foreign managers' skills which allows them to adopt newly developed systems and get highly competitive with multinationals or foreign firms; however, FPI generates a limited spillover effect covering only short-term capital growth.

Capital-receiving countries are also more suspicious of the sudden outflows of FPI in case of a domestic crisis, since the funds coming through FPI are volatile, and are targeting short-term gains. On the other hand, as a long-term investment, FDI improves better the growth prospects of the receiving countries. It also involves more responsibilities for foreign investors, since its implementation and cessation costs are important. This aspect of long-term engagement gives FDI more credibility and serious commitment from the foreign investors who are also the direct managers of these investments rather than in the case of an FPI. This latter may even create a risk of instability for the local investors because of the speculative activities that might be engaged by the investors to make a profit in a short period. Thus, the speculations made by outside managers on the local financial market can be a source of disturbance for domestic investors. Subsequently, important foreign capital flows in form of FDI towards an emerging economy, can create an important economic development expectation displayed on a long-term relationship with the investors. However, the inflows of a considerable amount of capital in form of FPI might destabilize the local economy and creates a risk related to the short-term nature of this investment.

2.1.4.2. Foreign Aid

Foreign aid can take different forms, but in this section, we will mainly talk about financial foreign aid that consists of long-term concessional loans or grants from foreign countries or organizations to other countries that are in need. Contrary to long-term debts that require repayment obligations, foreign grants are a form of financial support that a country or a financial organization such as the International Monetary Fund (IMF) provides to another country (Farah, Önder, Athan 2018: 12).

Foreign aid can be considered a financial resource for economic development in emerging economies. It is the assistance of wealthier countries to the receiving ones to promote economic development by increasing living standards and consumption levels. It can also improve the education and health sectors, and also help provide a country who experienced political or economic problems sufficient funds to stabilize its economy. Furthermore, Foreign aid can also be a prime mover for growth and economic development in developing countries that would be able to use these foreign funds to create adequate platforms to attract foreign investments and thus boost their economies further. Subsequently, by attracting foreign investments and as a source of capital, foreign aid helps create more job opportunities, increase wages, and thus reduce poverty in those countries (Hansen, Tarp, 2000: 393).

On the other hand, foreign aid can also be kept as savings that would be used for investments or to cover the savings gap and the foreign exchange gap, thus the recipient country would be able to invest in public infrastructures and attract foreign investors (Hansen, Tarp, 2000: 382). It can also help an indebted country to cover its credits and start over with new development strategies. However, as foreign aid can have a positive impact on the economic and financial situation of a country that is willing to adapt its monetary, fiscal, and trade policies accordingly, it can also be very inappropriate for a country that has a corrupted system and might cause a detriment for its economy. These corrupted systems accumulate foreign aid such as debts and push their countries towards a financial dead end where the country is unable to repay its debts (Hansen 2002: 12).

For countries to benefit fully from foreign aid, one of the most important measures to be taken is the open economy. Open trade allows countries to participate in bilateral aid which is an essential criterion for the donor countries. It also allows the recipient countries to attract more foreign investments and thus promotes economic development. Subsequently, the economic growth sparks through multiple mechanisms supported by foreign aid; since this latter plays an important role in importing technologies and increases investments in human and physical capital. Moreover, in addition to the indirect transfer of technologies, foreign aid is also a form of international income redistribution that can help the recipient countries increase productivity and reduce poverty in case they have strong intern policies and no corruption. Thus, foreign aid has no indirect detrimental effects on the national economic growth of these countries. On the contrary, it can make saving rates and local plus foreign investments increase, together with an important technology transfer that will promote productivity and boost economic development (Farah, Önder, Athan 2018: 12).

On the other hand, despite all the positive aspects that foreign aid can have on a recipient developing country, it might not be an efficient tool for economic growth as it seems to be. Foreign aid, can in some cases take the form of easy money flows from abroad which will create a sort of dependency, and help corrupted systems exploit these aids for different aims than they were attributed for. Authoritarian regimes might also be nourished by foreign aid which will keep them in power and increase corruption, as was the case in some African countries (Farah, Önder, Athan 2018: 15).

In conclusion, foreign aid can be a very important tool for economic development in recipient countries if these latter implement good governance and effective financial management. Since the main reason behind the underdevelopment and poverty of countries is not only the lack of resources but also the mismanagement of the existing resources and the bad governance made by their corrupted systems. In this case, foreign aid can drag these countries to a financial dead end and turns to be an economic and humanitarian disaster. Foreign aid can take two main forms, official aid, and private aid.

2.1.4.2.1. Official Aid

Official aid is a form of foreign capital flows attributed by an official body such as a foreign government or an international official organization like the International Monetary Fund (IMF), the World Bank, or the United Nations Children's Funds (UNICEF)…, this type of aid is also known as the Official Development Assistance (ODA). This aid, as it is foreign assistance for development in developing countries, can emanate as a bilateral grant from one country to another, or at a multilateral level as a loan from international financial organizations or as gifts from nongovernmental organizations (Eroğlu, 1997: 31).

2.1.4.2.2. Private Aid

Private aid is foreign funding made by a firm, an institution, or a private individual to another institution in another country. The private aid flows are generally based on the conditions of the recipient countries, it is a response to the general situation of the receiving country and thus it is supposed to be organized by an order of merit. However, the attribution of private donations is generally managed by different kinds of motives that serve firstly the donors. Some theoretical models relate private aid flows in the first place to altruistic reasons or some "warm glow" intents, others refer it to the donor's wish to make a positive impact on the developing world which can be called "impact philanthropy" (Duncan 2003: 2160).

In the first case of foreign aid under altruistic motives, donors are mainly concerned with the global development of other countries, such as the wellness of the public health sector, education, and security mainly in underdeveloped countries, which drives them to contribute to this development. Therefore, it is the care about others' well-being and the wish to participate in their goodness that commends this kind of private aid. The choice of the recipient country by the donor can be related to the relationship between the two countries; strategic, religious, historical, or political links can determine the beneficiary of foreign private aid. However, the contributions of one donor can be reduced in case other parties decide to join the cause and donate to the same country or institution for the same motives. The problem of the "free rider" (Duncan 2003: 2160) might occur and discourage the first donor from giving more; the reason behind this is that the new donors can get the same recognition as the main donor from whom the private aid flows are much higher.

The "warm glow" (Duncan 2003: 2160) expression also describes the same concept of caring about the wellbeing of others, although in this case private aids are accompanied by the emotional self-satisfaction of donors who receive a payoff from the virtuous act that they entailed. The act of giving provides the donors with a positive feeling of helping others, and this is what motivates them to give more even if other private donors decide to contribute as well. In this case, the problem of the "free rider" does not occur because the main motivation for giving is the positive emotional benefits that the donors get in return (Osili 2014: 4).

The private aids based on the "impact philanthropy" concept have a similar aspect to those driven by altruistic motives, in both cases, the main reason behind donating is to make a difference and create a positive impact on other countries in need. The problem of the "free rider" occurs once again here since the motive behind the act of giving is to create an overall impact with the desire for social recognition and international visibility.

Thus, foreign private aid is subject to many concepts and studies that define the motives and benefits behind every donation. The identification of the recipient country is also one of the most important tools that define the volume and the nature of the foreign private aid flows. In this case, the donors care more about the recipient's identity than about making a difference because the choice of the receiving country is based on the relationship between the donor and the recipient. On the other hand, the identity of the donors also plays an important role in defining the volume and the nature of international private flows. For example, corporations might have different donating motives than foundations or individuals. The notoriety gained by corporations through private aid may allow them to expand their profit and/or establish new profitable investments in the recipient countries. Foundations might have the intention to counter poverty and improve the social life in the receiving countries thanks to their donations. And finally, there are the donations made by some countries towards their former colonies to exert a continuous political influence and keep the recipients under their control in another form of colonization.

Thus, Foreign aid can take different forms and can be conducted by different patterns that are depending on the donors and the recipients at the same time. In addition to that, External aid can be classified into two major types; tied aid and untied aid. Tied aid is a form of donation with conditions. It emphasizes that the recipient country should use the funds given by the donor in buying the products produced by the same donor, or a specified group of producer countries designed by the donor (DAC 2006: 31). It is an external aid with the requirement that it is the donor who decides how the funds should be spent by the recipient. In some cases, it ties the recipient to high costs demanded by the producers that the donor designed, and thus it turns from being an aid to a burden that is carried by the recipient and controlled by the donor. On the other hand, untied aid is a donation without conditions from the donor, in this case, the recipient is free to use the funds received without restrictions (Farah, Önder, Athan, 2018: 17).

Despite all the complications and the figures that foreign aid can take, it is a good opportunity for recipient countries to benefit from foreign funds without any pressure or terms of repayment. The utility of foreign aid can be very important for developing countries that lack capital. It can help regulate the saving-investment gap or improve the infrastructure to attract foreign capital and thus increase investments and lead to important economic development in the country.

The use of foreign aid can also have some disadvantages related to the relationship between the donor and the recipient countries; the dependence of these latter on foreign aid may lead to political pressure exerted by the donors. The more the amounts of aid increases, the more the donor countries interfere in the internal policies of the recipient countries, leading to political compulsions in the recipient's economy. Thereby, the recipient countries find themselves under the indirect control of the donors who interfere even in the internal decisions and laws of the recipient countries. In addition to that, countries that are dependent on foreign aid would always expect the inflows of donations and thus plan some projects based on these donations. However, in case of a delay or uncertainty of foreign aid, the recipient countries find themselves in a difficult situation and suffer a scarcity of funds due to their dependence upon external help. Furthermore, foreign aid creates a certain kind of laziness in the governments' behavior, which halts all kinds of initiatives and results in a sense of complacency from the governments' side.

2.1.4.3. External Commercial Borrowings

External Commercial Borrowing (ECB) is a financial instrument that a country uses to finance its local commercial activities by borrowing money from a foreign source of capital. It is a form of foreign capital movement that covers foreign loans attributed by foreign lenders as investments in the commercial activities of another country. It can take the form of commercial bank loans, fixed-rate bonds (securitized instruments), buyer's or suppliers' shares, and even preferred shares (Saxena 2021: 138).

External Commercial Borrowings (ECBs) are funding instruments different than equities. They cannot be used in any speculative activity such as an investment in the stock market for example, which means that if the foreign loans are used to finance the core capital of a company, then they become an FDI and not an ECB.

The ECBs are less convenient for recipient countries than foreign aid, in a way that the interest rates of ECBs are higher than in foreign aid, which makes them more of a burden than assistance for development. They also develop a higher risk of dependence which weakens the economy of the recipient country instead of making it stronger.

External Commercial Borrowings (ECBs) include also another kind of bond which is "Foreign Currency Convertible Bonds" (FCCB); which is an instrument mixed between debt and equity and is funding issued by a foreign company in a foreign currency different than the issuer's own currency (The Institute of Company Secretaries of India 2017: 33).

In conclusion, as we discussed above, foreign capital movements can take different forms and serve different objectives. Foreign capital can be beneficial as it can be harmful, depending on its form and how it is used by the recipient country. Subsequently, from a general perspective, we can conclude that FDI is the most effective way of capital movements between countries, its participation in economic development throughout history demonstrated the importance of the effect that it has on the economic growth of developing countries. In the following section, we will try to discuss the different theories that analyzed foreign capital and the different thoughts about foreign capital and its effect on economic growth.

2.2.The Theoretical Literature of Foreign Capital Investments

The role of private capital movements in economic and financial development has grown tremendously across the last decades since its beginning. Its impact on the economic growth of developing countries was considerable, which makes it one of the most important growth mechanisms nowadays. Among the private capital movements, foreign investments are the most noteworthy in their impact on the economic growth of both the foreign investor and the receiving country. Consequently, foreign investments were analyzed in many theories to understand their direct and indirect impact on the economic health of countries. Therefore, it has become necessary to dissect the essential theories that help explain the relationship between economic growth and private capital movements. In this section, we will try to embrace a group of the most relevant theories that studied the different aspects of foreign investments and try to extract a conclusion about their participation in the economic thriving of developing countries.

2.2.1. The Monopolistic Advantage Theory of Foreign Capital Investments

One of the important theories that studied the international movement of capital is the monopolistic advantage which was first introduced by the Canadian economist *Stephen Hymer* in his doctoral thesis in 1960 and was later developed by the American *Charles Kindleberger*. In this theory, Hymer (published in 1976) tries to explain the reasons behind the success of Multinational corporations (MNCs), as a source of capital movements, in entering foreign markets and even competing against local enterprises in capital-receiving countries (Pitelis 2005: 7).

The monopolistic advantage theory tries also to explain the reasons why corporations choose to bring their activities to an international level and establish competitive branches in foreign markets. Despite, all the challenges that face MNCs in accessing a foreign country such as; the lack of knowledge about the local market and its needs, the absence of local know-how, and the categorization associated with foreignness, MNCs benefit from other "monopolistic" advantages that allow them to access the foreign market and glean even higher profits than the local firms (Salimath 2009: 1152).

In his theory, Hymer tries to elucidate what the neo-classical theories of international trade were not able to explain about the penchant of firms to internationalize their operations. In the neo-classical international and financial trade theory, a country with an abundance of capital would export its capital-based goods to another country where labor is abundant and import this latter's labor-intensive goods. However, since post-WWII, the majority of capital movements started taking place mainly between industrialized countries that had similar production factors. Hymer's explanation of FDI stresses that the importance of acquiring an asset with full or partial control can generate more important returns than international trade due to barriers and other factors, and also the established firm would become a major determinant of capital and goods' flows (Black, Dunning 1982: 53).

Theoretically, in international business, the competition between indigenous firms and foreign ones seems to be in favor of the local firms who are better placed to know their environment and the characteristics of their local market, which may be costly to get for the foreign firms. However, multinational firms benefit from other advantages that are difficult to get for local firms. In the case of FDI, multinational firms choose to enter the foreign market by acquiring one or many foreign affiliates that are FDIs in the country to get access to their full control and thus seize all the monopolistic advantages they are endowed with. These advantages are generally related to technological innovations, marketing strategies, manufacturing methodologies, scale economies, branding, business strategies, and all the skills that local firms don't possess. Moreover, these advantages are owned by the foreign firm that puts them in use in another country where local firms are not able to purchase them, which makes them specific to the foreign firm and not the location of production (Salimath 2009: 1152).

On the other hand, despite the advantages that multinationals enjoy in foreign markets, perfect competition can play in favor of local firms. With government protection, geographic proximity or what is called the functional distance, extensive knowledge of the market rules, and the consumers' needs, etc. (Verbeke 2016: 6). Furthermore, local firms can even purchase technological innovations or some other advantages from the MNCs to be more competitive and restrain these latter's monopoly. Notwithstanding, the monopolistic advantage theory emphasizes that with the existence of market imperfections, the competition between MNCs and local firms tends to be limited because of the differentiations of the factors of production such as; management and good governance, proprietary knowledge for some products, highly skilled labor and overall capital (Caves 2007: 106). Consequently, local firms find themselves unable to purchase the most important advantages that the MNCs possess, which leads to the creation of monopolies or quasimonopolies. As a result, FDIs made by MNCs allow them to acquire control even over the resources in foreign countries, which provides them with a high level of monopoly in the local markets and thus generate important benefits.

Multinationals that are willing to move their activity abroad and benefit from the monopolistic advantages in a foreign country are first required to estimate the transfer costs of their advantages. For example, the advantage of technological patents possessed by a foreign firm should be easily transferable if the firm decides to deploy its activity abroad. As a result, the firm could benefit from recovering the costs invested in research and development by the leverage of technological innovation abroad (Caves 2007: 295).

Hymer states also in his theory that the international firm is an active agent and not a passive agent, in a way that the monopolistic advantages allow it to generate a high level of what is called the “monopoly rents”, which is a result of the superior abilities that cannot be reached by the local competitors, especially in the short run, thing that creates market imperfections and fosters the MNCs positions in the local market even further (Caves, 2007: 295).

Despite all the contributions of the Monopolistic advantage theory in understanding the international movements of capital, it is still subject to some major criticisms. The theory treats namely the case of big firms who intend to internationalize their activities for the first time. In the case of new ventures who do not possess any initial advantages and who decide to set up abroad, the theory does not cover this kind of entrepreneurial firms nor explain their activities without a prepossession of what is mentioned as monopolistic advantages. Also, its explanation of the monopolistic advantages lacks clearness about how they take place. It states that a multinational firm can access a foreign market and make use of its monopolistic advantages mainly through an FDI because it is the easiest and most practical form of investment abroad. However, the theory does not illustrate why it is the most preferred form of investment in this case. Furthermore, some advantages, that international firms benefit from abroad may be comparative advantages, where the opportunity costs are involved and thus belong to the Ricardian theory of comparative advantages. Also, the theory lacks arguments in case two or several international firms decide to access the same foreign market with the same advantages. Would there be any monopolistic advantage and or monopoly rents? The theory is also told to be stationary and not progressing in time with the changes occurring with globalization (Salimath, 2009).

Kindleberger (1969) took Hymer's theory as a reference and tried to expand it by explaining the impact of the monopolistic advantages' power on FDI. For Kindleberger, market imperfections are a decisive condition for MNCs to benefit from the advantages that differentiate them from local firms. The greater are chances that a firm would generate monopoly rents, thanks to the exclusive advantages it possesses, the higher the inducement for the firm to invest directly in a foreign market where the potential competitors won't share the advantages it is willing to exploit. However, as Kindleberger (1969) expanded the monopolistic advantage theory, he also failed to mention the advantages that might be the most beneficiary and that MNCs should focus on. Moreover, the host country should also be willing to allow free access for foreign firms to their local market. Otherwise, it will be more costly and thus reduce the monopoly rents that the foreign firm is hoping to generate from the advantages it possesses. For example, some countries put barriers to MNCs, who are wishing to invest in their local market, to protect the national investment's interest. Notwithstanding, the majority of developing countries allow free access to foreign firms under some soft conditions to create more job offers and benefit from all the financial transactions that the foreign firm would make in the country (Brincikova & Darmo, 2014).

2.2.2. The Oligopolistic Advantage Theory of Foreign Capital Investments

As we discussed above, market imperfections are an important tool for MNCs to establish a business abroad and benefit from the exclusive advantages they possess. However, even though the reasons behind MNCs transferring their activities to another country might differ, they still have some similar principal motives such as; seeking great returns from an unexploited foreign market and taking advantage of the abundant production factor in the host country. Nevertheless, Knickerbocker (1973) made a study discussing the possibility of a third reason that motivates firms to move their activities abroad and chose a specific country as a location for establishing their activities by taking the example of oligopolistic firms transferring their operations from the same countries to the same target markets. In his study, Knickerbocker also states that the main reason behind MNCs choosing a specific country for exporting their activities is the rivalry with other firms who also choose the same market. In other words, it is the competitiveness and the desire to keep up with the competitors' moves that generate this kind of imitative decision (Hoenen & Hansen, 2009). This means that a company, that possesses the same advantages as another company that exports its activities abroad, will follow the same path and internationalize its activities as its competitor. In this case, this firm's main motive is to not lose its strategic advantage and thus create what can be called an oligopolistic advantage for foreign investments.

Knickerbocker emphasizes also that firms that operate in the same industry and benefit from the same advantages tend to take the same transferring decisions for their activities (Knickerbocker, 1973). For example, firms who are exporting their productions to a market where a competitor it wishing to set up a manufacturing subsidiary, find themselves obliged to transfer also their activities without taking into consideration the production costs in the host country. Their main concern is to avoid being undercut by their competitors (Altomonte & Pennings, 2003). Moreover, for Knickerbocker, the oligopolistic reaction is a function of the kind of activity that the firm is carrying out. For example, when two competitor firms produce and export the same product, and one of them decides to move its production to a country that imports this same product, in this case, the oligopolistic reactions increase together with the level of concentration of the mentioned production abroad. However, when firms diversify their production, then the risk of being undercut by other companies who are offshoring their activities will be minimized. This oligopolistic theory of Knickerbocker is represented nowadays by a small number of large MNCs that are taking over the majority of the big industries; such as automotive, communication, electronics, and much more (PWC, 2021).

The general definition of an oligopolistic industry is when a specific industry is dominated only by a few numbers of corporations. In this case, companies tend to follow each other's decisions and imitate their behaviors to keep their place in the market. Consequently, these firms exert a mutual impact on each other's policies namely in terms of offshoring their activities out of competitive rivalry, sometimes even without taking into consideration the costs of establishing a branch abroad.

For example, the automotive industry is progressing tremendously in Morocco, and the Moroccan car market is a good outlet for French products. This encouraged the French car producer *Renault-Nissan* to install their second factory in the country in 2012. Consequently, the second French car producer *PSA group* for *Peugeot-Citroen* also decided to move its factory to the kingdom in 2019 to keep its market part in the industry (Benabdeljlil et al., 2019). In this example, we can see a representation of the theories discussed above about the oligopolistic advantages, where some MNCs take the initiative of transferring their activities to a foreign country after a long cost and market analysis, and some other firms follow their competitors' decision out of a rival foreign investment. In this case, these firms fear that their competitors undercut their production and limit their exports because of the low production costs in the host country, so they also move their production. However, the motivation for some firms to go abroad and follow their competitors' choices decreases in case of uncertainty about the transaction and production costs in the host country. Therefore, rival investment is no longer enough motive for firms to transfer their activities abroad because they need to have clear visibility of the competition and the risks, they might encounter (Alcácer et al., 2013). These transaction costs are mainly related to the entry barriers that regulate the entrance of MNCs to an industry in the target market. In this case, high costs reduce the oligopoly, and low ones for some industries allow more MNCs to establish foreign investments. Based on these costs and the degree of market imperfections, which plays an important role for international corporations to benefit from the advantages they bring with them, (similar to the monopoly case); MNCs decide to opt for transferring their activities abroad or not (Hennart, 1991).

As a conclusion, and from a general point of view, the statement of Knickerbocker in his theory about the oligopolistic reactions of MNCs explains the behaviors of these latter and their decision-making in terms of transferring their activities, and also the general motives behind these decisions. However, it does not explain the main incentive that pushes the first MNCs to transfer their activities abroad and undertake FDI.

2.2.3. The International Product Life Cycle Theory

Every product that is subject to national or international markets has a life cycle that the American economist Vernon (1960) explained in his theory *"The International Product Life Cycle Theory"*. In this theory Vernon stresses by means of internationalization, the life cycle of every product is characterized by 4 development stages where the product enters the market and gradually disappears after using up its life cycle. This life cycle initially starts with the product development passing by its maturity and then ending up with its decline (Essays UK, 2013).

In his theory, Raymond Vernon states four stages in the product's life cycle; **Introduction**, **Growt**h, **Maturity**, and **Decline** (Audretsch et al., 2021). This Product life cycle's duration might vary for every product according to many criteria, such as the location where it was introduced, the nature of its use, the innovation model used in it, and also the protection measures that are taken for its copyrights. Thus, some products last for a short time while others last for decades. The success of a product is related to how fast it goes through its entire life cycle. Since its introduction into the market, the demand for the product and the marketing strategies that are employed in its trading are the main determinants of its life cycle duration.

2.2.3.1. The Product Introduction

The product introduction is the first stage in the product life cycle. It is when a corporation in a developed country innovates and introduces a new product for its local market first. It is generally the most critical stage in the product life cycle since the marketing of the new product requires a lot of effort and time. During this stage, the market part that the product would possess is relatively small and the results of its sales are also low (Kozłowski, 2011: 285). According to Vernon people in developed countries have higher incomes than people in developing countries, which is why the product lunch in a developed country can affect its sales results positively and thus extend its life cycle. In this stage, the manufacturing process should stay local and no offshoring activity can be considered to compensate for the low sales of the product. Also, since the introduction of a new product is often accompanied by many modifications, the transfer of the production activity to another country would be a source of time wasting and might result in the ending of the product life cycle in the first stage. However, once corporations have launched the product successfully in the local market and its sales increase, they start thinking of distributing it internationally; first by exporting to other developed countries to increase their sales and get more revenue. In this stage the product offer in the local market surpasses the demand, so companies will try to create an international demand and thus the product enters the internationalization phase seeking the attention of consumers from more developed countries (Kozłowski, 2011).

2.2.3.2. The Product Growth

In this stage of the product life cycle, the product demand starts increasing altogether with the sales. The profit that was low at the beginning of the product introduction starts also increasing thanks to the decrease of the production costs due to the economy of scale. The product gains a wide reputation in the local market as well as a progressive introduction in the international markets, which attracts more competitors who try to make their own version of the product and thus enter the same markets that were already initiated by the original product. In this case, the new competitors propose a similar product at a lower price to make high sales and generate a quick profit. On the other hand, the company that first introduced the original product to the market will continue its progression by adopting new promotional strategies and spending more on product marketing to attract as many customers as possible to keep its place in the market against the new competitors (Hussey, 1998). In the meantime, while more and more consumers are buying the product, it enters the maturity stage.

2.2.3.3. The Product Maturing

Once the product has taken place in foreign markets and created an important demand in developed countries, the manufacturing corporation starts thinking of moving a part or the whole production process to these developed countries, to reduce the export costs, and thus get closer to as many customers as possible. By establishing a production plant abroad, corporations seek to surpass the local competition and meet the demand evolving from developed countries, at a lesser cost. Thereby, by reducing expenditures such as labor costs, seeking a cheaper workforce abroad, and eliminating export expenses, the revenue will increase and the product will reach an international maturity (Hussey, 1998: 108).

In this maturity stage, the development process of the product can still be subject to some modifications to adapt to the new consumers' requirements. Its place in the foreign markets will still grow thereby, and its demand in developed nations will continue to increase. Subsequently, competition in foreign markets will also increase, making more alternatives for local consumers. In this case, to cope with competitors, corporations start developing new marketing strategies and also start hiring a highly skilled labor force, which will drive the unit costs up and thus the revenue will decrease again. On the other hand, product exposure reaches also less developed countries with lower living standards. First through exports, until the competitive products invade also these markets, which results in the original manufacturer losing its competitive edge locally and thus deciding to concentrate on reducing the production costs and the sales prices rather than innovating and adding new features to the product (Ietto-Gillies, 2012: 67).

So, to drive down production costs, corporations intend to move once again their production to countries where the workforce is cheaper, and where it can standardize and streamline the manufacturing process. However, after some time the introduction of the new technologies and methods that are used to make the product gets spread among the local workforce, and thus the competitors start rising again in these countries as they did previously in developed ones. On the other hand, the original product starts to lose its part of the market in its home country because of the development of new products that attract the attention of the consumers, which leads already to the beginning of the product's decline stage. Arriving in this situation where the market for the product is saturated and the offer exceeds the demand even in low-income countries; the multinational company who first introduced the product starts leaving the manufacturing of the product also in these latter and focuses instead on developing a new product different from the previous one. In the meantime, the market for this product is shared between the new competitors, and the sellers in the original country tend more to import the product from countries where its production cost is lower so that they can sell it at a lesser price (Ietto-Gillies, 2012: 71).

2.2.3.4. The Product Decline

The product enters officially the decline stage after its sales drop altogether with its profitability halting ultimately its production. During this stage, the product starts reaching its death with the high competition that reduces the profit for all the sellers and decreases the sales volume of the product. In this case, the changes in consumer tastes and the development of new technologies bring up new modifications that create another product different from the initial one. The profitability of the first product is thus no more related to the volume of its sales but to its efficiency and its competitiveness with the newly arriving products. Consequently, the termination of the product means a change in the business cycle of the product range, rather than its end. The product cycle of the initial product in this case ends giving place to the continuity of the business cycle with other newly initiated products (Hussey, 1998).

As the competition becomes tough and the product's efficiency declines altogether with its profitability, the product manufacturing will no longer be profitable and its production will stop. An example of a product that was systematically replaced and has watched the end of its life cycle is the *CD*, it experienced a boom when it was first initiated to markets, then it was gradually replaced by the *DVD*, and now it is this latter's turn to be replaced by the *Blu-Ray* (Studycorgi, 2022).

Thus, we can conclude that the product's decline process starts with a gradual decrease in sales volume due to the fall of its popularity and the rise of severe competition bringing new products into the market. The prices fall considerably bringing down the profitability rate which also turns negative, because of the counter-optimal cost structure employed by the producer to increase sales. Consequently, the product comes to its end, although the termination of the product cycle doesn't mean the end of the business cycle related to the whole range, but only the end of one single component of the business program. On the other hand, not all products necessarily pass through the same cycle with its four stages; some products might also never pass the introduction stage while some other products last for a considerable time in the maturity stage, marking their success. It all depends on the nature of the product and its market plus the strategies maintained by the corporation and also its strength in the market. The duration of the life cycle of each product before reaching the decline stage depends on three main elements; the first is the demand which depends on the marketing strategies implemented by the corporation. The second is the cost of production which determines the sales price and thus the profitability and the product's place in the market. And the third is the revenue which grants the continuity of the product or its halt. Products with low production costs and high demand will generate important revenue and keep their place in the market and experience a longer life cycle than the products with high production costs and low demand, which will pass faster to the decline stage and get withdrawn from the market (Hussey, 1998).

2.2.4. The Capital Market Theories

Since the very beginning of capital movements, they were subject to a considerable number of theories, covering all the forms of capital and tracing its movements' schemes. In this section, we will try to embrace the different capital theories that cover capital movements through investments, either in financial markets or physical markets. These theories are concepts that try to analyze the investors' behavior before, during, and after investing. And thus, explain and predict the progression of capital and financial markets over time. In general, every investor willing to start an investment starts first by employing consciously or unconsciously one of the capital market theories to study risks and revenues to expect from the investment. For this matter, capital market theories form a significant foundation for the establishment of financial asset pricing models.

Thus, we can say that capital market theories are major tools for investors to have clear visibility and predict the relationship between the return and risk on investments in the capital market they are intending to enter. For example, if we take capital markets as a reference the investment decision is mainly based on the information gathered by the investors about the market and its performance, which will allow them to decide either to invest or divest their securities (Laubscher, 2001:45). In this case information is an essential implement in the process of decision making to guarantee that the risk involved in the investment in securities will be compensated by an adequate return. Based on the capital market theories; this prospection of the relationship between the return on investment and the risk involved in it can be the main motive behind companies investing in foreign markets. Thus, the general impression about capital markets is based on the fluency of information that makes the markets perfectly efficient. Subsequently, capital markets are said to be efficient when all the available information is reflected by the prices (Jensen, 1972: 25).

On the other hand, assuming that the markets are perfectly efficient, the decision to invest is subject to a high level of rationality from the investors who are always doubtful and risk-averse towards new investment adventures. Thus, to study this risk reticence and give a clear insight into the motives and fears behind investments in general, several theories were introduced into economics about capital markets specifically. These are, among others; the Efficient Market Hypothesis (EMH) by the economist Eugene Fama (1970), the Modern Portfolio Theory (MPT) by Harry Max Markowitz (1952), the Separation Theorem by James Tobin (1958), the Capital Asset Pricing Model (CAPM) and the Arbitrage Pricing Theory (APT). We will try to present a general overview of these theories separately.

2.2.4.1. The Efficient Market Hypothesis

One of the most important investment theories that study the power of the market is the Efficient Market Hypothesis (EMH). This theory states that the shares' prices dealt on a specific market reflect all information and thus this market can't be beaten by speculation. In other words, the theory emphasizes that stocks and securities always trade at their real value on stock exchanges and securities markets; which impedes investors from buying undervalued stocks or selling them at an inflated price. As such, the only possible way left for investors to get important returns is to purchase riskier investments and reduce the risk reticence that all the precautious investors feel before starting a business (Lo, 2004: 23).

In simple words, as a general definition, the efficient market theory is a hypothesis that emphasizes the existence of an invisible hand that regulates the capital market and makes the prices of securities reflect all available information about their fundamental value. Subsequently, this theory makes the market impossible to be beaten by investors or their clients. Moreover, according to the EMH, the speculative prospects in an active marketplace, where the securities are traded publicly, are driven to zero by the strong competition between investors. As such, speculative trading is thus stated as costly and speculation in this case is no longer beneficial for investors (Ang et al., 2011: 1). Also, according to the EMH, traders who seek to exploit mispricing in an asset's market have no chances to make benefits using this type of active management strategies which tend to be also replaced by indexing strategies. And this is because marketplaces are managed by an invisible hand that acts faster than any trading agent which eliminates any form of mispriced assets in the market (Ang et al., 2011: 1).

This theory envelops also some important concepts that should be defined and examined to understand fully its implications in capital movements. Among these concepts, we have "Market Efficiency", Market Inefficiency" and "The Perfect Market".

2.2.4.1.1. The Perfect Market

One of the most important aspects of the capital market is its ability to be a perfect market. For this aim, capital markets need to display some specific investment-related characteristics to be considered perfect markets. The first criterion is related to the investors' rational behavior in the market, these latter should take their investment decisions based on the aim of seeking high returns with low risk. The second criterion is related to the information circulating in the market, in a perfect market all the investors have free and full access to all the information related to the products they are interested in. The third criterion is the transparency of the market where the investment decisions are not influenced by taxation or the transaction costs between the securities' buyers and sellers.

Moreover, for a market to be considered perfect it should be subject to several requirements such as (McGuire, 2010):

- The pricing of the goods should be fairly in accordance with the available information in the market;
- The information should be available for all securities and accessible to all the buyers and sellers;
- The stock of securities should be unrestricted;
- The market should be accessible to everyone and the entry or exit from the market should have no restrictions;
- The goods should be homogeneous and open to active trading;

In addition to these requirements, the securities' prices in a perfect capital market should reflect the real investment value in these securities at all times without any lags. However, it is difficult for capital markets to assemble all these attributes and requirements to become a perfect market, which makes the concept of a perfect market practically non-existent (Lo, 2007: 11).

2.2.4.1.2. The Market Efficiency

As it was presented by many researchers and studies and was mentioned in the definitions above, capital market efficiency evolves when the value of a security is genuinely represented by all the actors involved in its market's consensus (Van Horne 2001:49). Thus, when the prices of securities reflect their real value, and the information is instantaneously available for all the investors, these latter don't have access to abnormal profits since the prices of securities in the efficient capital market are neither overrated nor underrated (Firth 1977:105; Keane 1983:28).

On the other hand, the main work of Fama (1970) explains that a correct adjustment of the information in the capital market can implement a random change in the security prices, which is presented in the theory stated as the EMH (Hendriksen & Van Breda 1992: 169; Van Horne 1992: 51; Henderson et al. 1992: 291; Harrington, 1987: 26-35). This hypothesis can be explained by the fact that all investors aim to maximize their wealth by increasing the marginal utility of their businesses, that is why they base their investment decisions in the capital markets on the relationship between the risk and the profit to generate. Consequently, in an efficient market, the expectations regarding the risk and return ratio are the same for all investors, who fix their time of investment in specific markets where they all have access to relevant information simultaneously and without any cost. Thus, the efficient market is defined under several conditions that stipulate its efficiency. Among these fundamental conditions, is the availability of relevant information that should also be cost-free for all investors who are also allowed to trade securities without any costs involved. Also, based on this shared information the investors endorse the implications of the available information in determining the prices of securities (Fama 1970: 46; Bicksler 1977: 1; Hendriksen & Van Breda 1992: 169). Thus, we can say as a conclusion that in an efficient capital market, the real value of securities is genuinely provided by their prices.

2.2.4.1.3. The Market Inefficiency

‘’The Market inefficiency’’ is the opposing concept to the EMH, it states the possibility that capital markets can also be inefficient. This case can be related to the circulation of information, for example when the information about securities is not accessible to many investors, or when the new circulating information is misinterpreted by many investors. This leads other investors to predict the movements of security prices and thus earn excessive returns compared to the risk involved in distorting the return/risk ratio of the efficient market. In this case, the capital market can be considered inefficient (Kam 1990: 56; Henderson et al. 1992: 292).

In case of market inefficiency, investors might also take advantage of the occurring inefficiencies to generate benefits that exceed the risk taken in the investment. Thus, for these inefficiencies to be usable for investors, they first need to be material enough and identified in a manner that would help them or their investments generate abnormal returns exceeding the costs and risks involved in the investment. A well-identified inefficiency must also have a continuity in the future so that it keeps benefiting investors in the long run because the market always tends to learn from the past and regulate the previous inefficiencies and thus some of them won’t be profitable in the future.

On the other hand, market inefficiencies are not always perceived by all investors, which means that only investors with a special perceptiveness can notice these inefficiencies while the rest of the investors still conceive the market as efficient and acts accordingly. Subsequently, if the investors who perceived the inefficiencies make the information public, the rest of the investors will also get aware of it and thus the capital market will regulate this inefficiency and turn again to be efficient. However, if the investors with special insight do not share the information about the inefficiencies, this means that they will be the only ones exploiting them and generating abnormal returns compared to the rest of the investors (Keane, 1983: 25,26).

2.2.4.2. The Modern Portfolio Theory

The Modern Portfolio Theory (MPT) is one of the most important economic theories that influenced finance and investment. It was introduced by the American Economist Harry Markowitz (1952) in his paper "Portfolio Selection" published by the journal of Finance, and that led him later to win the Nobel Prize.

As risk is an inherent part of every investment that is expected to generate high returns, the MPT emphasizes how to construct portfolios that can maximize benefits for risk-averse investors, taking into consideration a certain level of market risks (Markowitz 1952: 77). According to the MPT theory, all investors are only willing to take small risks, which means for example that among portfolios that propose equal returns, investors will prefer the one that involves the minimum risk, and at the same time an investor will be willing to take higher risks only if the expected returns behind it are high as well. Thus, an investor who seeks higher expected returns must take higher risks. This risk and return dilemma is the same for all investors, however, its evaluation is a bit different and variates from one investor to another depending on everyone's risk aversion characteristics.

Consequently, and considering the risks and expected returns, the MPT states the possibility of creating an *"efficient frontier"* of ideal portfolios that might offer a maximum of expected returns for a certain level of risk (Sharpe, 1999). It also stresses that the characteristics of risk and return related to an investment should not be considered alone, but must also be evaluated by the effect that this investment has on the overall portfolio's risk and return. It also states that, in order to maximize the expected returns for a given level of risk, an investor can combine multiple assets in the same portfolio. In this case, the investor can maximize the expected returns of the overall portfolio while keeping the risk at a lower level. This makes an individual investment's return count less than its behavior in the context of the overall portfolio, wherefore, an investor must use some statistical instruments and methods such as variance and correlation (West, 2006: 4).

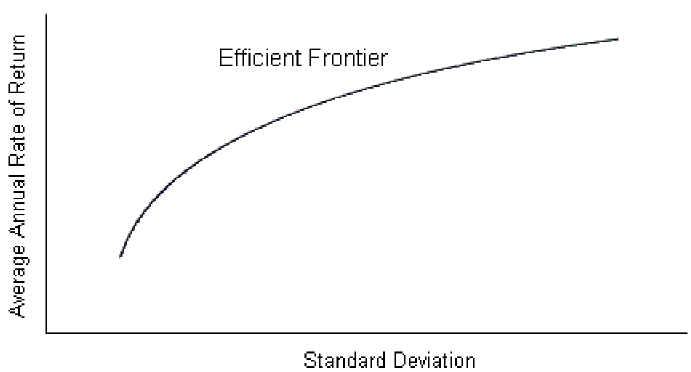
A portfolio composed of multiple assets has an expected return that is calculated as a weighted total of the individual asset's returns. The expected return of a portfolio containing four equally shared assets with different individual expected returns; 5%, 8%, 7%, and 12% can be explained as follow:

(5% x 25%) + (8% x 25%) + (7% x 25%) + (12% x 25%) = 8%.

On the other hand, the calculation of the portfolio's risk is a more complex process since it involves a function of each individual asset and the correlations of each pair of assets (West, 2006). In the example of our four assets portfolio, the risk calculation will require the variances of each individual asset and the correlation values of the two asset combinations, which will be six for the four assets in our case. If we make a weighted sum calculation as we previously did for the expected returns, it will be higher than the total portfolio risk or what is called the standard deviation because of the asset correlations. An investor can thus minimalize the portfolio's overall risk by creating combinations of assets that are not in a perfectly positive correlation.

Subsequently, to help investors make better investment decisions, the MPT introduced an instrument called "The Efficient Frontier" (Sharpe, 1999: 33), which is a graph setting the optimal portfolios with two combinations of risk and expected returns. The first combination is portfolios that offer the maximum expected return for a certain level of risk and the second combination is the minimum risk possible for a certain level of expected return. Below this efficient frontier line, lie portfolios that are sub-optimal due to the low expected return they offer for a given level of risk, and on the right under the efficient frontier lie the less beneficial portfolios because of their high level of risk defined for a given rate of return.

Figure 1: The Efficient Frontier



Source: personal creation by the author for illustrative purposes only.

The efficient frontier graphically represents the combination of all the existing assets plotted in a graph where the X-axis represents the portfolio's risk and the Y-axis represents the expected return. The line tracing the combinations between the two variables represents the most beneficial portfolios (Perold, 2004). This plot of assets and the efficient frontier might thus help an investor choose the most desirable portfolio for his investment based on the criteria that the graph shows. For example, if an investor has to choose between portfolio A which has an expected return of 10% with a standard deviation of 9%, and portfolio B which has an expected return of 10% but a standard deviation of 8%. Portfolio B would be considered more efficient because it has a lower risk for the same rate of expected return. So, the efficient frontier is the line that connects the most efficient portfolios in form of an upward-sloping hyperbola. Any portfolio that is not on this curve is considered less desirable for investing.

Thus, the efficient frontier graph gathers all the portfolios that propose an expected return for a given risk, and the curved line in the efficient frontier graph connects the most desirable portfolios that maximize the returns for an assumed risk, while the risk is represented by what is called “the standard deviation” (Fabozzi, Grant, 2001).

An investor who is seeking important returns is then required to form a portfolio full of securities that offer important returns with an overall standard deviation that is lower than the standard deviations of the individual securities. Consequently, if the combination of optimizing returns and the risk criterion is successfully solved, then the chosen portfolio should align on the curved line of the efficient frontier as an optimal portfolio.

The main key concept of the efficient frontier is the portfolios’ diversification which is also represented by the curvature on the graph. This diversification is the fundamental element in improving the portfolio’s risk/return ratio. The curvature on the graph also shows that the relationship between the returns and risk is not linear, which means that increased risk in a portfolio will not necessarily maximize the return at an equal rate, because there is a diminishing marginal return to risk. Also, the efficient frontier curve comprises mostly optimal portfolios with higher rates of diversification, while the less diversified ones are mostly sub-optimal (Fabozzi, Grant, 2001:19).

From another point of view, and despite the importance that shows the MPT and the efficient frontier in theory, the investments’ reality is far from the theoretical expectations, which raises critics about this theory and doubts about whether it is an ideal investment tool in reality or only in theory. This questioning is based on the fact that the risk/return correlation and its evaluation are only based on expected values using mathematical formulas predicting the future.

However, in reality, the investors are required to transform the predictions stated by the MPT and the efficient frontier based on historical measurements of return and volatility into real values in the equations (Fabozzi, Grant, 2001). This makes the theory fail to take into consideration the new circumstances that cannot be matched with any similar ones in the past when the historical data were collected.

2.2.4.3. The Capital Asset Pricing Model

The capital asset pricing model (CAPM) is a financial model created to help investors make decisions about including assets with an appropriate rate of return in a diversified portfolio. The creation of this model was based on the earlier works of Harry Markowitz (1959) and his theory *"Modern Portfolio Theory"* which explained the importance of the assets' diversification in a portfolio. The CAPM was thus gradually and independently introduced by economists such as Jack Treynor (1961), William F. Sharpe (1964), John Linter (1965), and Jan Mossin (1966), who established an equilibrium in setting the prices of assets, which makes this model mainly used in pricing the shares that are traded in capital markets (Casabona 1979: 7; Bradfield et al. 1988: 11). Also, later in 1972 financial economics had witnessed the introduction of a newer version of CAPM by the American mathematician Fischer Black, that was called Black CAPM and in which he states that all the assets are somehow risky and that the existence of a riskless asset is not possible (Black 1972).

The CAPM is a tool that describes simply the risk and returns ratio in an efficient market. This description is based on several assumptions about investors and how they behave in capital markets. For example, it is assumed that investments only include two aspects that concern investors which are risk and return, all information is accessible to all investors equally and freely which allows them to analyze it in the same way. Also, all investors have the same perception of the risk and return characteristics of individual assets, and they can also lend and borrow at riskless rates of interest. Other assumptions also emphasize the liquidity and divisibility of shares, which makes their transactions cost-free and the taxes have no real effect on investment in shares (Sharpe 1985: 148; Blume 1993: 6).

Thus, the CAPM tries to explain the relationship between the risk and the expected return of investments, it allows measuring the real risk of securities through a certain number of assumptions as discussed above. These assumptions result in predictions led by this model, and the realism of these assumptions can be of no importance if the model is correctly useful in empirical evidence that successfully explains the returns on risky assets (Jones, 1998).

The CAPM model itself has two important tools that are related to the capital market, namely the capital market line (CML) and the security market line (SML). The capital market line (CML) is a line that combines all the optimal portfolios that generate the best return for a given level of risk. These are efficient portfolios involving the trade-off between risk and return that is depicted by the CAPM, which also represents all portfolios with a risk-free rate of return. Since borrowing or lending at a risk-free rate will maximize returns, all investors will choose to invest in portfolios positioned on the capital market line (CML) under the CAPM. Portfolios maximizing performance are practically portfolios that optimize the risk/return ratio, which makes them lie on the capital market line (CML), (Galagedera 2004). Adding to this, the attribution of risk-free assets and risky portfolios that are represented by what is called the Capital Allocation Line (CAL). The CML is less popular than the efficient frontier, and it is different from the latter in a way that it includes risk-free investments. Also, the most efficient portfolio in a capital market is the intercept point between the CML and the efficient frontier which is also called the tangency portfolio. For CML, the risk portfolio is the market portfolio, which makes it a particular case of the CAL, and also the market portfolio's *Sharp Ratio* is the slope of the CML (Roll 2021: 1).

On the other hand, the SML depicts the relationship between systematic risk and expected return. It also applies as the CML on portfolios as well as individual assets. It is also derived from the CAPM and involves several assumptions related to investments and the compensation the investors should behold from the time value of money and the corresponding level of risk, called the risk premium (Jones, 1998: 159). A security's market risk premium is shown by where it is situated on the chart related to the SML.

The SML is a drawn line on a chart that represents the depiction of the parameters of the CAPM, and that helps determine the securities that are undervalued or overvalued (Jones, 1998:243). It demonstrates the various levels of systematic, or market, risks of different marketable securities that are related to a given expected return of the overall market at a certain time lapse. The chart where the SML line is drawn is considered as the visual form of the CAPM, where the risk is represented by the x-axis of the chart and the expected return is represented by the y-axis of the chart, the SML is also called the "characteristic line" in this chart (Jones, 1998: 246).

The CAPM concludes that the relationship between the expected return and the risk involved is positive and that the risk related to a share can be weighted by its effect on the portfolio risk. The CAPM also concludes that a fully diversified portfolio, in which shares are held each in proportion to its real value in the market, is the best portfolio for investment. Thus, to test the validity of these conclusions, many empirical studies were performed under extensive literature trying to confirm the accuracy of the CAPM as a capital market theory.

2.2.4.4. The Arbitrage Pricing Theory

As the big majority of foreign capital investments are based on investing in financial assets, we shall continue with another theory that regulates investments in financial markets. This theory is called the Arbitrage Pricing Theory (APT).

APT is a theory that analysts and investors use in asset pricing. It offers them a model of multi-factor pricing for securities taking into consideration the relationship between the expected returns of the financial asset and its risks. The APT was created by the American economist Stephen Ross (1976) as an alternative to the Capital Asset Pricing Model (CAPM) discussed in the previous section (Elbannan, 2014). Unlike this latter, the APT states that the securities are sometimes mispriced in the markets, and the investors take advantage of these market value deviations by using the APT before the market corrects and the securities get back to their fair value. Used this way the APT assumes that a financial asset's returns can be forecasted using the linear relationship between the expected returns and a number of macroeconomic variables that affect this asset's risks (Fabozzi, Grant, 2001: 36). The APT is a tool that can be used to analyze and identify, from a value investing perspective, the securities that may temporarily be mispriced. However, based on this theory, and assuming that the model used is correct the arbitrageurs make directional trades and invest in risky profit operations instead of seeking risk-free profits. The profit generated by these investors is due to the occasional imperfections of the market actions that result in assets being either undervalued or overvalued for a short period before the market actions move back the price to its fair value. In this case, if the trading operation is done on time while the securities are temporarily mispriced, the arbitrageur can generate a virtually risk-free profit.

Also, compared to the Capital Asset Pricing Model (CAPM), the APT is more complex and flexible in terms of the macroeconomic factors that it takes into account, while the CAPM considers only the single factor of the risk level of the overall market. The formula of the APT proposes multiple variations, which allows the investors to customize and multiply their research to define how sensitive a security is to various macroeconomic risks. Thus, this makes the APT more difficult to apply than the CAPM because it takes more considerable time to define all the different factors that may affect the price of an asset. For example, the choice of the factors as well as how many of them are used will give different results in explaining the security's returns based on the investor's subjective choices. The diversification of the investment portfolio cannot reduce the systematic risk created by the APT factors. Some of the most reliable macroeconomic factors that are used in APT are the Gross National Product (GNP), unexpected changes in inflation, the Gross Domestic Product (GDP), exchange rates, market indices, and commodities prices (Jones, 1998: 249). The investors should consider the risk premiums provided by these factors because as said earlier diversification cannot eliminate the systematic risk carried by these factors, thus by using arbitrage, the investors that can take these risks will exploit the differences in expected and real returns on the asset.

For example, if using the APT pricing model defines the fair market value of stock A as $20, but the price of the market drops for a short time to $15, then an arbitrageur would buy stock A believing that the market will quickly readjust the stock's price to its fair level which is $20, and then later he can sell it with a profit margin of $5.

2.2.5. Institutional FDI Fitness Theory

In 1998 Wilhelms and Witter introduced a theory called "*the institutional FDI fitness theory*" that presents the different abilities that countries should have to attract, incorporate and retain FDI. A country's ability to match with the investor's external and internal conditions and expectations would give it a considerable advantage in collecting FDI inflows. This theory also explains the unevenness in FDI flows between countries (Wilhelms & Witter 1998).

Wilhelms and Witter mention four essential principles in the institutional FDI fitness of a country, these pillars are the sociocultural factors, the educational factors, the market factors, and the governmental factors.

The socio-cultural aspect of a country is considered by Wilhelms and Witter as the base of its ability to receive FDI inflows. Education is the second most important pillar that affects the fitness of a country since an educated workforce would make the implementation of foreign investments easier and would accelerate the learning processes, enhance the Research and Development creativity and increase the information processing cadence. High educational levels are most important in increasing management skills which will allow the local human capital to easily assimilate the requirements of the incoming investment. Also, basic and formative education is an essential tool in understanding, interpreting, and implementing the instructions of any project, which impact widely the productivity and the efficiency of FDI operations.

Wilhelms and Witter also considered the market factors characterized by the economic and financial aspects of the country as a very important tool in attracting FDI. The first most considerable factor of a market is the financial capital which will allow investors the possibility of credits, and the second factor is the physical capital which ensures the availability of machinery and adequate technologies that can be used in implementing the FDI. Thus, the FDI decision-making process of an MNC is prominently dependent on how developed a country's financial market is, and how is it functioning.

The Final important factor Wilhelms and Witter stated in this theory is the government, as it is a major player in attracting FDIs and retaining them. A country's political stability is an essential criterion in the investment decision-making for Multinationals. The level of its political strength reflects the ability of this country to handle crises and adopt protective measures to keep its market fitness. Thus, a strong government would ensure great transparency in the country's policies, lower the corruption risks, increase economic trade openness, and firmly manage the exchange rate interventions (Popovici & Calin 2014).

Subsequently, even if Wilhelms and Witter classified these four pillars by order as different factors impacting the fitness of a country to receive FDI, they conclude this theory by saying that these factors are interrelated and are completing each other in a unison in different forms. For instance, education directly influences sociocultural norms by forming the human capital that in its turn impacts the markets and governments. Furthermore, the policies introduced by governments regulate markets, and education, and thus shape sociocultural activities. The socio-cultural organization is also the origin of governments, education, and the markets' structure. And finally, market forces influence government decisions, education, and the sociocultural life in a country.

2.2.6. The internalization Theory of FDI

The modern economy of the 20th century has evolved with the appearance of several forms of international integration sharpening the future of economic and financial development. Among these international involvements was the creation of multinational enterprises that participated to a great extent in the movements of capital between countries. One form of these capital flows is, as mentioned earlier in this study, FDI which is a measure undertaken by multinationals to get access to other countries where business conditions are more convenient to increase their wealth. This concept is what was described by the theory of internalization of FDI that was stated by Buckley and Casson (1976) and that we will try to highlight in this section as an important tool for better understanding international capital movements and their different aspects. This theory tries also to explain the motivations behind multinational companies in opting for FDI to increase their growth.

This theory underlines the concept of internal sourcing in the form of subcontracting at an international level, and this was first stressed by the economist Ronald Harry Coase (1937) who implemented the concept of external contracting at a different branch within the same company, but at a national level. It was also later emphasized by Stephen Hymer (1976) when he analyzed the different aspects of multinational firms and multinational corporate capital. Hymer states that the two major determinants of FDI are the advantages that a multinational acquires for a particular activity in a particular location, and the second one is the elimination of the competition by moving this activity to a location with no or less competition (Hymer 1976: 10). Later on, it was also presented by Jean-Francois Hennart (1982) in his article "*a Theory of multinational Enterprise*", and after that by Mark Casson (1983) in his book "*The growth of international business*".

The internalization theory was also used by John Dunning (1979) in his theory "*the Eclectic Paradigm*" which we will explain in the next section, and where he argues that despite being a very important aspect of capital flows, internalization can only explain a small part of the FDI flows.

From a business point of view, internalization is a business strategy that ensues when a business entity decides to handle a part or all of its activities internally through its different branches rather than outsourcing it from a different entity. In the case of MNCs, they aim on investing in other countries where the business conditions are more convenient through a sort of FDI where they subcontract to their foreign branch to reduce their costs instead of routing out their activity to another company. Thus, this form of internalization participates in the flowing of capital between countries through transactions that are conducted between a corporation and its subsidiary in another country, by transferring assets between their subsidiaries abroad. Financial investments can also be subject to internalization when a financial institution executes a buy order for shares from its own stock rather than trading shares from an outside inventory.

From an industrial point of view, internalization is defined as a form of internal sourcing where a company decides to handle the manufacturing of its products in-house rather than outsourcing them to a third-party manufacturer. It is considered also an internalization when a company prefers delivering its products to customers using its own channels rather instead of a shipping service provider.

Internalization allows companies to cut down the costs of outsourcing some or all of their activities, especially if this company is a multinational corporation that has the means to move its assets to a more business-friendly country where the labor costs and taxes are lower than its original country. MNCs benefit from the existence of Free economic zones in other countries where the labor cost is cheap and thus expand their industrial activities in the said countries. It is now the case of many developing countries such as Morocco, that are seeking industrial expertise and aiming to boost their exports. These countries create Free Economic Zones where foreign multinationals establish their subsidiaries and benefit from many advantages that allow them to add value to their businesses. By doing so, these developing countries attract FDIs in form of foreign multinational branches that shift their assets and capital to them.

2.2.7. The OLI Theory (Eclectic Paradigm)

In this section, and as an extension to the internalization theory, we are going to discuss the Eclectic Paradigm designed as the OLI Theory. This theory is a model composed of a three-tiered study framework that multinationals should evaluate to determine if pursuing an FDI in a foreign country will be beneficial to their business. This model's three axles are Ownership, Location, and Internalization. Based on the internalization theory, this model was first introduced by Dunning (1979).

The Eclectic Paradigm emphasizes that every company shall evaluate its abilities in internalizing its activities by owning a dedicated specific subsidiary in a location that will help cut down the production costs, which would evolve in case this company outsourced its activities. By doing so, this institution would avoid going through the open market to complete some actions that it can handle in-house at a lower price. In this case, multinational corporations establish FDIs in developing countries that help them reduce their production costs and preserve the execution of their activities internally (Cantwell & Narula, 2001: 157).

According to Dunning, this paradigm can help companies expand their operations through FDI by providing a holistic approach to inspecting all the different aspects of their businesses. Subsequently, and based on its goal of value creation, a company can define if this approach will go in hand with its aim of generating a greater overall value than if it produces its goods and services nationally. The Eclectic paradigm can thus help businesses, that are seeking the most cost-effective alternatives while preserving their quality, to evaluate other options that can point out this potential (Dunning 1981: 85).

As introduced by Dunning, the Eclectic Paradigm includes three key factors that must be evaluated as advantageous for an FDI to be beneficial for a company. These key factors are Owning, Location, and Internalization, which is where the name OLI framework is emanating from. The advantages underlined by these factors can be explained as follow;

2.2.7.1. Ownership Advantages

This first factor states that the ownership of an MNC is directly related to its proprietary information and should provide an advantage over the local firms in the country where it is willing to invest. These advantages may be related to the ownership right of a company such as patent rights, trademarks, assets shifting from the country of origin, branding, and copyright, plus the transaction and use of the internally available management skills in this MNC. The ownership advantages can also include many more intangible criteria such as firm-specific technologies that ensure a competitive advantage to the MNC over the local firms (Dunning 1981: 86).

According to Dunning, one of the ownership advantages can also be the ability of an MNC to create new technologies in its cross-border branch and the coordination of its activities effectively. Therefore, the ownership of good management skills and their transaction together with the investment is very important for any MNC to operate its FDI. This underlines also the ability of the corporation to adapt to the foreign business climate taking into consideration the operational mode of its local competitors. This process of adaptability can also be eased by the MNC's ownership of a good and reliable branding reputation and more advanced technologies than the ones existing in the host market.

2.2.7.2. Location Advantages

The choice of location is one of the most important things that an MNC should evaluate while thinking about placing an FDI. The host country must benefit from numerous location advantages that are propitious to FDI in order to receive them, and the MNC from its side needs to assess whether there are enough competitive advantages for moving its activity to a specific location. These advantages can be mainly related to the host country's resources in terms of nature, workforce, infrastructure, and the country's readiness to provide adequate administrative and financial services to the incoming investment (Dunning 1981: 87).

Trade openness is also a major selection criterion in the evaluation of the location advantages, the host country must have multiple trade agreements and networks that would allow the incoming FDI to distribute its products and services in the desired markets. A country that has free economic zones with low or null tax rates and that has open trade borders with promising markets can provide important location advantages to MNCs.

If we take Morocco as an example, we can state the location advantages that Morocco as a potential FDI receiver can provide:

- Its location in the African continent which is a good promising market for consumable goods.
- Morocco has 3500 km long costs on the Mediterranean Sea and the Atlantic Ocean with many international ports and more specifically the largest container port in Africa in the Tangier called Tanger-Med (Larnyoh, 2020).

- This big port is surrounded by an important Free Economic Zone (FEZ), that provides many tax advantages to MNCs as well as a good infrastructure such as good transportation networks that allow MNCs to distribute their goods easily.
- Morocco has multiple trade agreements with many important regional hubs such as Türkiye, the USA, the EU, and the big majority of the African countries…, which allows the free circulation of goods without customs taxation.
- Morocco can provide a cheap and well-trained labor force.
- Morocco can also provide low factor prices and various appropriate technologies, especially in renewable energies.
- Morocco benefits from financial and political stability as well as security.
- Morocco has a multilingual culture, giving its population the ability to speak many different languages.

We took this example of Morocco to explain a small list of what can be considered as location advantages for an MNC to establish an FDI in a specific country. Also, from Dunning's point of view, in the absence of location advantages, trade through distribution channels can be favored. In this case, we might think about exports through sales subsidiaries that would allow the products and services to reach the desired markets through sales branches rather than directly from production facilities (Neary, 2009: 6).

2.2.7.3. Internalization advantages

As discussed in the previous section, internalization advantages can occur in case it is more convenient for a corporation to produce a particular product in-house rather than subcontracting it with a third-party company. The OLI model states that if the ownership advantages are insured and if the location advantages are guaranteed, the internalization of a company's activity in a foreign location in form of FDI can be more cost-effective than contracting with a third-party (Casson, 1982: 53).

The internalization in this case can be explained as the creation of an MNC's subsidiary in a different market location while keeping the practice of its activity in-house with better business conditions. This would allow the said MNC to reduce its costs and open its activity to different markets.

The Eclectic Paradigm represented as the OLI framework is thus a combination of advantages that can be beneficial for any MNC that is intending on expanding its activities abroad and taking advantage of what globalization can offer. The internationalization of a company is not an easy task that can be operated without any considerations, this is why Dunning introduced this theory to allow companies to evaluate all the options before opting for a particular decision.

2.2.8. Lucas Paradox

Following our process of international capital movements' explanation, the Lucas Paradox comes as a synthesis that questions the execution of these capital flows and the relationship between rich and poor countries and the capital movements between them. Thus, and by applying the Eclectic Paradigm factors analysis, capital should logically flow from rich countries to poor countries as the neoclassical theory predicts, due to the effect of diminishing returns of capital. Also, the main difference in returns on investment is created by the availability of natural and labor resources, and these are generally unexploited in poor countries because of the lack of capital, knowledge, and technologies. On the other hand, the capital per capita in poor countries is very low compared to rich countries, which makes any infusion of capital in these countries more likely to generate higher returns than in rich countries, this means that poor countries can be a profitable destination for investment for savers from rich countries. However, according to Lucas, capital movements in reality do not reflect the correctness of these conclusions, and there are only little capital flows from rich to poor countries (Lucas, 1989).

Lucas paradox or the Lucas Puzzle was initiated in 1990 by Robert E. Lucas in his classic paper "why doesn't capital flow from rich to poor countries?" (Lucas, 1990). In this paper, Lucas tried to investigate why capital doesn't flow from capital-rich high-income countries to capital-poor low-income countries as the theory states, and this by analyzing and discussing what the data shows as results of international capital movements. Lucas' paper that raised this paradox between the predictions of neoclassical theories and the empirical data, was in fact an observation of the international flows and their conditioning in the new era of globalization.

Lucas tried to explain this discrepancy in his paper by presenting several possible reasons in two main categories. The first group of reasons was related to the unreadiness of the host countries for receiving capital flows from the rich countries. This unreadiness is basically formed by the differences in business fundamentals that affect the structure of the economy and the productivity of poor countries. These differences can be categorized as (Alfaro, et al., 2008):

- The lack of technological development,
- The structure of business-related institutions,
- The missing factors of production, which can be related to the labor force and their qualifications,
- The government policies that can affect the financial stability including interest rates, tax rates, and the openness of the economy.

The second category of explanations according to Lucas, is related to the existence of international capital market imperfections, which raises some sovereign risks such as nationalization, the difficulty of imposing the payment of financial obligations, or the repatriated profits. A further reason can also be related to political risks and the country’s stability (Alfaro, et al., 2008:1).

To back up his analysis Lucas used the example of India and the USA, where he took the USA as a high-income capital-rich country that is receiving foreign capital investments even though it doesn’t need it, and India as a low-income capital-poor country that needs foreign capital investments instead of the USA. He also based his analysis on data showing that China as a developing country was exporting capital to the USA which is a rich country. Using these two examples was rather evidence of what was called the “uphill” of capital movements that go in the opposite direction to what the theory predicts (Lucas, 1990: 92).

In order to discuss Lucas paradox, several other studies occurred comparing capital flows between rich and poor countries. These studies explained that not only capital flows in the opposite direction to what the theory states, but it flows to specific destinations among the host countries. This introduced a new concept termed the allocation puzzle (Gourinchas & Jeanne, 2007). Thus, the allocation of foreign capital investments is duly related to how fast these countries are growing, and their ability to surpass the unreadiness of receiving foreign investments. This unreadiness that gives priority to some countries over others is mainly related to the inadequacy of infrastructure, financial debt management and the government’s policies towards that, corruption, the education of the workforce, and the country’s ability to reduce the risk-adjusted returns to investment.

In Conclusion, the history of capital movements across the globe shows us their importance in generating profit for investors, ensuring development for countries, and integrating different parts of the world, economically, socially, and politically. However, international capital movements' importance wouldn't be without the multiple theories and studies that analyzed their different forms. In this second part, we shall present foreign capital investment types and more particularly FDI as it is the main element of our empirical study.

3. FOREIGN CAPITAL INVESTMENT TYPES AND THE EXTERNAL STRENGTHENING FACTORS

3.1. Types of Foreign Capital Investments

Foreign capital investments contain all kinds of investments that are created by foreign funds in a host country. These investments can be for goods production, service providing, and even financial investments in government bonds.

As we already spoke earlier in the section dedicated to the theories of foreign capital investments about the indirect form of foreign investments which is related to foreign portfolio investments and all the types of funds and investments in bonds, in this section we are going to emphasize mainly on the types of FDI.

3.1.1. Foreign Direct Investment

FDI is an extension or transfer of the business activities of a firm or an individual from one country to another. It generally occurs when an individual or a corporation establishes new business operations or acquires foreign business assets in a country different from its original country.

FDI is a crucial element of global economic integration. It is a form of cross-border investment to establish a lasting interest that a country's local enterprise may have in an enterprise operating in a foreign country. This lasting interest is related to the degree of influence that an investor has on the management of the enterprise established in the foreign country through a direct investment to build up a long-term relationship between them (Alfaro et al., 2003).

An MNC can establish an FDI by one of two strategies; the first one is by setting up new production premises and plants from the ground up, this type of investment is called Greenfield Investment. The second FDI strategy is when an MNC takes over an already existing entity in a country of interest through cross-border mergers or acquisitions. This type of investment is called Brownfield investment (Ietto-Gillies, 2012: 23).

3.1.1.1. Greenfield Investment

Greenfield investment is a type of FDI of an entity in a foreign country. In this type of FDI, the investing corporation creates a subsidiary in a foreign country by building its operations from the ground up. This process starts with appropriating a land and building the production premises until the final creation of an operational business. This FDI strategy got the term greenfield from the fact that the investing MNC executes all the actions of building the business from plowing and prepping an empty green field to making it a properly operating business (Hennart & Park, 1993).

In this kind of project, the investing company has control over the construction process starting from the building's specifications to the training standards of the employees. The company also shifts all the necessary activities and technologies to the newly established facility with its own labeling. Thus, this type of FDI grants to the sponsoring parent company the greatest degree of control, but it also requires a great commitment and time dedication from its side which involves a big risk (Calderón et al., 2004).

Subsequently, greenfield investment contains advantages and disadvantages for the investing company. A country that wants to attract new FDI especially as greenfield investments offers several tax breaks and financial incentives to the incoming foreign companies. This encourages these latter to take risks and establish new businesses in which they will do everything according to specifications and also have complete control of the venture. However, the long-term commitment and dedication that this venture requires, involves great capital outlay as well as high planning complexity. Furthermore, the investing corporation takes a big risk in the greenfield investment, especially in its relationship with the host country and its financial and political system (Calderón et al., 2004).

3.1.1.2. Brownfield Investment

Unlike greenfield investment, brownfield investment is an FDI strategy that consists of a company or a governmental entity leasing or purchasing an already existing building to use it as a production facility in a foreign country. This newly acquired premise can also be an old factory that used to operate in a similar activity or has the same construction concept, allowing the new incoming business to eliminate any construction expenses to adapt and implement the new materials to the newly purchased production facility (Ietto-Gillies, 2012: 23). The so-called brownfield can also be an abandoned premise that was left without use for some causes related to the building, such as soil contamination or the existence of some hazardous materials, pollution and/or some security issues. In this case, the investor company needs to well investigate the condition of the facility to be purchased or leased.

The brownfield investment strategy is rather preferable for companies who are more interested in saving the business launching time, in reducing the start-up costs which are related to construction permits, connecting utilities, and all the administrative paperwork that goes with it. It is also advantageous for companies who do not intend to invest in new equipment for production purposes, so they rather purchase a production facility that already has the necessary production equipment. In this case, the investor company will only have to update or modify the production equipment instead of purchasing new ones (Calderón et al., 2002).

On the other hand, there are also several disadvantages of brownfield investment. A company that intends to reduce the costs related to greenfield investment, is generally looking to establish an FDI at the lowest costs possible. In this case, it incurs the risk of purchasing a production facility that is not appropriate for exploitation. This might be the case of an abandoned premise that was using hazardous chemical products in their activity and which harm the soil and the nature around, and which makes the presence of employees on site risky for their health. It is also the case of many premises that are no longer proper for use because their condition got deteriorated with time, which will oblige the investor to implement renovations every now and then to maintain the premise suitable for use. There is also the issue of equipment, because the chances that the investor company will find a production facility with ready equipment that can be used for the same activity is very low, and in this case, the company is led to invest even more in new equipment and also in the production facility to adapt it to the equipment needed.

Thus, depending on its budget and its willingness to take risks, an MNC who is intending to establish an FDI decides which investment strategy fits its vision and expectations the most, it can even use both strategies at the same time. Taking this into consideration, purchasing a production facility that was used for another purpose and turning it to producing other types of goods with totally new equipment is still considered a brownfield investment. However, adding new premises to an already existing production facility is considered as a greenfield investment because it involves the construction of a part of the production facility on empty land (Segal, 2021).

3.1.1.3. Types of FDI

FDI can take three main different forms depending on the investor company's activities and needs. The first type of FDI takes a horizontal form and the second takes a vertical form, and the last form that an FDI can take is a conglomerate.

3.1.1.3.1. Horizontal FDI

A company is considered establishing a horizontal direct investment when it duplicates its activity that it operates domestically by creating the same business abroad. Thus, horizontal investment refers to the company's foreign manufacturing of similar products and services to the ones it manufactures in its home market. One of the main reasons behind companies choosing a horizontal form of FDI is the ability to penetrate foreign markets without any transportation costs, export costs, or trade barriers (Protsenko, 2004: 16).

There are two main motivational factors for a company to choose a horizontal form of FDI; one being the economy of scale at the firm level, and the second is the positive trade costs that would allow the company to substitute the expenses that might arise from exporting its goods (Protsenko, 2004: 17). Thus, the MNC opting for horizontal FDI will be able to dispel all the side costs accompanying exporting its goods such as transportation and tariffs.

Taking these facts into consideration, an MNC is required to evaluate the advantages and disadvantages of establishing a horizontal FDI abroad. This can be done by using a formula that contains on one hand the advantages such as transportation and tariff costs elimination, proximity to the market, reduction of the production costs, international expansion and experience…, and on the other hand the challenges such as the implantation costs of the production premises, the new country's rules that the company should obey, the shifting cost of the company's activity, etc. After formulating this equation, the MNC must weigh its pros and cons, and if the benefits in the equation outweigh the challenges and their costs, then the MNC can conduct a horizontal FDI (Ramondo et al., 2011).

3.1.1.3.2. Vertical FDI

A vertical FDI is when a company establishes different levels of its activity in different locations overseas. An FDI is considered vertical when it plays the role of a distributor or supplier of the company's products, it is a type of production fragmentation in different stages that the company locates in strategic locations abroad. This production fragmentation must exploit the presence of disparities in relative factor costs (Protsenko, 2004: 19).

Vertical FDI can be beneficial to an MNC if it locates different processes of its manufacturing in countries where the inputs necessary for its production are cheap. For example, one of these inputs is labor, so it is rather profitable for a company that has a labor-intensive activity to move its production stage to a country where the labor costs are low. By doing this, the company would split its activity into different stages that are conducted one after another which gives this type of FDI the vertical aspect (Beugelsdijk, 2008: 455).

As is the case for horizontal FDI strategy, an MNC is required to evaluate the costs and the benefits of the vertical FDI before it initiates it. As the production chain consists of several stages where every level is composed of different factors, the trade-off between the costs and benefits of the vertical FDI must thus be formulated in an equation that includes from one side, the benefits that would arise from the lower production costs in the country of destination, and from the other side, the challenges and the costs of creation of a subdivision in that country. The existence of a positive difference in factors' prices can be the main profitable advantage of moving some of the production stages to the country where these related factors are cheaper. The MNC would then consider a vertical FDI placement in a country where the costs of fragmentation of its business are lower than the cost savings. These fragmentation costs can be related to the equipment transportation costs and the company's placement costs in case of the creation of a production premise in a foreign country.

As a result, a company that seeks the reduction of its production costs and the enlargement of its saving gaps is required to expand its activities across borders. This will help it seek factor proportions (see also Brainard 1993: 3) differences and establish a vertical FDI by fragmenting its production process into two or more institutions, where the company's headquarter, being kept in the country of origin, is geographically separated from the production units that are transferred abroad. These two institutions, execute different activities where the labor factor intensities are different. Thus, the MNC mainly keeps the headquarter where the activities require high-skilled labor intensive in the country of origin, while it exports its low-skilled labor-intensive production activities to countries where this labor is cheaper (Protsenko, 2004: 19).

3.1.1.3.3. Conglomerate FDI

A Conglomerate is a group of companies that operate in different or sometimes the same business fields under the supervision of a mother company. This mother company usually possesses a controlling stake in the smaller companies that run their businesses independently and who operate separately from the head corporation (Panigrahi et al., 2020: 127).

The main aim of the creation of conglomerates is to eliminate the risk of operating in the same industry and market. Thus, conglomerates often opt for diversifying their business risks by conducting their business across several industry sectors and participating in different markets, which makes them large entities that are made up of several subsidiaries operating independently from one another. Many of these large conglomerates chose to place some of their subsidiaries as FDIs in foreign countries, where the production factors and/or the natural resources related to their business activity are cheap and abundant. Thus, these corporations become multinationals that seek to save on the production costs of one or several of their business divisions where the managers still report to the senior management of the parent company in the country of origin (Panigrahi et al., 2020).

The diversification of its business may also allow the conglomerate to create complementary branches that would serve each other as distributors and suppliers, covering multiple sectors at a time and also diversifying the risks posed by offering the same goods and services in a single market. In addition, by doing so, the corporation may also lower the total operating costs of its overall activities by becoming its own supplier and its own distributor. This means, the reduction of production costs and the availability of production resources. At the same time, the corporation can externalize its services through its different subdivisions at a higher cost to generate more value and compensate for its production costs (Weston, 1970).

On the other hand, the companies belonging to the same conglomerate benefit from high-level senior management which allows the poorly performing companies among them, to be offset by other companies that are operating in a different sector. Also, the conglomerate's participation in different unrelated businesses allows it to reduce costs. This can be possible by diversifying the business interests and lowering the number of inputs that can be shared by its subsidiaries, which mitigates the risks that can arise from operating in a single market (Berg, 2003).

In addition to benefiting from solid management, companies that belong to a conglomerate can benefit from the existence of an internal capital market within this conglomerate. This gives them the ability to grow by getting a capital allocation from the conglomerate itself in case the external capital market doesn't offer convenient terms (Goel et al., 2002). However, in this case, the conglomerate's financial situation is required to be strong and stable, which might not be the case if the conglomerate's size is too important to be managed.

From this point of view, economists have analyzed how a conglomerate's size can impact its performance and financial value, and it appeared to be that the size of conglomerates can impact negatively their stock values in a phenomenon called "The Conglomerate Discount". This discovery stipulates that the conglomerate's overall stock value is valued at less than the sum of the stock values of the companies that belong to it. This situation often occurs when the conglomerate's size grows more than necessary, and some of the companies owned by the conglomerate do not perform as well as the overall conglomerate, which drops the financial value of this latter. Furthermore, investors find it difficult to discern the financial health of the conglomerate because the financial data that is often communicated is related to the group and not the individual companies owned by it. This makes it hard for analysts and regulators to identify the real performance of these companies taken individually and creates a lack of transparency which discourages investors from investing in them (Burch et al., 2000).

Also, conglomerates have a tendency to become so massively diversified that it is complicated to manage them efficiently, which lowers the productivity of some of their divisions because of the multitude of management layers and the wide-ranging of the conglomerate's interests. This progressive decrease in efficiency known as "the Curse of Bigness" (Day 1964) incites the conglomerates either to divest or to let go of some of their divisions through spinoffs (see also Khorana et al., 2011).

3.1.2. MNC's Economic Size, Management, and Transfer Pricing

In this section, we are going to point out one of the most important figures of foreign capital investments, which is multinational companies or corporations. Multinational companies are a form of investment that allows capital circulation at an international level. So, in this section, we will try to define the nature of these multinational companies, their economic size and growth that allows them to go international, their management types, and how effective the management has to be to keep the multinational's growth steady, and lastly the transfer pricing related to their activities.

3.1.2.1. Definition of Multinational Companies

A multinational company or corporation is a company that has a legal presence in at least one or more countries in addition to its home country where it was first established. On top of its headquarters where all its activity is centralized, a multinational company usually has premises and factories in multiple countries for which it coordinates the global management from its head office. Multinational companies also called transnational corporate organizations and generally possess more capital than the local companies in the small countries they intend to invest in. They are also referred to as multinational enterprises (MNE), international corporations, transnational enterprises, or stateless corporations (Caves, 2007: 1).

By definition, economists consider a multinational corporation as a company that generates at least 25% of its revenue from its subsidiaries in countries other than its home country (Gobler, 2021). However, others define a multinational company as a company that controls at least 51% of a foreign subsidiary where it produces goods and services even if this subsidiary's revenue is just substantial. This condition is applied to all subsidiaries that this company has in different countries other than its home country (Ietto-Gillies, 2012: 33).

Multinationals are also being defended by a considerable category of people who think that by implanting a subsidiary in a foreign country the MNC offers high-paying jobs and brings in many advanced technologies that the host country wouldn't have had without the advent of the multinational on its territory (Ashime 2021: 15). Furthermore, MNCs are also considered as motives for some countries to improve their infrastructure and some internal policies to be compliant to receiving international businesses. Thus, MNCs can also require the implementation of some high-standard norms and conditions that would ease the installation of their business and also improve the quality of life of the local population.

However, MNCs have also some critics who state that these latter exert sometimes excessive political influence over the governments of the host countries, by pushing them to modify some internal policies or establish taxation privileges for them as a condition to bring in their investment (Leonard, 1980). By doing so, MNCs exploit the developing nations and their resources for the sake of their growth, and by creating job opportunities in these countries they cause many job losses in their home countries (Carlson, 2002).

Behind the nowadays tremendous expansion of MNCs around the world and their multiple business strategies, there is a history that links the world's first multinationals to colonialism. Thus, the world's first multinationals were born from the ambition of European monarchs who conducted expeditions in their colonies, which helped merchants introduce this type of investment on their land. As an example, in the year 1600 India was one of the first countries to receive a foreign investment from an MNC under the name of *The East India Company* (Brunton, 2013). It was induced by Britain and took part in international trade and exploration through its trading posts installed in India but was headquartered in London. The big majority of the first multinationals to be born at that time arose from the European colonial expansion made by countries such as Britain, Spain, Portugal, and even France. Other examples can include also the *Swedish Africa Company* (Nováky, 1992) which was created by Swedish Colonial Empire on the African Gold Coast in 1649, and *the Hudson's Bay Company* which was created in 1670 by the British Colonialists in North America, and it was thus the first MNC in the region (Britannica, 2022).

3.1.2.2. The Economic Size of MNCs

Since their first implementation MNCs have known a remarkable expansion in their nature, activities, and size. They are more and more seen as excessively big and powerful entities that threaten the democratic institutions of the hosting nation-states, which impact even their social and cultural standards. The multinationals' excessive increase in size makes them financially powerful and gives them the ability to impose various conditions on the foreign state before they decide to allocate some of their business to that state.

Historically, in the 1960s and 1970s MNCs were thought to be increasingly dominating the world, especially the American ones. Their economic size was growing as their expansion in the world was booming (Guisinger, 1973). They became very present and influential in the European market which was just the beginning as they were going to take over the world thanks to their sophisticated management strategies. During that period the American MNCs gave a conqueror impression about the general understanding of multinationals and their functioning, especially the ones that are economically and financially big in size (Kobrin 2001: 9).

However, the openness and the integration of the world that started in the 1980s shifted the impression about the MNCs from being evil dominating forces to being a symbol of success and progress. Since then, successful multinationals have become a new business trend that takes advantage of the new global era where all the young urban professionals dream of working in an MNC. A few years later, the rise of the anti-globalist movement started again condemning multinationals and their excessive increase in size. Their arguments were based on the size of MNCs which ranks them among the 100 biggest economies in the world even bigger than many sovereign countries (Kobrin, 2001). This allows them to be more influential than many countries, which was considered at that time as a threat to the democratic life of those nations. Also, at this stage of power, the products that are sold by these multinationals are no longer only physical but have a large emotional impact on society, which threaten the social and cultural life of these nations' populations (Kobrin 2001: 22).

3.1.2.3. Multinationals' Transfer Pricing

The main aim behind MNCs creating supranational organizations is to generate more benefits, grow in size and numbers, and subsequently expand their activities even to more markets. To do so, multinationals export their activities to specific countries, which allows them to eliminate market imperfections that might be caused by the tariffs on trade, reduce the restrictions on the flow of capital, and get access to free market information. In addition to that, MNCs use transfer pricing to sustain their markets abroad and sustain a steady return from their foreign subsidiaries.

Transfer pricing is a method used by multinationals to allocate their profits among their international subsidiaries within the organization. It generally represents the prices of goods and services that are exchanged between these subsidiaries (Hanson, 1975). For example, the price that a subsidiary company charges for selling goods or rendering some services to its sister company or the holding company is called the transfer price.

Transfer pricing strategies offer to the MNC important tools to reduce its taxes and thus increase the profit generated by its internationally present subsidiaries. However, this method is too closely supervised by the trade regulatory authorities who often deprecate the manipulation of transfer pricing to avoid taxes. These types of manipulations are generally related to multinationals using transfer pricing as a legal and effective tool to reduce their taxation by lowering their expenditures on internationally exchanged transactions between their subsidiaries to avoid tariffs. They also take advantage of different tax regimes in different countries and choose to implement their subsidiaries in countries with lower tax rates and thus raise the transfer prices for goods and services produced by their subsidiaries in those countries (Gałuszka 2013: 182).

On the other hand, the manipulation of transfer pricing to reduce the tax burden can be eliminated in case the multinational's subsidiaries are implemented in countries with the same tax regulations. In this case, the transfer pricing should be similar to the market pricing for all the goods and services exchanged between the subsidiaries. In fact, in this case, it will not be beneficial for a subsidiary company to charge its sister company a higher transfer pricing since it will pay higher taxes because of the profit generated from the higher transfer pricing. Also, the buying entity will be charged a non-competitive price for the goods or services bought from its sister company. This will also affect the returns of the mother company which will have its subsidiaries paying higher tax rates and higher prices for the exchanged goods and services. Subsequently, and to avoid this costly situation, the MNC is advised to follow *"the Arm's Length Principle"* (Ietto-Gillies, 2012:218) in establishing the transactions between its subsidiaries. This principle states that the seller and buyer should be considered independent entities and the transaction between these two parties should be made without any external influence (Keane & Feinberg 2009). This means that sales transactions should be based on every entity's self-interest without any kind of pressure from the mother company and in accordance with market pricing (Cristea et al., 2016).

Thus, to ensure fairness and accuracy in the pricing methods used between related entities, regulations on transfer pricing are established namely by the *Organization for Economic Cooperation and Development (OECD),* which is an international tax laws regulator, and also controlled by the auditing firms within each international location. These transfer pricing regulations also require that the company possesses strict documentation that should be included in the financial statements' footnotes to be controlled by the auditing firms and regulators. This documentation is minutely inspected by these organizations to check if it is inappropriately documented since it can cause the company some added taxation and can even evolve penalties (Gałuszka 2013: 191).

3.1.2.4. Multinationals and Country Risk

The recent decades have experienced a systemic transformation in international capital movements, going through globalization from an increase in international trade transactions to foreign investments. Thus, to keep up with the global economic expansion, companies tend to reduce their costs related to international trade and customs tariffs and explore new opportunities and new markets by investing in new countries. However, this decision sometimes can raise several kinds of risks, and among these latter is the very important "country risk" or so-called "political risk". While seeking more profit and fairly unexplored markets, companies establish their FDI generally in developing countries where the instability risk is much higher than in developed countries (Anderson & Gatignon, 1986). Many of these developing countries are in the phase of change and transformation which makes their political and economic situation unstable and thus inappropriate for FDI.

Political risk is not only related to the political instability in a country, for MNCs political risk can include all kinds of political decisions made by the host country and that can have adverse effects on the goals of the multinational in realizing corporate profits. These effects can be as simple as financial laws putting severe restrictions on capital movements or a destructive widespread civil war or revolution. In both cases, the MNC is at risk in the host country and this might affect its investment returns, which brings it to the fact that cutting costs by moving business activities as FDI to a foreign country should not be its main concern, but rather the political situation and the risk evaluation of the country.

Country risk is thus classified into 2 major categories, Macro risk, and Micro risk. The macro risk is mainly a risk for all kinds of multinational firms and can affect the firm as a resident entity in the host country. This can be related to political problems in the country such as insurrections, or to governmental decisions against the firm such as expropriations (Christy 2021; Burton & Hisashi 1987). However, the micro risk is mainly related to actions made by the host country targeting a specific industry or business sector, in this case, foreign companies find themselves facing some prejudicial actions that would involve corruption (Rodriguez et al., 2005) or a change in their activities in order to keep doing business in the host country. These both forms of country risks would cause MNCs to lose a lot of money in case they did not get prepared for such situations before choosing the country in which they are intending to establish an FDI.

Therefore, to minimize this country risk, a multinational corporation is thus required to research the riskiness of every country it is intending to invest in, this can be done through consultants and country specialists who prepare an overall business situational report that evaluates the multiple country risks for business. It can also be done by the company itself by following the country's political and financial progress during a period of time and observing the governmental decisions and how they affected the economic and financial situation of the country (Feinberg & Gupta 2009).

Taking risks into consideration, some MNCs decide to enter a risky country because it is more lucrative for their activity. In this case, the multinational calculates the risks and their possible impact on its activities, and based on that it negotiates some terms of compensation with the government of the host country. These compromises can guarantee the investing company a legal basis on which it can get compensated by the government in case some adverse action would occur (Buckley 1985).

However, there is still a risk involved in this situation in case of a sudden change of government because of a revolution or a coup. For this reason, some multinationals tend to buy risk insurance for their businesses. Insurance that is related to the type of risk, the country at risk, the industry, and many more factors. The more complete the insurance is the higher the cost of doing business is, which again reduces the company's returns in that country (Mayer 2018). The organizations proposing this kind of political risk insurance engage to compensate the multinational company in case one of the risks insured occurs and causes losses to the company.

3.1.2.5. Management of MNCs

In our new era, globalization has eliminated all kinds of differences between countries, opening these latter to each other on many levels and especially foreign trade and investments. The convergence of the standards between countries creates an important opportunity for FDI in other countries thanks to globalization and the circulation of information technologies. Also, it appears that globalization did not affect all countries unvaryingly, especially on the sociocultural level, which allows multinational firms to still find useful and profitable opportunities in other countries and thus locate their activities in them. However, the establishment of FDI by multinational firms requires strong and effective management that should observe some important strategic, organizational, economic, and socio-political principles.

The new business world makes the management of multinational firms face different kinds of challenges than the local management has. The first important challenge is the constant changes that occur in the international market and which require the ability of the management to adapt to these changes and market volatilities at a fast rate to keep up with international competitiveness (Liebau & Wahnschaffe 1992: 191). In this fast pace of changes, the role of global managers is to have a good knowledge of all the necessary operations demanded by their business, including the production, the availability of the raw materials, and also the logistics in the country in which the business is located. Global managers must also follow and understand the political and economic situation of the host country and make their decisions accordingly because any change in the country might strongly affect the outcome of the management's business decisions.

The global management of multinationals can be disturbed by these constant changes, however, if they are anticipated, understood, and well-managed, managers can turn them into advantages. The managers of MNCs need to think globally and base their decisions on the events that are happening in the world's economy. Therefore, the payoff will be an increase in the company's prospects, growth, and profitability in this constantly changing world (Czarnecka & Szymura-Tyc 2016).

Furthermore, multinational managers are required nowadays to adapt their decisions to the current economic, organizational, and strategic imperatives more than ever before. Because of globalization and international competitiveness, managers should also be more careful with their decisions because the cost of making a wrong decision is nowadays much higher than it used to be forty or fifty years ago. In fact, the rapidity of decision-making in international business is nowadays so high that a managerial mistake can cost the multinational company loads of money. For example, Multinational managers should be very careful and think well before making the decision of setting up or not a branch in a given foreign country. Making the wrong choice in this case, in such a fast competitive business world, can be very burdensome for the company, and while the firm will be trying to fix this mistake it will be left behind by the competitors who will surge ahead (Czarnecka & Szymura-Tyc 2016: 224).

The management of Multinational companies is not an easy task, and cannot be compared to the management of local firms. Every time a corporation decides to place an investment in a foreign country, it is through its management that the decision is made. After several studies related to the business activity and its possible returns from the country as well as several checkups of the country's financial, economic, social, and political situation (Sanders, 1988). The issues of business implementation and strategy formulation get more complicated by the international dimension. However, multinational corporations should exploit these difficulties and find the opportunities hidden behind them. It is because of these difficulties that investment in the global market is still limited only to those multinationals who are not afraid of taking risks, and who tap into these kinds of opportunities. This way, they can expand their activities throughout the world, and develop a sustainable competitive advantage over the local firms (Czarnecka & Szymura-Tyc 2016: 224).

3.2. Globalization And Foreign Capital Investments

3.2.1. Definition and Historical Development of Globalization, and Foreign Investments

With the expansion of business opportunities around the world and the increase of communication tools and the ease of information circulation between all the regions of the world, globalization has resulted in this great inter-connectedness of markets around the globe. This so-called globalization allows investors to get awareness of new investment opportunities in different locations of the world, and gives them access to the necessary information to study potential risks and profits thanks to the improved communications technology.

In this section, we are going to point out the specifications of globalization and how it impacts the course of foreign capital investments. We shall start by covering the definition of globalization, its historical development, an explanation of internationalization, and the development of foreign investments during this new era.

3.2.1.1. Definition of Globalization

Globalization is an international phenomenon where nations become interdependent and where information, technology, jobs, and products are exchanged freely across national borders

(Weinstein, 2005). In a free trade environment, and with the reduction or removal of trade tariffs, globalization is much beneficial for corporations who wish to export their products and services to other countries. On the other hand, globalization is also favorable for corporations who wish to export their whole production activity to other countries and start manufacturing their products abroad. This would allow them to reduce operating costs with a cheaper workforce and to buy cheaper raw materials locally in the host country. This would also allow them to get access to new unexploited markets for a cheaper cost (Haddad 1993; Haddad & Harrison 1993; Harrison 1994).

Globalization can be defined as a combination of relationships between nations where it covers several aspects such as social, political, cultural, and legal aspects. Socially, globalization leads to the interaction and integration of populations from around the globe, where they exchange their values and cultures, which unifies the world's cultures based on their similarities (Ghai & Alcántara, 1994). Globalization also acts politically by helping the world think about creating intergovernmental institutions such as the United Nations, the World Trade Organization, and the World Health Organization. these institutions are important tools nowadays to manage the relationships between countries. Globalization has also influenced and reformed the international law that protects countries' interests and manages the legal relationships between nations (Ghai & Alcántara, 1994: 3).

Globalization also allows different small countries with limited income to receive foreign investments, creating new job opportunities for their populations and granting them substantial economic growth through the cross-border flow of capital, goods, and labor (Rama, 2003). However, in this situation, globalization is sometimes considered as benefiting mainly the large corporations originating from the western world and who decide to invest and trade in foreign countries with small economies and resources. Furthermore, while globalization's motives are idealistic and opportunistic, and it affects positively the labor market in developing countries, it does also affect negatively the small businesses in those countries by strengthening the competition and conquering their consumer markets (Haller, 2016).

In any case, the main idealistic motive of globalization is to make the world increasingly interconnected, and this is the case nowadays, different parts of the planet are getting more and more connected thanks to the development of new transportation technologies such as air and sea travels (Ghai & Alcántara, 1994: 7). Trade and international business connections are also eased by the international legal treaties and trade agreements and of course globalization’s most important tool of nowadays’, which is the internet that made the world more connected than ever.

Globalization is one of the most powerful forces affecting our modern world, it is necessary for our new way of life and it would have been impossible to reach today’s world development without it. It is thus very important to understand globalization and to use it effectively to keep up with the world’s new requirements and to maintain this development. For example, the expansion of MNCs by establishing offices, factories, and supply chains in different locations in the world would not have been possible if globalization had not helped create a global network of trade through telecommunication infrastructures and international legal agreements (Miashchanava, 2016).

Thanks to globalization and the interconnection between all the countries of the world, the poverty rate had drastically declined in many regions of the world in the past several decades. Economists also think that globalization had allowed the spread of wealth through increased international trade and foreign investments between nations. It also helped to spread products and services widely to all parts of the world. However, this phenomenal expansion is accompanied by an overproduction of products and services which involve a negative environmental impact due to industrialization and the wide international travels (Narula & Dunning, 2010).

3.2.1.2. Historical Development of Globalization

Many scholars and historians debate the exact start of globalization as it was never perceived as a clearly defined phenomenon in its first stages, but the big majority of these scholars link globalization to the first human migrations between countries (Ferrie & Hatton 2015). Either for trade or simply for immigration, humans have started international movements since the beginning of life. However, we can still define the clear start of globalization as the development of international trade through the opening of the Silk Road, the invention of sailing materials such as Boats in the Mediterranean, and the opening of the Atlantic by Europeans.

3.2.1.2.1. The First Trade Wave (1st century BC-5th century AD, and 13th-14th centuries AD)

Trade has always existed in different forms as long as humans were on earth. Yet, international trade was rather limited until the 1st century BC which marked the occurrence of a remarkable phenomenon for the first time in history where trade became international and luxury goods were crossing borders to far away destinations. The so-called Silk Road was opened bringing luxury products and namely silk to the other side of the Eurasian continent in Rome (Casson, 1954:98). Thanks to the silk road many kinds of products were transited across thousands of miles to reach the edge of Europe, and thus trade went from being local or regional to becoming global.

This beginning of intercontinental trade was not the most profitable business model at that time. It required the intervention of many middlemen along the road and the regions to get the goods to their destination, because as mentioned earlier silk and spices were among the luxury products that were hauled and traded along this road. Therefore, the first aspects of globalization appeared thanks to the establishment of these global trade links (Casson, 1954:100). These trade links were strengthening the relationships between the two great empires that were dominating the big majority of the road. This reduced the interruption of this global trade which brought prosperity to all those who were involved in it. However, the silk road was eventually closed several times due to the fall of the empires that established it, and when later it reopened, it was again because of the rise of new hegemonic empires such as the Mongols in the late medieval time (Waugh, 2010). Every time the silk road was closed, communication between the continents and countries around it was cut, and thus globalization was no longer in place since the only communication canal between nations was cut.

3.2.1.2.2. The Second Trade Wave (7th to 15th Centuries)

The second trade wave happened this time on the other side of the world, starting with the expansion of the religion of Islam in all directions, and wherever Muslims went they took trade with them as they were merchants by blood. Muslims dominated the trade in the Mediterranean and Indian Ocean starting from Morocco and the Moorish of Spain until Asian Indonesia which became later a Muslim-majority country (Vanham, 2019).

The main traded products during this era were spices, on which was the main focus of international trade since they were originally traded by sea and later on by road as well. Such products were becoming so popular and expensive that they had a considerable added value, especially for traders in Europe, but the volume of their trade was still relatively low because of their luxury nature and their expensive price. Nevertheless, globalization at this time was still not well expanded and there were no other connections between West and East except for the sea spices route and the silk road (Casson, 1954).

3.2.1.2.3. The Era of Discoveries (15th – 18th Centuries)

Global trade knew an important take-off starting from the 15th century onwards. West and east were finally connected by the rise of the ottoman empire and the geostrategic position of Constantinople. Globalization was also expanded by the scientific discoveries that were made by European explorers and which permitted the discovery of the Americas by *Christopher Columbus* (Bartosik-Velez, 2006). The age of discovery allowed the connection of different parts of the world, especially through the most famous and first human expedition around the world *the Circumnavigation by Magellan – Elcano* (1519 – 1522). Magellan's fleet left the Spanish Sevilla crossing the Atlantic and the Pacific Ocean to reach Moluccas (the Spice Island) and back to Spain after the death of Magellan on the way which required captain Elcano to lead the rest of the expedition (Cramer 2020). This expedition aimed to discover a straight new sea route to the spice island and directly link the West to the East which cut out Arab and Italian middlemen who were taking advantage of this trade. These discoveries allowed also the entrance of more additional products to Europe which decreased considerably the price of spices.

On the other hand, the European empires had established a new mode of expansion through their colonies which gave them a considerable advantage in global trade. They had created a new economic model based on colonization and exploitation of other lands which still could not be considered a part of the global economy but rather a shameful legacy built on slavery and wars (Moak, 2017). Despite that trade became global after this era, and it was even the reason behind explorations and scientific discoveries, economists nowadays still do not consider this era as a form of globalization.

3.2.1.2.4. The Rise of Globalization (19^{th} century-1914)

Following this colonial expansion model, by the end of the 18^{th} century, it was Great Britain's turn to dominate the world both geographically through its colonies and the spread of the British empire, and technologically through scientific discoveries and innovations. This marked the start of an industrial revolution and the invention of some new machines such as steam engines and the industrial weaving machine (Zinkina et al., 2019: 203). This revolution together with the geographical expansion made global trade even wider and reached more parts of the world thanks to the steamships and trains that could carry goods along thousands of miles. The invention of new machinery allowed Great Britain to manufacture new types of goods such as textiles and iron that were in high demand and thus attack a huge international market.

Globalization has started its direct impact on the world from the economic growth that was boosted by the volume of international trade in the world. The average growth of trade at that time was evaluated at 3% per year, and the exports' share increased from 6% by the beginning of the 19^{th} century to reach 14% on the eve of WWI (Ortiz-Ospina et al., 2018). This evolution was also observed by the economist *John Maynard Keynes* who stated in chapter 2 of his book *"The Economic Consequences of the Peace,"* (1920), that the inhabitants of big capital cities were then able to order by telephone from their living rooms various products from around the world in whatever quantity they wish and expect their delivery until their doorsteps, which marks an important era of international trade and the world openness. Keynes also stated in a similar situation the international investments that were marked by the involvement of those who have means in big capital cities and who could remotely invest in internationally active joint stock companies (Keynes 1920).

New routes were also opened such as the Canal of Suez in Egypt that linked the Mediterranean to the Indian Ocean which formed a new artery for international trade. The railway lines also started crossing all the countries, bringing goods and raw materials from colonies more easily and in a faster and more cost-effective way (Daudin et al., 2010). In the meantime, FDIs were also globalizing and reaching more countries every year.

During this period, globalization benefited mostly Great Britain as it possessed capital and the most advanced technologies that allowed it to conquer the world commercially with its products and geographically by colonizing many countries around the world. However, with the invention of the refrigerated cargo in the 1870s, countries that had vast lands in Latin America such as Argentina and Uruguay, started exploiting them into growing cattle and mass-exporting their meat to other parts of the world. This granted them what can be considered a golden age since they were operating in the field where they are the most competitive and their products were considered as first necessity products (Zinkina et al., 2019: 209).

This era was thus agreed to be considered the first wave of globalization where the world knew a lot of massive global changes especially economically. The world was getting more and more connected, and the inventions of new technologies expanded industrial productions and the tools to make goods travel around the world. However, this era was also marked by some dark events since the European nations were getting so powerful and greedy that they launched a campaign of colonization, especially in Africa. This continent, which is rich in raw materials and underground precious resources, was thus divided into pieces of colonies. Whole populations were exterminated in their homeland, and their history and religions were erased to implement the new European ruling as it was considered as light and civilization, while in reality it was driven by the greed for natural resources and the sake of power. By 1900 this campaign covered all the African continent except Ethiopia and Libera which were the only free countries left, but not for so long (van der Linden 2016:5). On the other hand, no other countries from other continents were able to compete with the European nations in their expansion and their economic strength. Either because of the shortage of capital and technological development or because their local industries were invaded by the imports of European products which were more advanced and more cost-effective (Webb & Taylor 2014). Thus, globalization was starting to show another negative side of world integration.

3.2.1.2.5. Globalization During and After the Wars

By 1914, the whole world went into a massive breakout with the first WWI which brought in a massive crisis that ended all the good aspects of globalization and western high society burgeoning with it. Millions of soldiers and civilians died, several countries were ravaged and the construction that was led by globalization was replaced by destruction, and countries closed borders again ending any kind of international trade or communication (Strikwerda, 2016).

The situation between the wars did not improve as the only markets that were still alive were the financial markets, and these latter were hit in the 1930s by the American great depression which brought the economic expansion in South America to an end and also affected many banks in other parts of the world (Albers & Uebele, 2015). This crisis was then followed by WWII in 1939-1945, which brought the ravage and collateral damage in the world to an extreme level. Thus, the trade percentage of the world GDP fell to 9 percent which was the lowest level ever reached in more than 100 years since international trade started (Estevadeordal et al., 2003).

Despite the massive damage that many countries had experienced because of WWII, globalization did not take long to relaunch its expansion again. Its story continued this time with the lead of the United States of America and the continuity of the industrial technologies and international trade that had halted because of the war. The rise of global trade had again started and big economic areas started getting formed in two blocks separated by what was called the Iron Curtain. This curtain split the European continent into two parts, one followed the USA and one followed the Soviet Union. However, after 1989 and the beginning of the fall of the Iron curtain globalization again regained its place and became a real global phenomenon (Bracken, 1956). The effect of this economic reopening during the first decade after WWII was immediately felt thanks to the creation of the European Union and the free market initiated by the United States which revived trade considerably. Also, in the second part of Europe, the Soviet Union led a centralized planning which also increased trade. By 1974, middle-class incomes in the west had known a steep increase thanks to global trade which again formed 33% of global GDP (World bank data).

Furthermore, the fall of the Soviet Union and the collapse of the Berlin wall that divided Germany was the main trigger for globalization to conquer the whole world. The creation of the World Trade Organization (WTO) was also the main tool for global trade to expand and involve a considerable number of countries. This organization also helped establish free trade agreements between countries. First at a regional level where countries eliminate trade barriers with their neighboring nations, and then it became global where big powerful nations such as the USA (Destler, 1991) and China signed this agreement with countries from other parts of the world (Frankenstein, 1988). China, which was mainly an agrarian economy, saw interest in global trade and thus became the factory of the world thanks to the free trade agreements it concluded with the big majority of the world's countries (Huang, 2010).

Subsequently, the influence and the power of globalization were expanding more and more, especially after the third industrial revolution and the discovery of the internet which connected people from around the world even more directly. International trade has become unbelievably easier, people who could order in 1914 their wished goods by phone and receive them after a few weeks, could now place their orders through the internet and receive them within days (Rifkin, 2011). The internet has allowed access to unlimited markets and supply chains. It even pushed the world into further integration giving manufacturers the chance to do R&D in one country, supply raw materials from another country, manufacture again also in another location, and yet distribute their goods all over the world (Mohajan, 2021: 244).

This new era in the 2000s brought the global economy to an unprecedented level where global exports reached a quarter of the global GDP, and the total trade of imports and exports surpassed half of the world’s GDP since 2000 reaching a record of 61 percent in 2008. Furthermore, for some countries such as Singapore trade even covered more than 437% of their GDP in 2008, and this increased the size of the global middle class and gave a majority of the world’s population the opportunity to improve their financial situations (world bank, 2008).

3.2.1.2.6. Digital Globalization

The Internet gave globalization a new form of power which got the world increasingly dominated by the two global powers USA and China. This new form of power is the digitalization of all international operations where the internet made access to information very easy for any individual around the world. Consumerism increased exponentially, and the identification of people’s needs became a very fast and easy process. People’s tastes and decision-making processes became standardized and easily controlled thanks to artificial intelligence and digital marketing. And the world became one single market where trade operations are easier than ever before thanks to e-commerce (Totonchi & Kakamanshadi, 2011). This cyber world made small businesses also benefit from it and take a share in the digital economy growth. In fact, it gave them the power to outsource any kind of products or services at the best price possible from anywhere in the world, and sell them on a digital platform without any local expenses to customers all over the world.

However, with this new form of globalization and easy cross-border expansion, a new type of security issues appeared. Cyber-attacks became a more common threat to money and goods circulation between countries. Scams and fake companies with fake brands also started appearing reducing the trust in trade operations, especially with China becoming the factory of the world, many fraudulent imitations appeared and the end consumer is becoming less protected than before (Obodoeze, 2011; Pasculli, 2020).

This new era helped also expand negative globalization related to the environmental problems that arise from the excess of consumerism and thus manufacturing. Climate change's negative effects are nowadays a real threat to humanity since the pollution on one side of the planet causes extreme weather catastrophes on another such as big floods and fires, which has a devastating effect on biodiversity and the extinction of many animal species. Gas emissions cause the planetarian overheat and the melting of the north and south pole icebergs causing inundations, while the cutting of the forests leaves the world unable to cope with these emissions which increases breathing and lung diseases (Raftowicz, 2021). All these problems show another negative side of globalization as a harmful phenomenon if not controlled by international organizations that helped expand globalization in the very beginning.

3.2.1.2.7. Advantages and Disadvantages of Globalization

Some economists state that it is true that globalization had permitted developing countries to take advantage of global economic development and take a part in the industrialization process through FDIs and free trade agreements. This allows them to catch up with the developed nations and improve their standards of living. This also allowed them to benefit from the creation of more jobs and the importation of technologies through the attraction of foreign investments.

Globalization had not only spread economic development into the world, but it also improved social justice in different parts of the world. By widening the international travel network and the creation of several non-governmental organizations, many underdeveloped and developing countries had human rights organizations pointing up the social conditions in them. Also, the economic expansion through multinationals had put several conditions on countries who are wishing to take a part in this development to improve their social life (MacDonald & Midgley, 2007). For example, for a country to receive foreign investments, it has to follow and respect some social and humanitarian international guidelines and improve its infrastructure, and revise some laws to be able to attract foreign investments. This is one of the multiple ways in which globalization positively affects living conditions in other countries (Hillman, 2008).

On the other hand, others point out the disadvantages of globalization that are related to the centralization and concentration of wealth in the hands of a small number of powerful corporates and elites who control competition and economic development around the globe. This makes economic and financial downturns spread rapidly from one country to its trade and financial partners in the whole world through a domino effect (Markwat et al., 2009). If we take as an example the USA that englobes the big majority of the corporate elite, once an economic or financial problem arises in the USA, it gets rapidly felt in the rest of the world and especially in Europe as it was the case in the late 2008 crisis, and this is due to the interconnection that was created by globalization.

The middle class in developed countries is also negatively affected by globalization, as this latter allows certain industries to move out to other countries where they can generate more profit at a lower cost, which clasps the job opportunities for workers in the country of origin. This creates a certain balance by giving new opportunities to people in developing countries while taking them from the people in developed countries, which creates other kinds of economic problems in developed nations (Oldenski, 2019).

For better or worse, with all its pros and cons, globalization has created an international homogenization and standardization of commercial and economic orientation by providing the same kind of goods and services to different parts of the world. This standardization goes beyond consumerism to reach even the ethics and morals and eliminates the differences that exist between nations.

3.2.1.2.8. The Impact of Globalization on Capital Flows

Since the beginning of its first aspects, the phenomenon of globalization has strongly helped enhance the growth of the worldwide economy thanks to industrial development and international trade between developing and advanced countries. Globalization channels have also helped increase the financial and capital flows between countries and have granted developing countries the chance of becoming the main attraction of foreign capital investments.

Capital flows in the framework of globalization can be considered as a type of financial globalization since it helps developing countries increase their growth rate through its channels. These channels can directly affect the economic growth of a country by increasing its domestic savings and empowering investments by reducing the cost of capital and the transfer of technology. Or indirectly by helping improve the macroeconomic policies and establishing a disciplining effect which will give the country the ability to better risk management and involve it in international production competitiveness (Stallings, 2007).

On the other hand, developing countries that are financially open take more advantage of the globalization of capital flows. The flexibility of their financial institutions allows them to receive more foreign capital and thus host more investments, which boosts their economic growth rate compared to economies that are financially less open. However, financial openness and high capital inflows solely are not enough to boost the economic growth of a developing country. On the contrary, if the macroeconomic determinants are not adjusted and the country is not open to international trade, a high amount of capital inflows can disbalance the country's financial system which might involve some output collapses because of increased banking costs and currency crises. There is a strong correlation between financial openness, trade openness, and economic growth. These elements are major channels for globalization to take effect and improve the economic and financial situations of developing countries thanks to capital flows (Prasad et al., 2003).

As a matter of fact, liberalization processes that are implemented by countries wishing to open up their economies would result in benefiting these countries from strong capital movements. Thus, by offering its channels in an economically open world, globalization enables capital to flow from developed economies where the return on capital is low to developing countries where the average return on capital is high (Ghose, 2004). Subsequently, the capital-receiving countries see their capital ratio per employee raise, labor productivity increase, and as a result an increase in the overall welfare.

Globalization has also allowed countries to diversify their investments' risks more effectively. Capital movements between countries that have no direct shocks' interconnection allow these latter to reduce the yield variability and thus improve the efficacy of risk-averse individuals. This also enables different countries to complete each other's production by diversifying specializations in specific areas of production (Prasad et al., 2003: 9).

However, Globalization does not protect economies that opened up their markets for capital movements from international monetary crises, as was the case in the recent financial crisis contagion. Such crises involve immediate and mass capital withdrawal from emerging markets which deeply damages their economies and unbalances their currencies. Also, capital-receiving economies find themselves, directly and indirectly, dependent on foreign capital in their investments and also on FDI. So, in case of a crisis that requires the withdrawal of all foreign investments from a country, this latter finds itself losing a big part of its value creative entities and an increased unemployment rate, which brings its economy to a worse level than before receiving the foreign capitals (Friedmann & Goldstein, 2004: 47).

Subsequently, globalization is held responsible for helping countries expand their wealth by investing capital from developed to emerging economies, however, it is also responsible for the risks that these capital movements involve. Countries that have no apparent direct relationship can find themselves at a contagion risk in case of crises because of financial globalization. It can also spread financial and economic problems at an international level as was shown by the latest financial crisis of 2008 where economies in another part of the world with no direct relationship with the USA saw their financial systems crash immediately after the crisis started in there.

3.3. Internationalization

3.3.1. Definition of Internationalization

The process of internationalization in the context of economics is an expansion of the enterprises' involvement in international markets. Internationalization is an important strategy for companies that seek global integration and sustainable development at different levels. Companies wishing to widen their footprints internationally and conquer greater market shares abroad go for the internationalization strategy (Gao, 2008: 9). This internationalization trend has pushed companies to become global corporates under globalization, which brought economies throughout the world to interconnect and eliminate all trade and financial barriers between them.

Internationalization could be most effective for companies who have a big part of their production commercialized abroad to specific kinds of clients who are installed in the same location. In this case, this company needs to produce personalized goods for this population and bring it close to its consumers, either by creating a new sales and stock point, or by completely moving a manufacturing branch to this country (Gao, 2008: 6). In case of internationalization through trade, companies might face some potential trade barriers which may limit their expansion overseas, but also their products need to meet the local standards of the market where they will be used, such as units of measure, driving orientations in case of cars, dates writing form, etc.

In today's context, firms are internationalizing in greater numbers and at a faster pace than before. Implementing combinations of entry and exit strategies, these companies become more and more guided in their multinational adventures, especially with the standardization of services and the trade of know-how across the globe. For example, in Europe the elimination of borders was a major key for European countries to enter a full international business openness, and for the national companies to spread their branches everywhere around the continent (Békés & Muraközy, 2015). Subsequently, internationalization is thus defined as a corporate strategy that companies implement to make their products most adapted to all markets that they plan on entering. This expansion motivation arises when a corporation has exploited all the domestic potential and started to look for a potential to explore abroad.

3.3.2. Difference Between Internationalization and Globalization

As we previously discussed internationalization, in nowadays world, borders are no longer an obstacle for companies to expand their activities and for countries to exchange capital, that is where internationalization and globalization appear as two similar terms but totally different in the business language. These two concepts have different effects on economic expansion when followed by companies as globalization is a strategy that includes internationalization as a task (Daly, 1999).

Globalization as its name illustrates is rendering the world as a global village where the economies are connected through free trade and standardized economic policies. It is the opening of nations' economies to other nations and the synchronization of their regulations. On the other hand, internationalization is the strategy of providing goods and services that are adapted to global standards and which can easily be accepted in international markets. It is a process of business expansion abroad for companies or individuals to become a part of the international market (Dulupçu & Demirel 2005).

Internationalization is a key strategy for globalization to touch as many countries as possible, it is more of a tool for globalization to reach its results at the global level, which makes this latter related more to relations between economies and countries while internationalization is related to individuals and firms.

These two phenomena are also rather affected by different factors, globalization is affected at a macro level by economic and political relations between nations, while internationalization is affected at a micro level by local traditions, and cultural and taste preferences. For example, the elimination of trade barriers and Visa obligations and the easing of investment obligations between countries is a globalization result, however, the results of internationalization can be more related to sourcing and producing goods and services that are adapted to different countries and cultures. Thus, globalization can be defined as an economic process aiming to bring together all economies and nations while internationalization is a tool that helps globalization spread globally (Kostiuk et al., 2021: 2).

4. COMPARISON OF FDI IN MOROCCO AND TÜRKİYE

4.1. Comparative Analysis of the Socio-Economic Situations of Morocco and Türkiye

Our choice of taking Türkiye and Morocco as 2 case studies to examine the real impact of foreign capital investments on the economic growth of countries was based on several aspects; the first and main aspect is the similarity between these two countries on many levels:

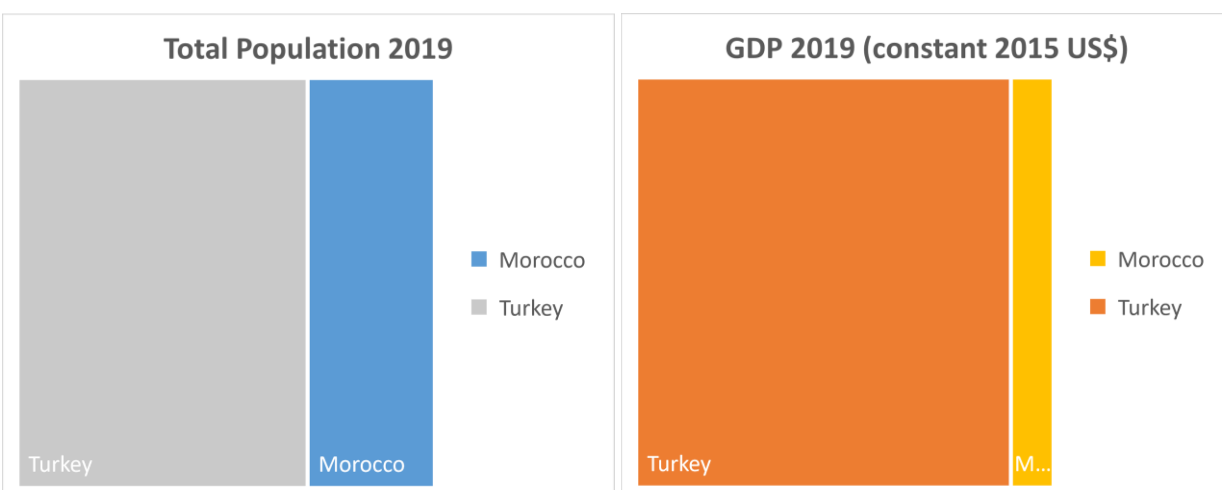
- The religious, cultural, and socio-economic levels,
- The economic structure and resources,
- The political orientation for the last 10 years (PJD in Morocco and AKP in Türkiye).

Thus, for a better understanding of all these aspects, and to evaluate the impact of foreign capital on each one of these two countries' economies, we put into comparison all the Macroeconomic parameters that form their economic and social founding.

4.1.1. Production and Income Levels in Türkiye and Morocco

Starting from the production and income levels of populations in Türkiye and Morocco, comparing the populations and GDPs of these two countries is a natural thing to do, especially since manpower is one essential aspect of a country's production particularly if it is well-used. We take 2019 as a recent data reference for population and GDP statistics for these two countries as we can see in (Figure 2).

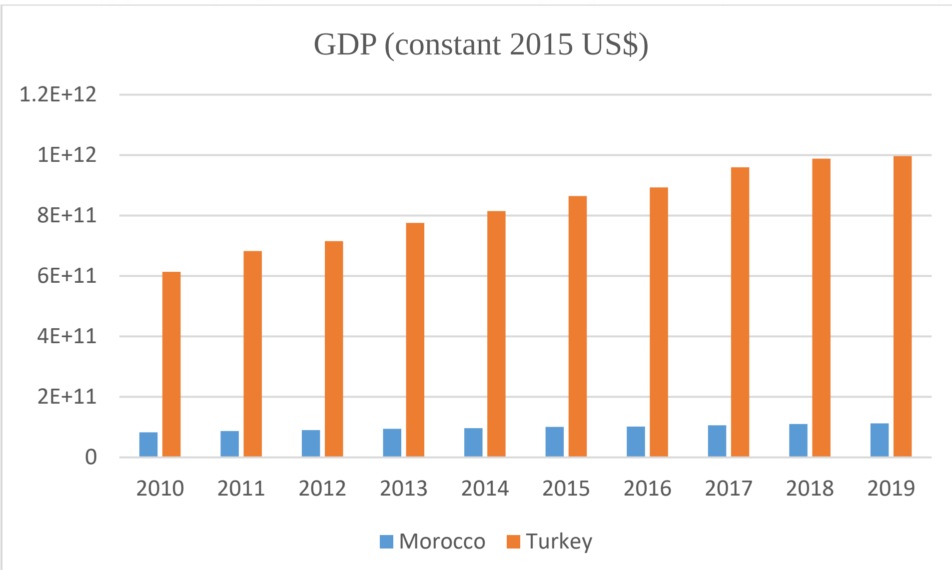
Figure 2: GDP & Total Population Morocco and Türkiye, 2019



Source: Author's elaboration using data from WDI

The population of Türkiye being nearly 83.5 million is more than two times the Moroccan population which is around 36.5 million only. The population taken as a primary tool for a country’s production should justify the GDP levels in these two countries according to their populations. However, it is not the case in our example here as shown in figure 3. There is no logical correlation between the GDP and the total population in Morocco compared to Türkiye, this is why we are going to closely analyze the GDP growth in both countries for the last 10 years (2010-2019) according to our available Data as on the (Figure 3).

Figure 3: GDP, 2010-2019



Source: Author’s elaboration using data from WDI

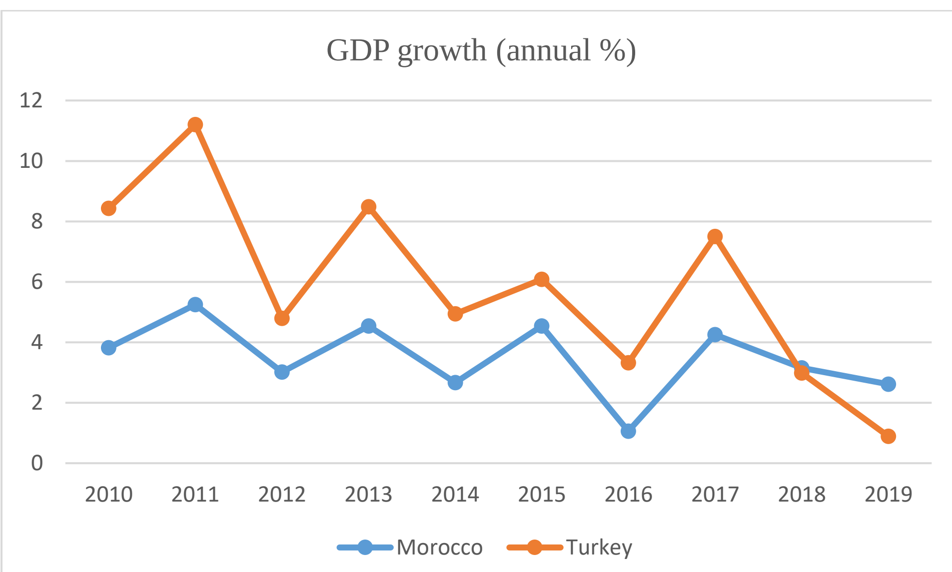
As we can see, the average GDP growth rate for both countries during these given 10 years is constant, as for Morocco is 3.49% and for Türkiye 5.86% which shows a big difference in the growth pace between our two countries, this can be due to multiple factors which we will try to analyze with further charts. However, the GDP is composed of 4 main parameters:

- Personal consumption expenditures for goods and services
- Business Investment
- Government Spending
- Net Exports of goods and services

It is rather clear that the GDP growth rate in Türkiye is much higher than in Morocco thanks to one or all of these parameters. A bigger population will influence personal consumption and government spending, while the net exports can mainly be affected by the industrial sector or the service providing as these two sectors are widely influencing the Turkish economy. We shall discover what is exactly behind the difference in the GDP growth during our step-by-step analysis of the economies of both countries.

Nevertheless, in Figure 4 below we see that the annual GDP growth for Türkiye and Morocco has the same ups and downs with every year's context. This proves that both countries have the same affecting events on their GDP growth, and their openness to external factors makes their economic tendencies very similar. However, the proportion of the annual GDP growth change every year is slightly different. For example, in 2012 we see that the Turkish annual GDP Growth decreased by 6.41% from 11.2% to 4.788%, while in Morocco it decreased only by 2.24% from 5.24% to 3%, which can partly be explained by the slowdown of the domestic demand which pulled down the domestic consumption. In Morocco, the decline in GDP Growth was less acute because it was mainly due to the decrease in international demand and thus the decrease in the added value of the agriculture sector. It was also affected by the increase of the net taxes on the subventions and especially the governmental elections that followed the Arab spring which resulted in a total change of Morocco's constitution and the establishment of a head of government for the very first time in Morocco's history.

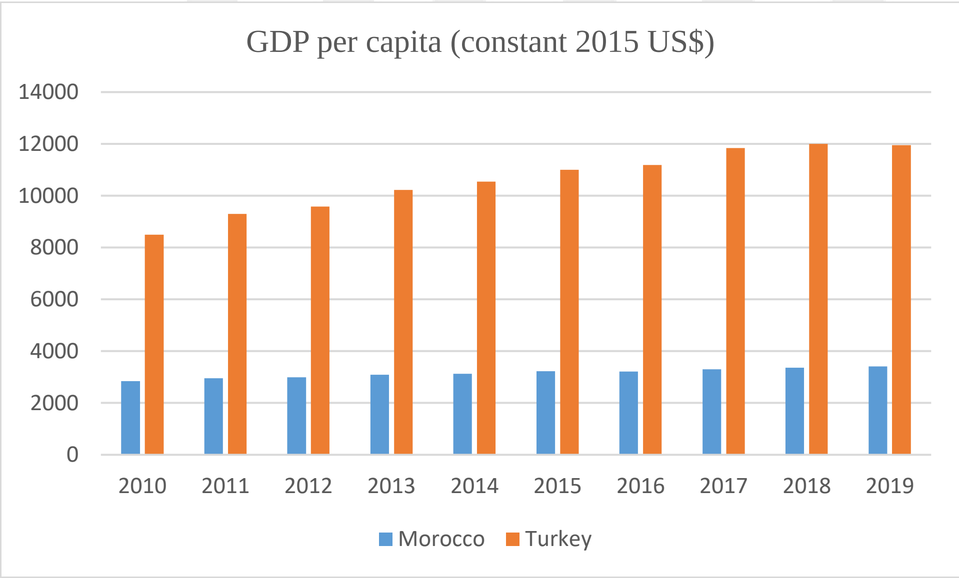
Figure 4: Annual GDP Growth Türkiye & Morocco, 2010-2019



Source: Author's elaboration using data from WDI

During the following years, both countries continued to experience the same ups and downs with a neat advantage for Türkiye's GDP growth rate until 2017 when this latter started dropping drastically to rank in 2018 at 2.97% right below Morocco's GDP growth rate which was at 3.14%. In 2019 the Turkish GDP growth reached 0.88% low while for Morocco it dropped at a lower proportion to 2.60%, and it was the first time the Turkish GDP growth experienced such a reversal since the crisis of 2009. The reason behind this big technical recession in the Turkish economy is the decline of private consumption and the contracting of Gross fixed capital formation (investment), while the value of the Turkish Lira (TRY) kept significantly weakening which exceptionally helped boost net exports. But they nevertheless stayed insufficient to boost the GDP.

Figure 5: Morocco & Türkiye GDP per Capita, 2010-2019

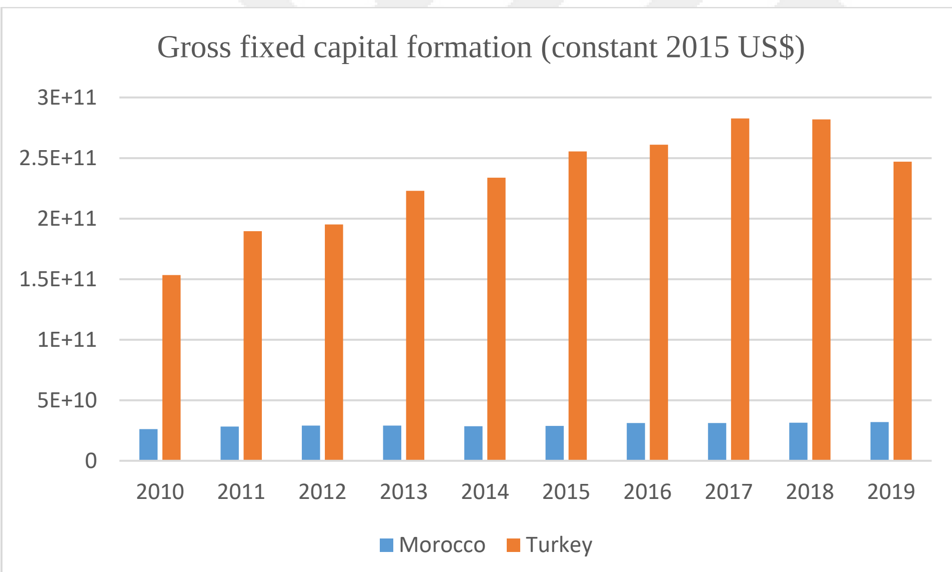


Source: Author's elaboration using data from WDI

The free fall of the value of the Turkish Lira (TRY), and the constantly increasing inflation rate, worsened the private consumption level in the country and reduced, even more, the levels of investments in the last years since 2017. To compensate for this, the government gave a considerable boost to the minimum wage to increase by 26% and reach 2,020 TRY ($380), which helped keep the GDP per Capita at a steady high level without any sharp declines as shown in figure 5 (according to Çalışma Ve Sosyal Güvenlik Bakanlığı). However, for Morocco, the GDP per Capita kept varying in small proportions for all the last 10 years with no big changes.

Furthermore, we need to analyze another major component of the GDP and the construction of both Turkish and Moroccan economies which is the Gross Fixed Capital formation (investment). As we can see in (figure 6), there is a big difference between the value of investments in Türkiye and the one in Morocco, which can be explained by the economic structure of Türkiye which relays more on increased added value sectors, and the one of Morocco which is a less industrial country. We shall explain in detail the dominance of all different sectors in both countries in the following paragraphs. However, in the meantime, we can also observe a remarkable decline in investments in 2019 for Türkiye due to the crisis we stated above, while investments in Morocco were still varying in small proportions through the years due to the absence of any kind of innovation nor diversification of its economic resources.

Figure 6: Gross Fixed Capital Formation, 2010-2019



Source: Author’s elaboration using data from WDI

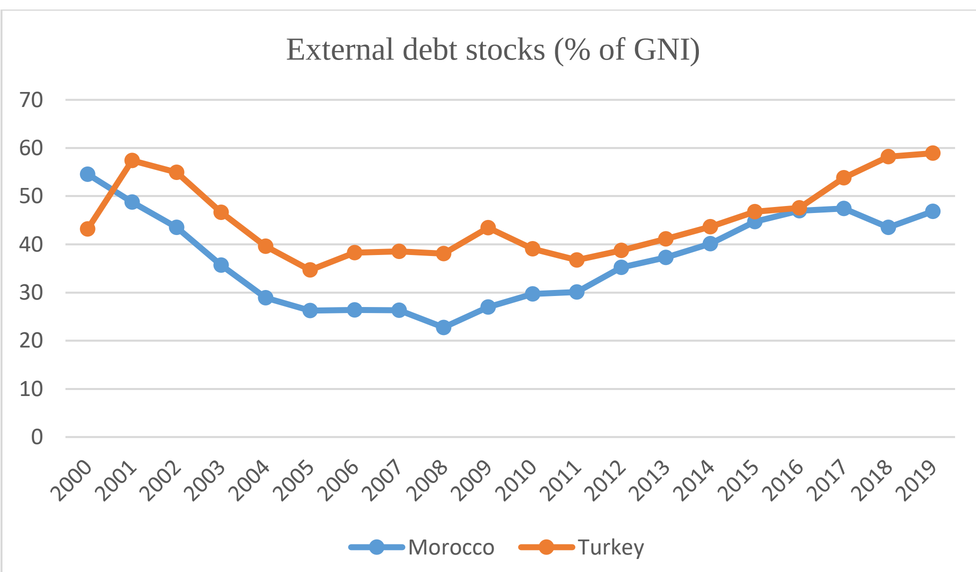
4.1.2. Investment and Saving

On the other hand, the annual average investment formation of the GDP in Türkiye over the last 10 years was around 28,06% while in Morocco it was slightly higher 29,84%, this can be explained by the important difference in the annual GDP which is considerably higher in Türkiye, and who relays on a multitude of income resources with high added value such as services. Gross fixed capital formation can also be widely influenced by the level of gross domestic savings in a country, which allows increased production and thus fair participation in the formation of GDP. In our case study, the difference between Morocco and Türkiye's investment proportion of the GDP can be also due to the gross savings annual average level which is slightly higher in Morocco at 27,84% while at 24,70% in Türkiye.

4.1.3. External Dept and Inflation in Morocco & Türkiye

In regards to the External Debt, and as we can see in (Figure 7), Türkiye had higher external debt stocks during the last 9 years, which was not the case before 2001 when it experienced a severe banking crisis that had started in 2000 (Akçakoca 2012). Morocco from its end had a higher external debt rate earlier to this date but started to decrease afterward until the events of the Arab spring and the big constitutional change in 2011, which was accompanied by the governmental elections and the arrival of the Justice and Development party to rule the country. Thus, since 2011 the political orientation of both Türkiye and Morocco took the same path, and external debt stocks were similarly increasing in both countries until 2016 when they almost settled at the same rate; where in Türkiye it dropped to 47,57% and increased in Morocco to 46,99%. The reason behind this is the military coup attempt that happened in Türkiye on the night of the 15th of July leaving the country in complete destabilization for some time. The years following this were marked by the severe crisis that hit Türkiye which caused a sharp increase in external debt reaching the highest level in the last 10 years by 2019 at 58,91%.

Figure 7: External Debt, 2000-2019

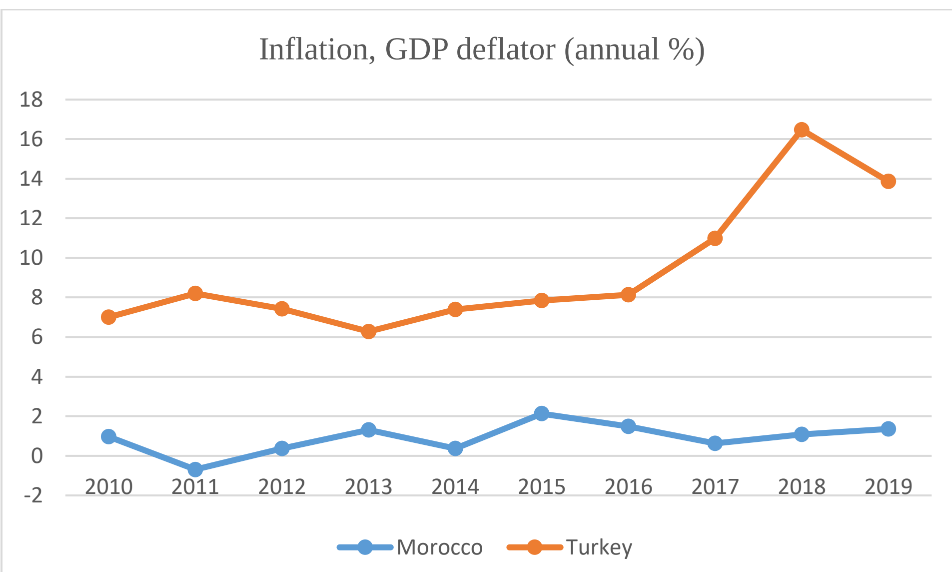


Source: Author's elaboration using data from WDI

4.1.4. Inflation in Türkiye and Morocco, Between 2010 & 2019

One of the most important economic parameters that we should also compare in our both countries is inflation. It is important to mention that a high level of inflation has a negative impact on domestic private consumption and thus on GDP growth. In our case, we check the GDP deflator as it is more accurate in reflecting the real changes in prices for all of the goods and services produced in an economy. In (Figure 8) we see that there is a quite high difference in inflation rates between Türkiye and Morocco. The inflation rate in Morocco is kept at low swinging levels with a substantial deflation of -0.69% in 2011 and 2.13% as the highest value in 2015 during the last 10 years. However, in Türkiye inflation level is much higher than in Morocco with small changes from 2010 to 2016 where the sharp rise starts again doubling the inflation rate in 2018 with a value of 16.47%. The economic data for Türkiye and Morocco in these last 10 years have 2 main critical situations that impacted them greatly and caused the radical fluctuations that we can see, the Arab Spring in 2011 in Morocco, the military coup attempt in Türkiye in 2016 plus the start of the economic crisis afterward. this is why we chose a longer timeline in our econometric models for a better understanding.

Figure 8: Inflation in Türkiye and Morocco, between 2010 & 2019

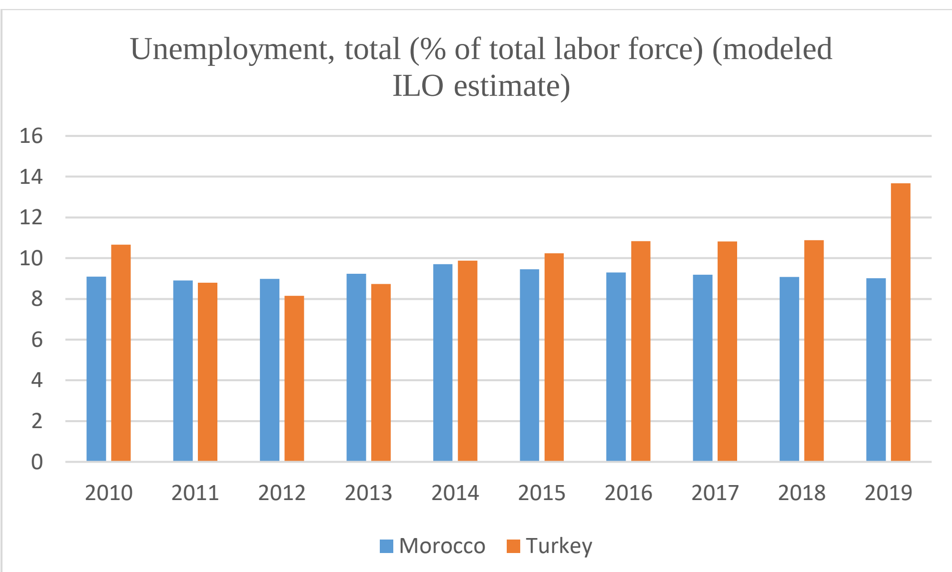


Source: Author's elaboration using data from WDI

4.1.5. Unemployment and Sectors added values

Another decisive factor that we shall discuss and compare for both countries is the unemployment and participation rates of Türkiye and Morocco. For a population of 83.43 million in 2019 in Türkiye and a labor force estimated at 31.15 million, we can see that the unemployment rate as a percentage of the total labor force is 13.67%. However, in Morocco where the total population in 2019 was 36.30 million and the number of laborers 12.047 million (United Nations Population Division, 2022), the unemployment rate is only 9.01% which shows a considerable difference at least for this year. Furthermore, if we take into consideration the last 10 years as we can see in figure 9, the comparison of unemployment rates between both countries during these years shows that the political changes and events have a big impact on unemployment. In 2010 Türkiye had a higher rate of 10.66% until 2011 when the crisis hit. Morocco also started recording higher rates going in pair with not much difference than Türkiye until 2016 when the political event again hit the country and the difference started getting bigger until hitting the highest rate in the last 10 years for Türkiye in 2019 when it reached 13.67%.

Figure 9: Morocco and Türkiye Unemployment rates, 2010-2019



Source: Author’s elaboration using data from WDI

4.1.6. Employment and Added Value by Sector

As we spoke about unemployment, we shall also speak about employment by sector and their added values. As shown in Figure 10, we can see that there is a big difference in the economic structure of Türkiye and Morocco;

- The Turkish economy is driven mainly by the tertiary sector where services employed between 45% to 57% during the last 20 years (world bank, 2019). Türkiye is home to some big-sized companies that rank among the best service providers in the world such as Turkish Airlines. It is also one of the best destinations in the world for tourism with its high-standard hotels and tourism infrastructures. Services are also the sector with the highest added value in Türkiye's economy, which makes this latter very sensitive to the political and security upheavals that the country experienced from 2015 until 2019.

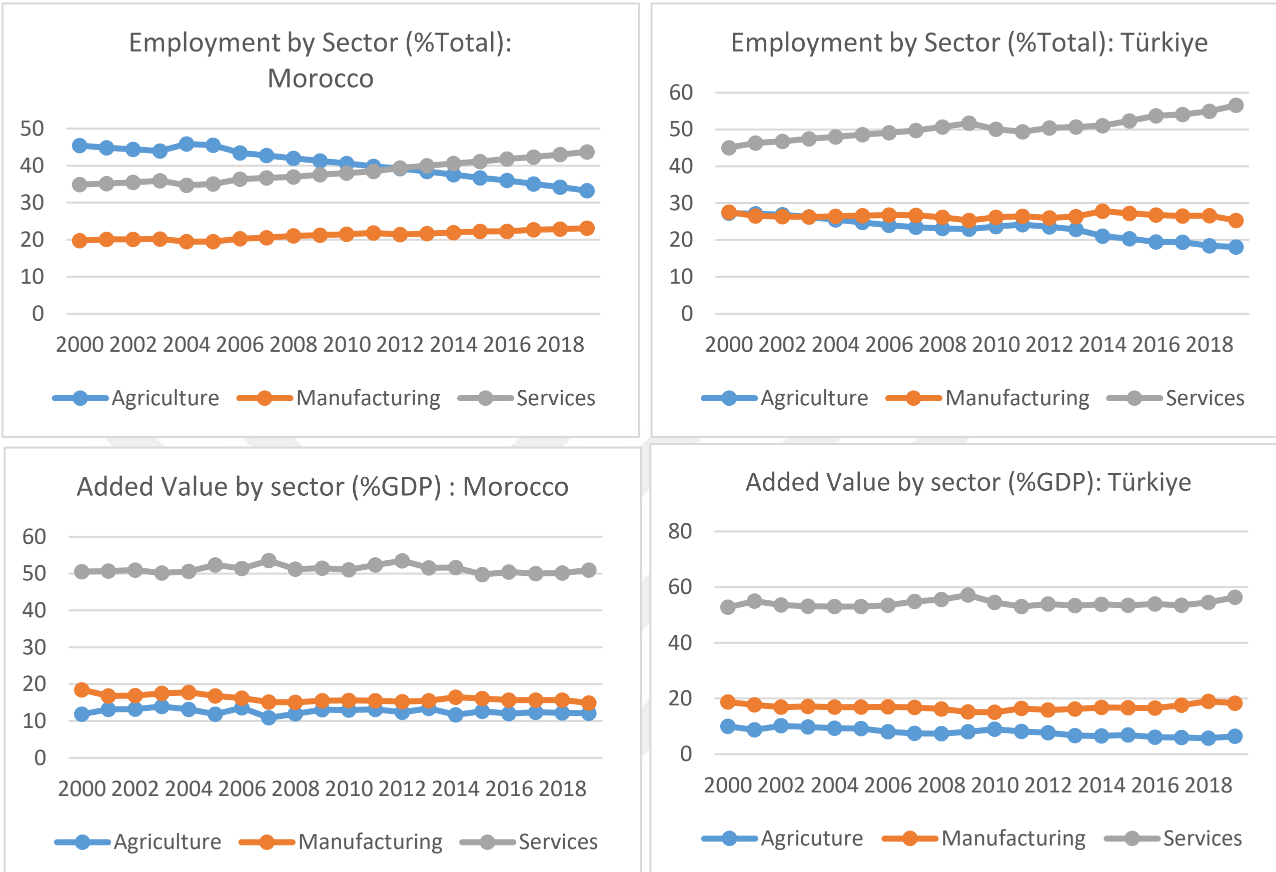
  The secondary sector is also observed to be the second highest employer in the country for the last 20 years with an average of 26% employment rate of the active population, it is also providing the second highest added value in the economy (world bank, 2019). Thanks to its good infrastructure, Türkiye is home to multiple FDI's and hosts several factories of multinational manufacturing groups. It is reigning in automotive manufacturing, agricultural machinery, chemicals, and electronics…

  The primary sector on the other hand is the lowest employer in the country in the last 20 years, from 2002 until 2004 manufacturing and agriculture had the same employment rate of the active population in the country, but after 2004 manufacturing took over and the primary sector employment rate decreased gradually. This can be explained by what Jean Fourastié explained as the transition of the country from the traditional civilization, to the tertiary civilization (Fuellsack, 2009). The first one is not scientifically developed and its use of machinery is negligible, while in the second one, the primary and the secondary sectors are gradually dominated by automation, and the workforce occupation shifts to the Tertiary sector where productivity growth is slower (Fuellsack, 2009). The added value of the primary sector is also very low because of the generated income from raw materials.
- The Moroccan economy is also led by the tertiary sector as services form the highest added value to the GDP thanks to tourism where Morocco ranks as one of the best touristic destinations in Africa and the world. Its diverse landscapes and seasons throughout the year

make it a dream destination for different tastes at different times of the year. However, we can see that from 2000 until 2012 the tertiary sector was not the highest employer in the country but rather the primary sector which employed up to 45.83% of the active population in 2004. which demonstrates that Morocco was still in the traditional civilization phase until 2012 when machinery started taking over raw material productions and the services became the first employer of the country. In regards to manufacturing, we can see that it remains the lowest employing sector in the country, even if it is slightly higher than the primary sector but still very low compared to the tertiary sector.

From a general point of view, we can sense an important similarity between the Turkish and the Moroccan economy regarding added value sectors and their employment rate from the active population with some exceptions. While Morocco was still ineligible for machinery use and its industrial sector remained very low, Türkiye had already boosted its technologies used for the primary sector which also allowed its secondary sector to improve and increase its added value to the GDP. Also, even if the reached percentages of the three economic sectors are approximately similar in both countries it is important not to forget that the big difference in populations and GDP levels puts Türkiye in a far better economic position than Morocco.

Figure 10: Employment & Added Value by Sector between 2000-2019



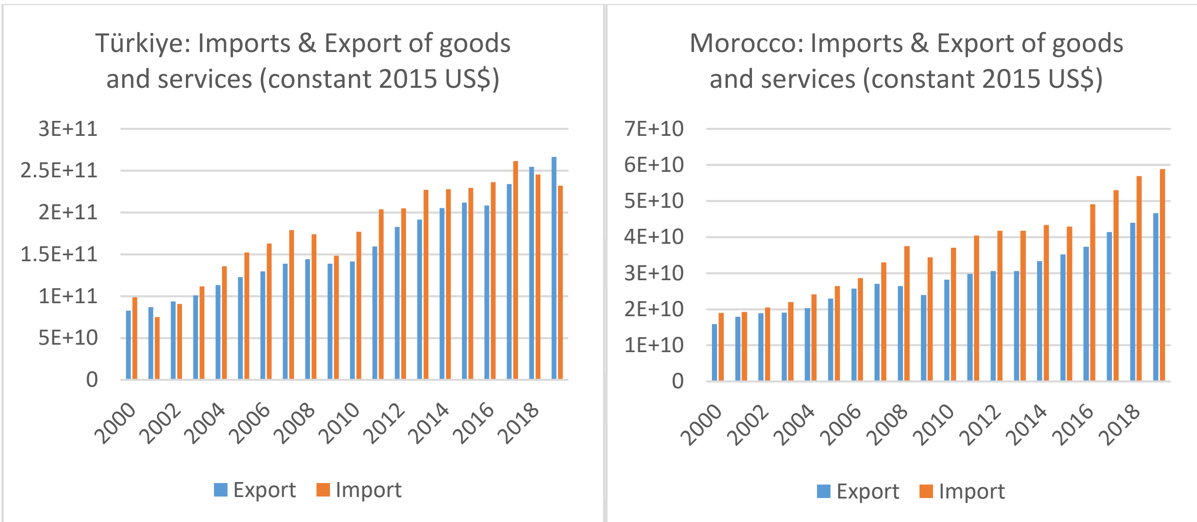
Source: Author's elaboration using data from WDI

4.1.7. Imports and Exports of Goods and Services

Regarding exports and imports levels, there is a considerable difference between both countries, Türkiye's high levels of exports and imports are incomparable to Morocco's levels, and this can be explained by the economic sectors on which both countries rely as a resource. For example, as we can see in figure 11, in 2015 the generated revenue from exports in Türkiye is approximately 6 times bigger than the one generated in Morocco. However we can also see that imports levels in Türkiye are much higher than in Morocco, and in both countries, imports were constantly higher than exports except from 2001 and 2002 in Türkiye where the trade balance was positive and the exports exceeded imports. Also in 2018 and 2019 exports in Türkiye exceeded imports by more than 34 Billion USD, and this can be partly explained by the government's support to foreign trade in the country and the decrease in the value of the Turkish Lira.

Türkiye in 2019 was one of the biggest exporters in the world, with Europe as a main destination for its goods and services, and also Morocco which imported more than 2.34 Billion USD of Turkish goods that year (World Bank, 2019). However, Moroccan exports towards Türkiye were still weak and reached around 639 M. USD only in 2019.

Figure 11: Import and Export Evolution in Türkiye and Morocco between 2000 & 2019



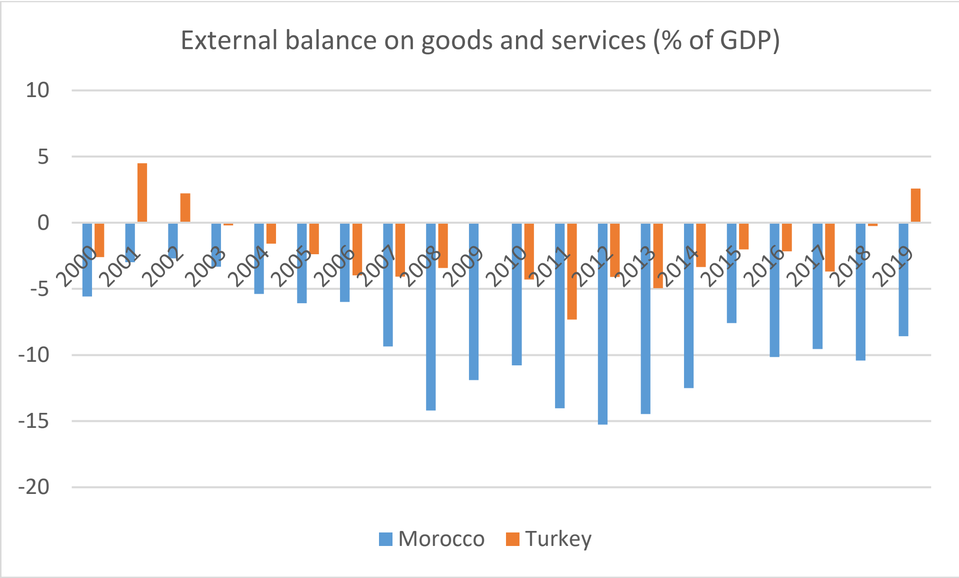
Source: Author's elaboration using data from WDI

4.1.8. Trade and External Balances

To follow up on our previous analysis of the exports and imports levels of each one of our countries, we see here in figure 12, that the trade external balance was always negative for Morocco during the last 20 years. This is because Morocco's economy relies on low added value sectors such as agriculture, and manufacturing which are at low levels. On the other hand, Türkiye's external balance was positive for 3 years in these last 20 years, and that was in 2001, 2002, and 2019. This can also be explained by the government's efforts to tackle the economic and financial crisis by increasing exports which also bring foreign currencies and help maintain the value of the local currency.

The external trade balance or as named the balance of trade is a synonym for the net exports of a country where a country with a good economy has its exports exceeding its imports. Trade balances are negative in both countries here. however, we can see that Türkiye has a better tendency to boost its exports of goods and services while Morocco is required to work on its industrial and service sectors to export goods and services with higher added value and thus improve its balance of trade.

Figure 12: External Trade balance on Goods and Services, 2000-2019



Source: Author's elaboration using data from WDI

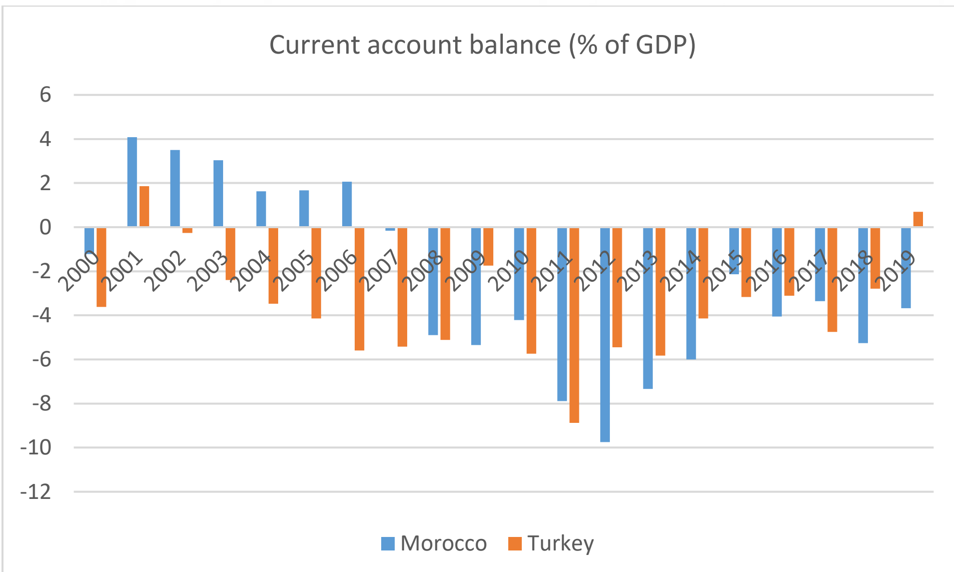
4.1.9. Current Account Balance

In addition to the trade balance, the balance of payments is also composed of the current account balance, which in its turn includes the trade balance as an important pillar. The current account can be defined as the net income of a country including the balance of trade, the net earnings of foreign investments minus the total payments made to foreign investors, and the incoming money transfers from abroad.

In our case study as we are analyzing the current account balance in Türkiye and Morocco between 2000 and 2019. A current account surplus means that the country's net foreign assets value has increased during this period which can be explained by more assets than liabilities, and in case of a deficit of the current account, we can assume that the value of net foreign assets shrank during the same period. We also point out that this calculation includes both private and government payments during the chosen period, which explains the name "current account" in the current period.

In the following figure 13, we can see that the overall current account balance in Türkiye during this period had witnessed a deficit except from 2001 and 2019 where a surplus was experienced due to the positive balance of trade. This is Thanks to the increase in exports and the government's effort to boost the country's international trade. However, we can see on the other hand that Morocco witnessed more current account surpluses for six consecutive years from 2001 to 2006. This can mainly be explained by the unilateral money transfers from the Moroccans living abroad and from foreign investments rather than by the trade balance surplus.

Figure 13: Current Account Balance, Morocco & Türkiye between 2000 and 2019



Source: Author's elaboration using data from WDI

4.1.10. Social and Institutional Situation Between Türkiye and Morocco

The Turkish and Moroccan societies have many similarities that originate from their position in the Mediterranean basin and the religion of Islam. Their traditional societies have the same fundaments based on the family concept, the importance of marriage, and the sense of belonging to the community. Both countries have their populations deeply influenced by religious values and the Mediterranean type of behaviorism. However, there are still some differences that were shaped by foreign interference in both countries, for example, the Turkish society is strongly nationalistic and involved in the country's politics, they have developed a certain kind of political maturity which allows them to considerably reduce the corruption rate in the country. Turkish society has also had less foreign interference mainly through colonialism, which makes them keep their traditions and belief in their country at its best. On the other hand, Morocco suffered different kinds of occupations throughout its history which helped develop local differences even among its population. From having a north strongly influenced by the Spanish culture to the center by the French culture and the south by the nomads' culture, Morocco is a variety of subcultures inside its own culture. The social identity is however intact and still reigned by the Islamic religion. Nevertheless, in regards to the involvement of the Moroccan population in social development, Morocco is still way behind Türkiye, as it can still be felt that the political involvement of the population is not at its best yet. This results in corrupted institutions that hinder the development of the country. However, since 2011 Morocco has changed drastically by promoting the concept of an open society through the advancement of a social contract and raising of awareness towards social responsibilities. Moreover, institutions became more inclusive strengthening their functioning at both state and market levels. The country also improved the development of social capital through what King Mohamed VI called the investment in intangible capital through the plan *"Morocco 2040- Emerging by Investing in Intangible Capital"* (World bank, 2017)

4.1.11. Poverty

In regards to Poverty and according to the up-to-date data that we have found Morocco and Türkiye have made substantial efforts in reducing poverty in both countries. For example, as we can see in table 1, from 2006 to 2013 the poverty headcount ratio per threshold of $5.50 a day dropped in Morocco from 47% in 2006 to 30.2% in 2013 recording a 16.8% decline. Whereas in Türkiye it dropped from 21.9% in 2006 to 10.7% in 2013 decreasing by 11.2%. But in general, if we take the poverty headcount in both countries, we can see that the poverty ratio of the population in Morocco is 3 times higher than in Türkiye.

Table 1: Poverty headcount ratio per threshold 2006 & 2013

	2006		**2013**	
	Morocco	**Türkiye**	**Morocco**	**Türkiye**
$1.90 a day (2011 PPP, % of pop.)	3	1,8	0,9	0,3
$3.20 a day (2011 PPP, % of pop.)	16,2	7,9	7,3	2,7
$5.50 a day (2011 PPP, % of pop.)	47	21,9	30,2	10,7

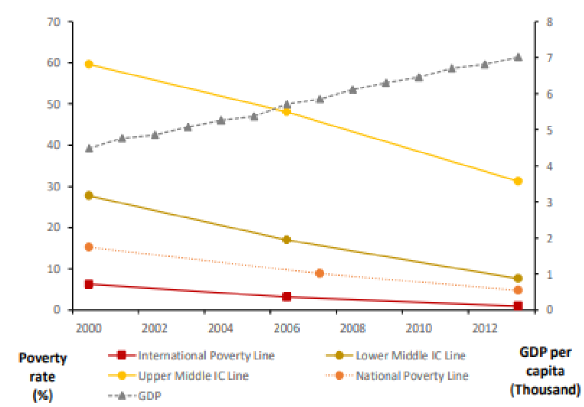
Source: Author's elaboration using data from WDI

4.1.11.1. Poverty in Morocco

Morocco as a developing country with a history of occupations and a lack of natural resources has had a long-lasting battle against poverty among its population. As we can see in figure 14, Morocco is still doing fine during its progress as its national poverty line is still way above the international poverty line who survives at US$ 1.90. We can also see that while GDP is increasing the poverty rate is sharply decreasing in Morocco with all its income classes and especially the Lower Middle-Income class surviving at US$ 3.20 and which went below 1% in 2013.

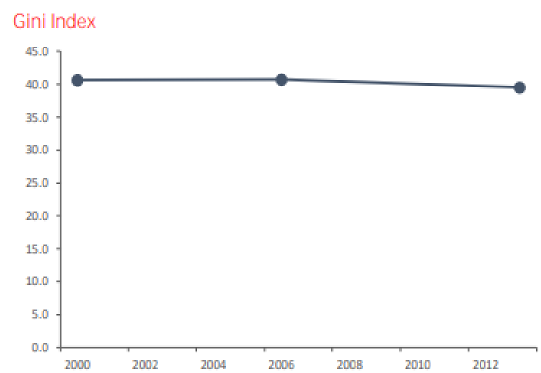
Figure 14: Poverty Headcount rate and Inequality in Morocco 2000-2013

POVERTY HEADCOUNT RATE, 2000-2013



Source: World Bank using ENCDM/MNAPOV/GMD

INEQUALITY TRENDS, 2000-2013



Source: World Bank using ENCDM/MNAPOV/GMD

KEY INDICATORS

Distribution among groups: 2013	Lower Middle Income line(%) Non-Poor	Poor	Relative group (%) Bottom 40	Top 60
Urban population				N/A
Rural population	85	15	60	40
Males	92	8	40	60
Females	92	8	40	60
0 to 14 years old	90	10	48	52
15 to 64 years old	93	7	37	63
65 and older	94	6	32	68
Without education (16+)	90	10	48	52
Primary education (16+)	93	7	40	60
Secondary education (16+)	96	4	27	73
Tertiary/post-secondary education (16+)	99	1	12	88

Source: World Bank using ENCDM/MNAPOV/GMD

Notes: N/A missing value, N/A* value removed due to less than 30 observations

Multidimensional Poverty Measures (% of people):	2013
Monetary poverty (Consumption)	
Daily consumption less than US$1.90 per person	1.0
Education	
At least one school-aged child is not enrolled in school	6.8
No adult has completed primary education	12.7
Access to basic infrastructure	
No access to limited-standard drinking water	8.7
No access to limited-standard sanitation	12.9
No access to electricity	2.4

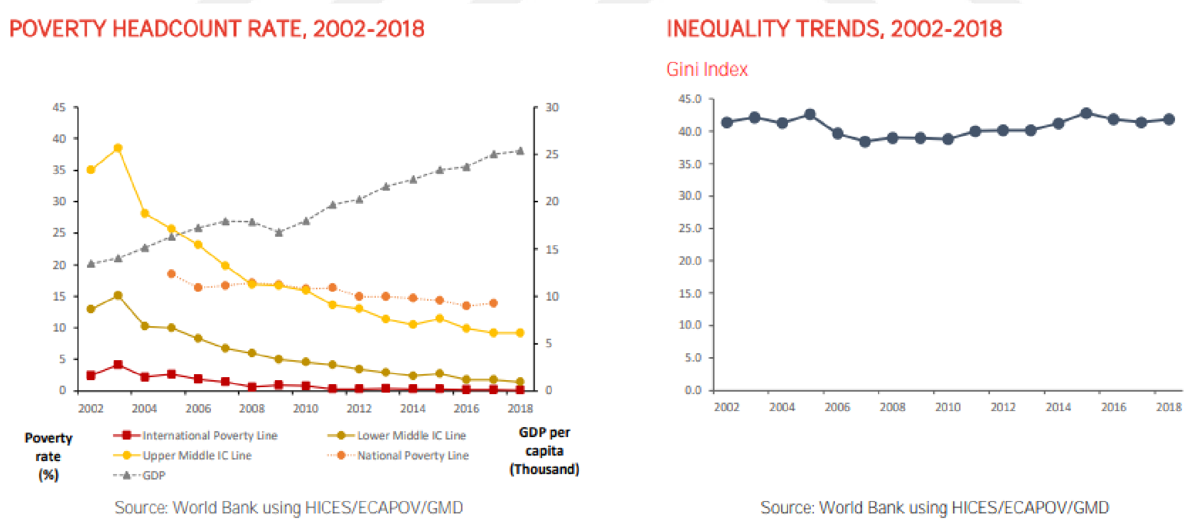
Source: World Bank using ENCDM/MNAPOV/GMD

In regards to inequality, we can see the Gini Index in figure 14 shows an average of 40% rate from 2000 to 2013 which illustrates the main societal problem in Morocco as the country is home to big income gaps between its social classes. These gaps are not only related to income but also education, health, and social services as we can clearly remark an important difference between life in villages and life in the cities in Morocco. Furthermore, thanks to local immigration between rural and urban zones, social differences are also present in the cities between certain districts.

As for education, which directly impacts poverty levels, we can see that the population over 16 years old without education forms 10% of the poor population. The 16+ years old who took the tertiary/post-secondary education forms 1% only of the poor population, which proves that the big majority of the school dropouts in Morocco end up poor.

4.1.11.2. Poverty in Türkiye

Figure 15: Poverty Headcount rate and Inequality in Türkiye 2000-2013



KEY INDICATORS

Distribution among groups: 2018	Upper Middle Income line(%)		Relative group (%)	
	Non-Poor	Poor	Bottom 40	Top 60
Urban population				N/A
Rural population				N/A
Males	91	9	40	60
Females	91	9	40	60
0 to 14 years old	84	16	56	44
15 to 64 years old	93	7	36	64
65 and older	94	6	29	71
Without education (16+)	83	17	55	45
Primary education (16+)	93	7	39	61
Secondary education (16+)	94	6	32	68
Tertiary/post-secondary education (16+)	99	1	12	88

Source: World Bank using HICES/ECAPOV/GMD

Notes: N/A missing value, N/A* value removed due to less than 30 observations

Multidimensional Poverty Measures (% of people):	2018
Monetary poverty (Consumption)	
Daily consumption less than US$1.90 per person	0.1
Education	
At least one school-aged child is not enrolled in school	3.4
No adult has completed primary education	3.1
Access to basic infrastructure	
No access to limited-standard drinking water	0.1
No access to limited-standard sanitation	5.6
No access to electricity	0.0

Source: World Bank using HICES/ECAPOV/GMD

On the other hand, poverty in Türkiye has known considerable reduction between 2004 and 2016 thanks to the rise of more employment opportunities and thus earnings. However, starting from 2018 the economic slowdown that was caused by the financial crisis and the strong devaluation of the Turkish Lira affected employment and raised inflation which had a considerable impact on real wages and worsened the poverty levels again in Türkiye.

We can also note that starting from 2003 the poverty level in Türkiye started dropping thanks to economic development and the creation of new employment opportunities for the population. Also, the phenomenal growth of GDP starting from 2009 helped reduce all the poverty levels in the country by raising incomes for employed categories and creating jobs for the unemployed ones.

On the other hand, this economic growth helped increase inequality over the last 10 years in Türkiye. Even if we can see on the Gini chart that the Gini index dropped from 42.2 in 2003 to 39.0 in 2008, yet the economic and financial crisis of this year helped increase it back progressively until it reached 41.9 in 2018. Thus, the economic crisis reversed the inequality trends by impacting the labor market, which caused a slow recovery for the population with lower income compared to the one with higher income over the last 10 years.

4.1.12. Education

As for education, which is an important pillar of any country's development, educative systems in Morocco and Türkiye are slightly different, Morocco is following a francophone system with a primary, secondary, and tertiary levels, and Türkiye is also following the same kind of system with different total years for each level and different scoring system. Education is however free in public institutions in both countries except for some tuition fees that are paid for higher education in Türkiye.

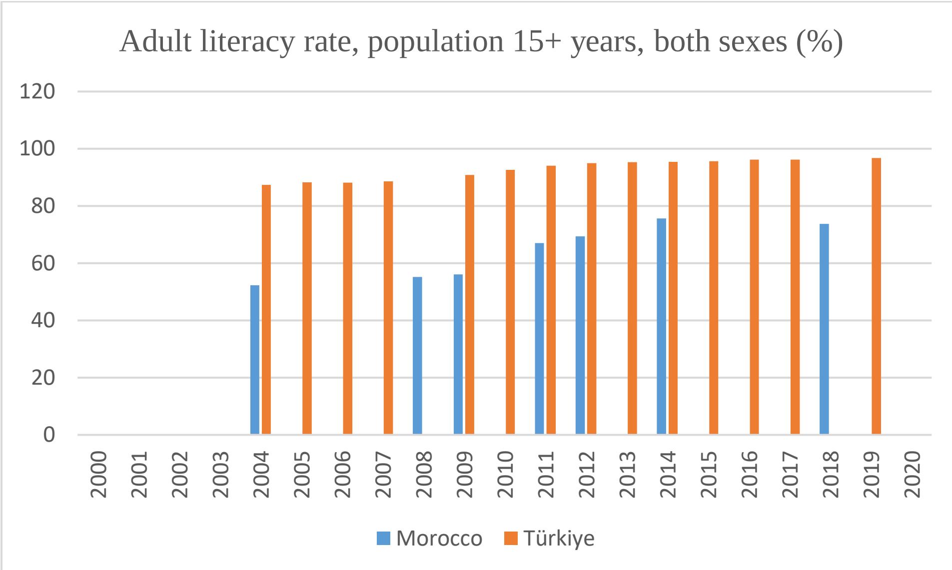
Table 2: School enrollment, primary (% gross), 2019

Sütun1	**Morocco**	**Türkiye**
Primary (% gross)	114,76	97,06
Secondary (% gross)	81,18	104,12
Tertiary (% gross)	38,55	115,04

Source: Author's elaboration using UNDP (2018) data

Adding to these differences in educational systems between Morocco and Türkiye, we can also state that school enrollment is also different in both countries. As we can see in table 2 above, the Gross Enrollment Ratio for Primary schools in Morocco is 114.76 % which indicates that 14.76% of the students enrolled in Primary schools are over the appropriate age, which can be a result of students' failures in this level or late enrollment. Followed by a quite adequate 81.18% rate in secondary and then a considerably low rate of 38.55% in higher education, which can also be explained by a high number of school dropouts after secondary school. Türkiye however, is approximately in the norms for primary and secondary levels, which explains that the population enrolled is from the appropriate age for these two levels, however, the higher education has a slightly high enrollment rate of 115.04% which can be explained by the class failures among university students.

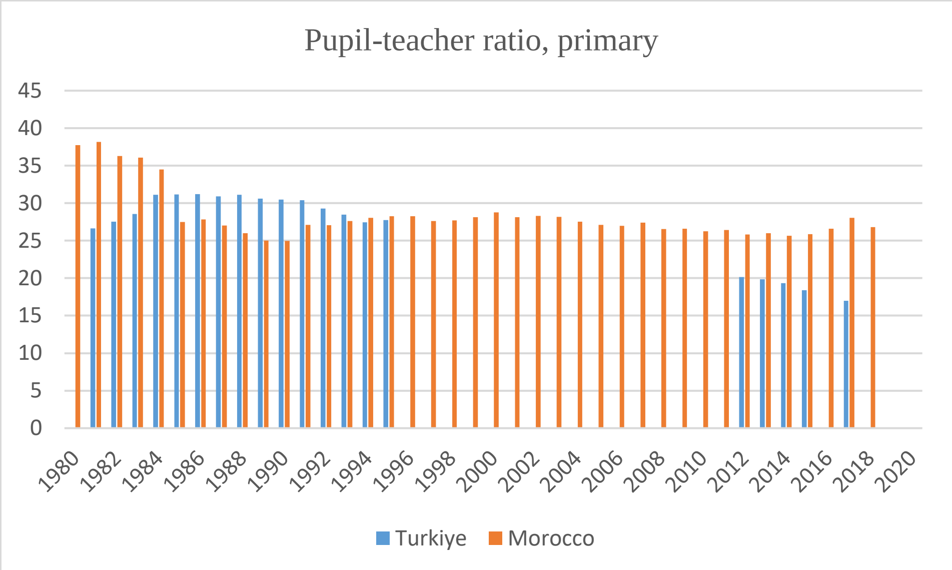
Figure 16: Literacy rate, adult total (% of people ages 15 and above) - Morocco, Türkiye



Source: Author's elaboration using data from UNESCO Institute of Statistics (UIS).

Regarding literacy, we can see on the chart above that Türkiye recorded much higher literacy rates than Morocco during the last 2 decades for people aged 15 and above, with the latest values as 97% for Türkiye in 2019 and 74% in 2018 for Morocco. Despite Türkiye having almost double the population of Morocco it still has a much higher rate of literacy which explains how developed is its education sector compared to Morocco. This can also be explained by the data in the (figure 17) below, where the student-teacher ratio for example in primary school is 28 students per teacher in Morocco in 2018, while it was only 16.98 students per teacher in Türkiye. This elevates the quality of education and provides schooling to all the population categories in all the regions of the country.

Figure 17: Student teacher ratio, primary school Morocco, Türkiye



Source: Author’s elaboration using data from UNESCO Institute for Statistics (uis.unesco.org). February 2020.

4.1.13. Health

The health sector is also an important criterion that we are using in our comparison between the development of our two countries Morocco and Türkiye. Whereas, the health system in Türkiye is far more developed than in Morocco, and this can be seen in general in the available data about this subject. For example, the number of physicians per 1000 people as shown in the table below in Türkiye is more than 2.53 times that in Morocco.

Table 3: Number of Physicians per 1,000 people in 2017

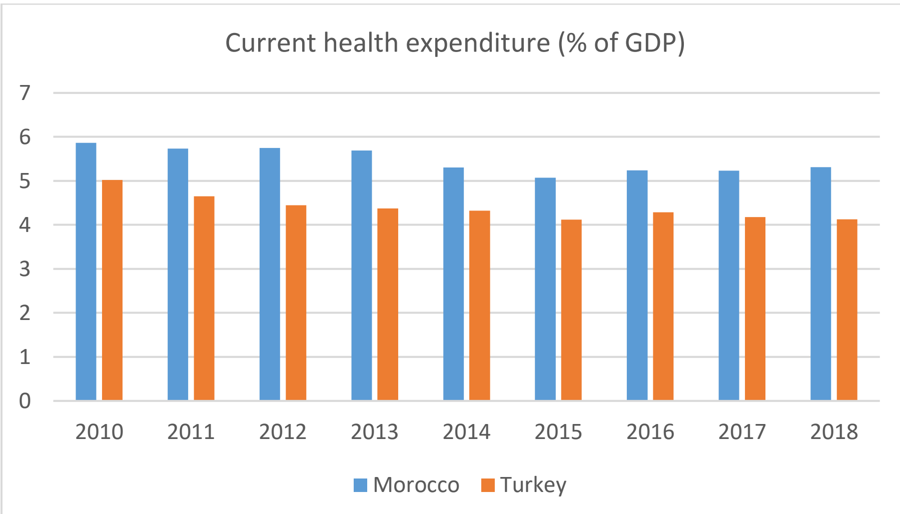
Number of Physicians per 1,000 people in 2017	
Morocco:	0,7308
Türkiye:	1,8492

Physicians (per 1,000 people) - Morocco, Türkiye. World Health Organization's Global Health Workforce Statistics, OECD, supplemented by country data.

On the other hand, the health expenditures percentage from the GDP in Morocco was higher than the one in Türkiye for the last decade as we can see in the following figure 18. This is related to the difference between both countries’ GDPs as in Türkiye it is exponentially higher than in Morocco, this means that health expenditures in Türkiye are also exponentially higher than in Morocco.

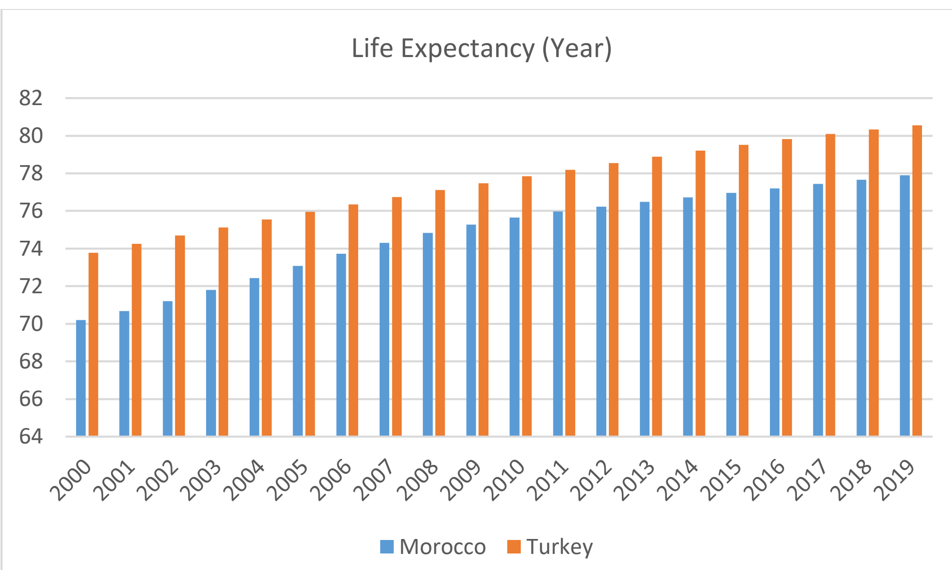
Important health expenditures by the governments help improve life expectancies as well. For example, by creating adequate medical infrastructures in isolated areas people with benign diseases wouldn't have complications that can lead to their death. And as figure 19 shows life expectancy was higher in Türkiye than in Morocco for the last decade, and this can strongly be related to health expenditures and the medical infrastructures in each country.

Figure 18: Türkiye and Morocco's Current Health Expenditure from 2010 to 2019



Source: Author's elaboration using data from WDI

Figure 19: Evolution of Life expectancy between 2000 & 2019 in Türkiye and Morocco.

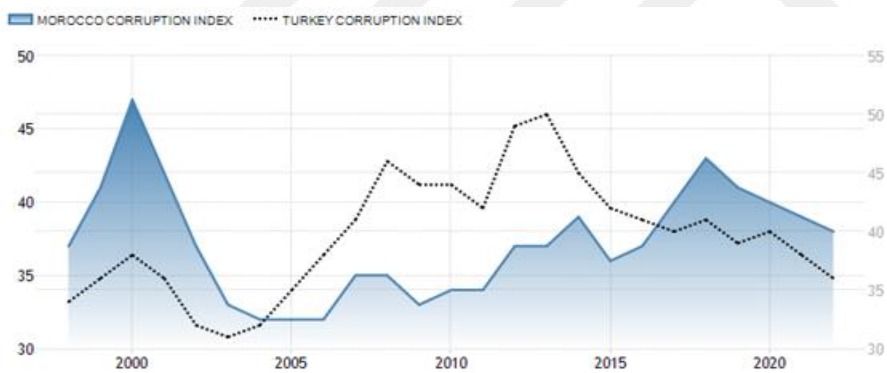


Source: Author's elaboration using data from WDI

4.1.14. Corruption

In regards to corruption, and according to Transparency International, it is clear that both countries still have a lot of work to do towards improvement, as we can see in the CPI (Corruption Perceptions Index) rankings figure below (see figure 20). We can see that during the last decade corruption in the public sector in Morocco has decreased slightly as Morocco's score went from 37 in 2012 to reach its highest peak of 43 in 2018 and end up with a 39 score in 2021. The higher the score is, the cleaner the country gets, but we can still see that the country's ranking among the countries participating in this index is still high 87/180 in 2021. On the other hand, Türkiye's situation deteriorated during the last decade as its score went from 49 in 2012 and even 50 in 2013 to decrease to 38 in 2021, this reflects a constant degradation of the public sector's reliability and a constant increase in corruption in its institutions. Türkiye also ranked 97/180 among the countries with the highest corruption rates that are participating in this index in 2021 (see figure 21).

Figure 20: Corruption index in Morocco and Türkiye



Source: Transparency International according to the 2022 CPI reported by Transparency International.

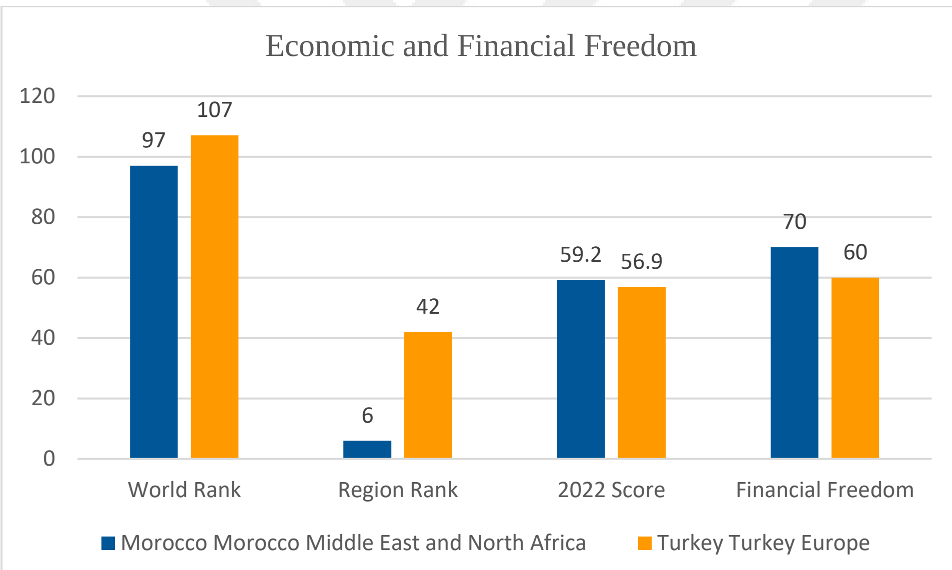
Figure 21: Corruption Rank in Morocco and Türkiye

Source: Transparency International according to the 2022 CPI reported by Transparency International.

4.1.15. Financial development and Economic Freedom

Economic freedom is an important criterion for every country's development, according to the index of economic freedom, both countries behaved quite similarly in 2022 where Morocco scored 59.2 making its economy the 97th freest in this 2022 index, and Türkiye scored 56.9 and ranked the 107th freest economy in the index (see figure 22). Morocco's score is above the MENA regional average and Türkiye's score is below Europe's regional average. Both countries' scores are however below the world's Economic freedom Average. The economic freedom in both countries has thus declined during the last five years which makes their respective statuses degrade from "Moderately Free" to "Mostly Unfree" category (Index of Economic Freedom, 2022).

Figure 22: Economic and Financial Freedom in Morocco and Türkiye



Source: Author's elaboration using data from the index of Economic Freedom, The Heritage Foundation.

Adding to that, Morocco ranks as 6th freest economy in the MENA region, while Türkiye ranks 42nd in Europe region. Also, regarding financial freedom, Morocco scores 70 points passing from moderately free to mostly free, while Türkiye score 60 points passing from mostly unfree to moderately free.

As we detailed in this section, the economic, social, and political situations in Türkiye are much better than in Morocco. This explains the important gap in the economic development of both countries. A country's good education and health systems participate greatly in the sustainability and qualification of its labor force, which reverberates on its economic development.

On the other hand, a good financial system and a good governance help improve the transparency of the governmental institutions which positively impacts the policies and decisions made by the government. All these factors are important to secure a sustainable economic development in the country. Other than that, these factors improve the reputation of the country at the international level, which helps attract foreign investments, and boost the economic growth. Subsequently, and after analyzing all the important elements which influence the development of Türkiye and Morocco, in the following section we will analyze the determinants that impact FDI inflows in these two countries.

4.2. Comparative Analysis of the Determinants of FDIs in Morocco and Türkiye

As globalization is changing the world's economic lineaments, and Foreign Direct Investments (FDI) is one of its most important pillars, competition on how to be the most suitable for FDI attractiveness is very high. Most of developing countries wishing to attract FDI are thus trying to improve the factors that would appeal foreign investors to relocate their businesses to their economies. Consequently, these countries apply measures like the establishment of economic free zones, the exemption of income taxes and import duties, the improvement of local infrastructures, and sometimes even monopoly rights. The reason behind these major implementations is the important role that FDI plays in creating, among others, jobs and transferring technologies to local firms. FDI has also led nations to substantial economic growth and restructuration of their Macro and Micro economic parameters, thanks to the positive knowledge spillovers.

Despite that developed economies are major receivers of FDIs (Bouoiyour 2003: 2), developing economies are still important destinations for foreign investors. The choosing of a hosting country for an FDI is directly related to the investor's activity and to what the destination country has to offer to concretize the awaited outcome for both parties. Some investors are looking for low Labor Cost (LC), and others are looking for qualified human capital that would easily adopt their technologies. Also, the market size is a key criterion for companies looking to commercialize their products locally, while for others the geographical location is more important because it would help them export their products to a specific region. Adding to that, the natural resources for companies looking to manufacture certain products using the raw materials existing in the country; for example, companies that are interested in phosphates in Morocco, and gas and petrol in Algeria and the middle east...

These elements show that the idea behind FDIs is a win-win equation where each party takes advantage of what the other has to offer. For example, in the Middle East & North Africa (MENA) region, FDI inflows in 2020 reached 65.93 billion US $. Within this region, there are countries that attract more FDIs than others, due to the advantages that they can offer to foreign investors. For example, among the developing economies Türkiye, is one of the most qualified countries to host FDIs. Partly owing this to its geographical location (between Europe and Asia), it's high population (84.78 M. in 2021), and the qualifications of its human capital. However, there are several other determinants that conduct the attractiveness of FDIs to Türkiye more than other countries, which are related to the economic, social and political measures that the country applies. On the other hand, there is Morocco, who is one of the preferred targets of FDI in MENA region, somewhat thanks to its geographical location in Africa and proximity to Europe. Other than that, there are also more elements that encourage FDI inflows to Morocco rather than to other countries from the same region. Even though Morocco and Türkiye seem to have high advantage in terms of their FDI attractiveness, it appears a huge difference in their records over the last years. For instance, the volume of FDI inflows to Türkiye was about 7.83 billion US $ in 2020 while in Morocco it was 1.42 billion US $ in 2020 over the same period. It seems thus interesting to think about the factors behind this difference in their FDI inflows.

Therefore, our aim with this paper is to put together the different FDI determinants in Türkiye and Morocco as case studies. We shall then evaluate the impact of these different elements on FDI inflows to these two countries over the period (1980-2020). The reason behind the choosing of Türkiye and Morocco for our study is mainly the nature of their economic built and the similarities in their economic models even at different levels of economic growth, population and market size. We are also interested in comparing the results obtained from our econometric model in both countries, and analyzing them to figure out the reasons behind the difference in inward FDI flows to each of our countries.

In this work, we first refer to some of the main FDI theories and then analyze some of the major empirical research that studied FDI determinants. In a second part we analyze time series data from Morocco and Türkiye using the Autoregressive Distributed Lag (ARDL) modeling approach. This allows us to define the significance of our chosen variables and their impact on FDI as a dependent variable. We shall then, observe if FDI attractiveness is directly impacted by the same determinants in both countries in the short and long-run. Finally, we will present our conclusion based on our empirical results.

4.2.1. Literature Review

FDIs are considered by many scholars as the most beneficial capital movement between countries by its contribution to the progress of developing economies. There are many theories that examine FDI to underline its advantages and disadvantages for multinationals and for hosting countries. There are also a multitude of empirical studies explaining the effects of FDI determinants in specific countries. In this section we will try to state firstly some of the most important FDI theories from a general point of view. And secondly some of the empirical studies that were made about FDI determinants in general and in our chosen countries Türkiye and Morocco.

From an empirical point of view, many researches were made about the factors impacting FDI flows. The big majority of these studies consider six main determinants that can possibly impact FDIs. These are *human capital*, *market size*, *trade openness*, *economic growth*, *infrastructure and the financial market development* (Meivitawanli 2021: 58). Some other researchers add *Inflation* and *Real Effective Exchange Rate (REER)*. Market size is for example considered by multiple authors as the most significant determinant of FDIs (LIM 2001: 14).

It is also stated that FDIs are destined to two categories of hosting countries (Shatz & Venables 2000). One is chosen by its market size, where local consumers are the target customers for the incoming horizontal investments (Mistura & Roulet, OECD 2019; Petrović-Ranđelović et al. 2017). And the other is by its geographical location since MNCs are queen to keeping their capital close to them. On the other hand, other researchers consider human capital as the most prominent factor for FDI attractiveness, together with a properly transparent institutional environment, and a proper forming of this capital (Diaconu 2016; Noorbakhsh & Paloni 2001; Karimi et al. 2013).

Thus, FDI determinants are subject to multiple conditions related not only to the investing MNCs and their interests, but also to the hosting countries and their economic and institutional built. For example, a study made for the European Central Bank (ECB) states that the quality of the institutions and the economic structures are important key factors for FDI attractiveness (Dellis, et al. 2017). This makes the economically advanced countries more suitable for foreign investors. This study took into consideration countries from the Organization for Economic Co-operation and Development (OECD), and the euro area countries which accounted in 2015 for one fifth of the global stock of inward FDI (see also Özcan, Ari 2010). However, there are also other factors that incite investors to choose emerging economies as a destination to their capital. For example, Onyeiwu and Shrestha (2004) in their study about FDI determinants in Africa, state that economic growth, inflation, openness, international reserves and natural resource availability are significant determinants for FDI attractiveness into Africa. This finding was also confirmed in MENA region by Jabri et al. (2013) who stated that the most significant determinants of FDI attractiveness to MENA region are openness, growth rate, exchange rate and economic instability in the long-run (see also Bouri & Benmassoud, 2014).

Furthermore, several other researches were made about FDI determinants in different other locations. This shows that every region can attract a specific type of investments according to what it has to offer to a specific type of investors. For example, Morocco have started several incentives to attract FDI inflows in the 1990s, after understanding the importance of FDIs in helping improve the economic development of other countries (Bouoiyour & Toufik, 2007). The aim was to encourage foreign MNCs to invest in Morocco by undertaking several reforms in its financial, economic and fiscal institutions. However, not all these reforms were significant and had a positive impact on FDI attractiveness (Moujahid & Khariss 2021). The results obtained by this study show that only infrastructure and openness variables are significant and promote FDI attractiveness in Morocco. Yet, other variables such as human capital, internal investment capacity and market size have a positive but insignificant effect. On the other hand, the variables Labor Cost (LC) and delayed FDI by one period are important determinants but have negative effect, while the quality of institutions has a negative and insignificant effect.

Another study made by Belhaj (2021) explains that FDI attractiveness is not only an economical work, but also depends on several other factors such as political, institutional and sociological. The results obtained by Belhaj (2021) show that the liquidity rate has a positive effect on FDI inflows, but private savings and importations have a negative effect in the long-run. FDI, on the other hand, and when taken with one or two period delays have a negative effect as well on FDI attractiveness. This can be related to the competitivity that the imported products can create to FDI products, and to the fact that foreign investors dread the competitiveness that might be created by the already existing FDIs in the country.

Thus, among this multitude of variables that can explain FDI attractiveness we remark that different studies obtained different results in terms of significance of FDI determinants. We also understand that FDI determinants panoply is very large and diverse and that the studies that are available about this topic did not test all the variables that can possibly be explicative. However, the big majority of these studies resulted with the same statement that despite all the efforts that Morocco engaged since 1990, FDI inflows remain relatively modest compared to competing countries. This means that Morocco needs to create a conducive climate to investments in general and FDI in particular. Notably through the strengthening of the credibility of administrations and legal departments as well as the efficiency of the financial system (Abouch & Maarouf, 2007: 106).

Similarly to Morocco, Türkiye is constantly improving its ability to attract MNCs to invest on its territory by carrying-on several reforms. FDI attractiveness in Türkiye is thus an important subject that was analyzed by several researchers who define FDI determinants in Türkiye according to the different results that they got. For example, Pehlivan (2019) in his study about FDI determinants in Türkiye finds out that REER and LC are significant determinants in the long-run, but the first one has a positive relationship with FDI inflows and the second one has a negative effect. According to Pehlivan (2019) FDI inflows to Türkiye are negatively impacted by exchange rate increases, which induces high costs of the imported raw materials used in the production, and subsequently makes FDIs in Türkiye not export oriented but rather to a local use in the national market. On the other hand, there is a negative correlation between LC and FDI which means that the more expensive LC gets the lesser FDI inflows get, especially for manufacturing industries which require a low LC (Pehlivan, 2019: 457).

Meanwhile, Dumludag (2009) states that FDI can be positively impacted by macroeconomic indicators such as GDP per capita, growth rate and market size (see also Kurtaran 2010; Lebe & Ersungur 2011). However, he also mentions the importance of institutional variables such as political and economic stability, low level of corruption, intellectual property rights, plus the transparency and good functioning of the judicial system. Moreover, (Aldalou & Sarsour 2022; Karagöz 2007; Kariş1 & Ayla 2018) confirm that the size of the market and openness of the economy positively affect FDI inflows, and these latter are negatively correlated with account deficit and exchange rate. Though, FDI are not affected by LC, the cost of capital and inflation rates.

On the other hand, Demir et al. (2021) state in their analysis of the effect of macroeconomic variables on FDIs that these later and inflation have a bidirectional causation in the long run and a unidirectional relationship from economic growth to FDI. These results were also confirmed in a recent study by Batmaz and Yürük (2023), which specifies that high inflation rate has a negative effect on FDI inflows to Türkiye, while income per capita has a positive effect, and labor force appeared to be statistically insignificant.

After analyzing several empirical studies that were made about FDI attractiveness in Türkiye, we remark that there are some differences between the short-term and the long-term adequacy of the variables. Also, the time ranges that were covered by these studies make a difference and impact the obtained results. This can be explained by the constant changes that globalization involve and also the changes of governments and thus the structural reforms they induce. Taking this into consideration, our empirical study involves few of the most important variables and measure their impact on FDI in both Türkiye and Morocco, which allows us to make a comparative analysis between both countries.

4.2.2. Methodology

We use econometrical analysis to compare the determinants of FDI between Morocco and Türkiye. Inspired by (Yimer 2017), our modeling approach consists of ARDL framework which allows (when the conditions are filled) to obtain the long-run and the short-run estimation with time series data (see Pesaran, Shin, Smith., 2001). The generalized ARDL (p, q) model is presented below.

$$Y_t = \gamma_0 + \sum_{i=1}^{p} \delta_i\, Y_{t-i} + \sum_{j=0}^{q} \beta_j\, X_{t-j} + \varepsilon_t$$

With Y_t a vector of dependent variables, X_t a vector of independent variables, which are allowed to be integrated at level or first difference only; δ and β are the coefficients, γ the constant factor; i and j represented the lags; p and q respectively the optimal lags of the dependent and independent variables. Here it is important to note that in the ARDL models the value of q can change from one variable to another as the optimal lags are determined for each independent variable using the AIC criterion. ε is a vector of error terms.

The ad hoc version of our model is below.

$$\begin{aligned}\Delta lnFDI_t^{(c)} = {} & \alpha_0 + \beta_1 lnFDI_{t-1} + \beta_2 lnGDP_{t-1} + \beta_3 Infl_{t-1} + \beta_4 Openness_{t-1} \\ & + \beta_5 Credit_{t-1} + \beta_6 LifeEx/InfM_{t-1} + \sum_{i=0}^{p} \delta_1\, \Delta lnFDI_{t-i} + \sum_{i=0}^{p} \delta_2\, \Delta lnGDP_{t-i} \\ & + \sum_{i=0}^{p} \delta_3\, \Delta Infl_{t-i} + \sum_{i=0}^{p} \delta_4\, \Delta Openness_{t-i} + \sum_{i=0}^{p} \delta_5\, \Delta Credit_{t-i} \\ & + \sum_{i=0}^{p} \delta_6\, \Delta lnLifeEx/InfM_{t-i} + \varepsilon_t\end{aligned}$$

Where:

- **lnFDI** is the logarithm (log) Net Foreign Direct Inflows, in current USD
- **lnGDP:** the Logarithm of Nominal GDP current USD (or constant 2015), is a Proxy of the host country size and a measure of its demand potentiality.
- **Inflation:** annual inflation rate (or GDP deflator) is expected to negatively impact FDI inflows. But as the study looks at both the long-run and short-run effects, contradictory effects could appear according to the term considered.
- **Openness:** represent the share of the sum of imports and exports in the GDP.
- **Credit** is the monetary sector credit to the private sector (% GDP). This variable is used as a proxy for the country’s financial development.

- **lnLife:** the logarithm of Life Expectancy or infant Mortality is used as a proxy of human capital, (see Bane, 2018, p.238 and Azman-Saini et al., 2010).

After the model specification, the following step is the co-integration checking among the variables. And for that, the bound test is used to test the below hypothesis.

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6$$

$$H_1: \beta_1 \neq 0;\ i = 1,2, \ldots ,5$$

To conclude on the test results, we compare the Wald F-statistics to the tabulated critical values (see Pesaran et al. 2001). The hypothesis H_0 is rejected if the value of calculated F is higher than all the upper bound critical values.

The rejection of the null hypothesis allows the estimation of both the long-run and short-run equations. We can then get both the ARDL and the (vector) Error Correction Model (V)ECM models. Otherwise, only the ARDL model can be estimated. Below are the ad hoc ARDL and ECM specifications for this study.

ARDL/Long-run Model:

$$\begin{aligned} \Delta lnFDI_t^{(c)} = {} & \alpha_0 + \beta_1 lnFDI_{t-1} + \beta_2 lnGDP_{t-1} + \beta_3 Infl_{t-1} + \beta_4 Openness_{t-1} \\ & + \beta_5 Credit_{t-1} + \beta_6 LifeEx/InfM_{t-1} + \varepsilon_t \end{aligned}$$

Short-run / ECM model:

$$\begin{aligned} \Delta lnFDI_t^{(c)} = {} & \alpha_0 + \sum_{i=0}^{p} \delta_1\, \Delta lnFDI_{t-i} + \sum_{i=0}^{p} \delta_2\, \Delta lnGDP_{t-i} + \sum_{i=0}^{p} \delta_3\, \Delta Infl_{t-i} \\ & + \sum_{i=0}^{p} \delta_4\, \Delta Openness_{t-i} + \sum_{i=0}^{p} \delta_5\, \Delta Credit_{t-i} + \sum_{i=0}^{p} \delta_6\, \Delta LifeEx/InfM_{t-i} + \varepsilon_t \end{aligned}$$

4.2.3. Results and Discussion

Compared to other co-integration models, ARDL estimation has many advantages. It allows, among others to get robust estimates even with small samples, to get both long-run and short-run effects, and to deal with endogeneity problems (see Nkoro & Uko 2016; Ahmed et al. 2021). Besides this, the ARDL estimator has the advantage to allow for estimation with variables with mixed integration levels (I (0) & I (1)). The results of the stationarity test for the variable are below (see Table 1). As we can see, all the variables involved in this study are integrated at the first difference or level. The ARDL model is then appropriate. The data are from the World Bank's World Development Indicators (WDI) and cover the period 1980 to 2020 for Morocco and 1985 to 2020 for Türkiye. Table 2 summarizes the variables for each country for the periods of the study.

Table 4: Unit Root Stationarity Test Results

	Morocco			**Türkiye**		
Variables	Z(t)	p-value	Conclusion	Z(t)	p-value	Conclusion
lnFDI (cur. USD)	-10.366	0.0000	I(1)	-5.630	0.0000	I(1)
lnGDP (Cur. USD)	-5.214	0.0000	I(1)	-5.976	0.0000	I(1)
lnGDP (C2015 USD)	-10.896	0.0000	I(1)	-6.082	0.0000	I(1)
Inflation (%)	-10.094	0.0000	I(1)	-5.790	0.0000	I(1)
GDP Deflator	-10.523	0.0000	I(0)	-7.818	0.0000	I(1)
Openness (% GDP)	-7.243	0.0000	I(1)	-5.732	0.0000	I(1)
Credit	-5.095	0.0000	I(1)	-3.778	0.0031	I(1)
lnLife Expectancy (year)	-7.330	0.0000	I(0)	-7.251	0.0000	I(0)
Infant Mortality	-22.108	0.0000	I(0)	-29.422	0.0000	I(0)

To obtain a good quality estimation for both countries' empirical models, we tried many combinations of variables and periods while keeping in mind to get a similar model for both of our countries. After diagnostics tests on the different combinations, the below characteristics are retained for each of the countries.

Period of the study: Morocco: 1980-2020; Türkiye: 1985-2020

Inflation variable: Morocco: Annual inflation rate; Türkiye: GDP deflator

Production Proxy: Morocco: GDP in current USD; Türkiye: GDP in constant USD 2015

Human Capital Proxy: Morocco: Life expectancy; Türkiye: Infant mortality.

Table 5 summarized the variables involved in this study for both countries. As we can see, on average, production level and FDI inflow are higher in Türkiye compared to Morocco. However, inflation seems more under control in Morocco than in Türkiye. While on average the inflation and deflator are around 3.5% in Morocco, their values are above 30% on average in Türkiye during the study period. The performances of the health system appear to be better in Türkiye than in Morocco in terms of life expectancy and infant mortality. For the variable Credit, it appears that both countries seem to be at similar levels.

Table 5: Summarization of the variables for both countries

Variables	Morocco					Türkiye				
	Obs.	**Mean**	**Std. Dev**	**Min**	**Max**	**Obs.**	**Mean**	**Std. Dev**	**Min**	**Max**
FDI (cur. USD)	41	1293438	1196547	550	3561003	36	6633500	7113649	99000	2.20e+07
GDP (Cur. USD)	41	5.78e+10	3.56e+10	1.48e+10	1.20e+11	36	4.48e+11	3.16e+11	6.72e+10	9.58e+11
GDP (C2015. USD)	41	6.05e+10	2.78e+10	2.39e+10	1.13e+11	36	5.26e+11	2.47e+11	2.20e+11	1.02e+12
Inflation (%)	41	3.695942	3.401154	0.303386	12.49253	36	37.81236	30.98131	6.250977	105.215
Deflator	41	3.495904	5.492924	-0.7422882	33.02313	36	38.60129	34.35738	5.446449	143.6397
Openness (%)	41	63.66076	13.87893	47.09554	87.97578	36	45.5081	9.300225	29.41446	62.61188
Credit	41	39.77092	21.41854	12.90429	71.54544	36	31.57904	19.21998	14.01066	70.92024
Life Expectancy (year)	41	68.83905	5.795647	57.56	76.901	36	70.63703	5.101622	61.682	77.928
Inf. Mortality	41	46.95366	23.08195	16	94.3	36	32.775	20.31076	8.7	75

The results of the bound test of co-integration are summarized in the table 3. For both countries, the obtained F-statistics are higher than the upper values of the critical values at all the significance levels. So, we can conclude on the existence of co-integration relations between FDI and the selected variables for Türkiye and Morocco.

Table 6: Bound Tests for Co-integration.

Model	**Calculated F-statistics**	**Level of significance/Critical Values**			
		10%		1%	
		I0 bound	I1 bound	I0 bound	I1 bound
Morocco	8.121	2.26	3.35	3.41	4.68
Türkiye	6.091	2.26	3.35	3.41	4.68

Various validation tests are performed on the models (see Table 4). R-squared and adjusted R-squared are high and reach respectively about 0.88 and 0.84 for Morocco and 0.97 and 0.94 for Türkiye. The models are globally significant with the F-statistic of 21.10 and 33.05 for Morocco and Türkiye respectively. The Durbin-Watson d-statistics on both models are around 2, showing that there is absence of autocorrelation between the errors. This result is confirmed by the Breusch-Godfrey serial correlation test results. White's tests also confirmed the homoscedasticity of the estimated errors. Finally, we perform the Cusum-squared tests to confirm the stability of the coefficients for both the Morocco and Türkiye models (see Appendix 1).

Table 7: Diagnostic and Stability tests

Test	**Morocco**	**Türkiye**
R-squared	0.88	0.97
Adjusted R-square	0.84	0.94
F-statistic	21.10	33.05
Prob (F-statistic)	0.000	0.000
Durbin Watson	2.014831	2.15914

Breusch-Godfrey Serial Correlation LM test	0.014 (P=0.9071)	2.075 (P= 0.1497)
White's test for homoscedasticity	39.00 (P=0.4246)	34.00 (P=0.4192)

The first observations from our estimations are the difference between short-run and long-run variable effects for each country and the differences between their effects from one country to another when considering the same runs.

4.2.4. Intra-country runs-based Comparisons of FDI Determinants

The results of the ARDL model applied to Morocco help to get the effects of the independent variables on our variable of interest in both the long run and short run. In the long-run, 2 variables lnGDP and Inflation appear to have significant effects while in the short run FDI is impacted by 3 variables which are: LnGDP, Inflation, and Openness. The market size (production) and inflation seem to play an important role in determining the level of FDI inflows in Morocco in both the long and the short run. However, their impacts seem opposite from one term to another. In the long-run market size is significant at 5% and has a positive effect while Inflation is significant at 10% and effects negatively the dependent variable. These results can be upheld by (Moujahid & Khariss 2021; Bouoiyour 2003) findings. The effects of these variables seem however to be contradictory when it comes to the short run where market size effect is negative and significant at 1% while Inflation has a positive effect and is significant at 1% too. This opposition between the role of the variables in the long and short run can be explained by the measures that Morocco implements to improve FDI attractiveness, and the time that these reforms take to be applied and effective. Also, the effectiveness of variables is sometimes not instantly visible but takes time to exert its effect. On the other hand, openness effect on FDI inflows in Morocco in the short run is positive at 5% significance which is similar to the results obtained by Lam'hammdi (2018). Besides, variables such as Credit and Life expectancy do not affect FDI in Morocco in the short and in long run.

Concerning Türkiye, the contradictions between the effects of the independent variables in the short and long runs are observed too. For instance, FDI inflows in Türkiye are, in the long run, affected by 3 variables out of the 5 involved in this study. These are market size with a positive effect and significance at 5% (see also Dumludag, 2009), and Openness and Credit which have negative and strongly significant effects on FDI (see Aslan et al. 2019). The effects of market size are conformed to our expectations but also confirmed by (Hellström & Sungur 2006; Krimi et al. 2013) results. On the other hand, even though the effects of Openness and Credit could seem contradictory, they are balanced by their effects, in the short run, which conform to our expectations as positive and significant at 5 and 1%, respectively (Özen, Kidemli, 2020). Besides, the effect of Inflation remains non-significant in the long run while remaining significant only at 10% with a positive effect in the short run. Market size effect is negative in the short run.

These differences between long-run and short-run results especially in market size and inflation variables can be related to the reason behind the FDI inflow to the country. Some foreign investors are interested in commercializing their products in the local market, which makes the market size and inflation significant variables for them. Other investors are more interested in the low cost of local human capital that would help manufacture their products and reexport them to other countries in the region. For these latter, human capital is more significant in the long run while inflation has a negative (case of Morocco) or a non-significant effect (case of Türkiye). We shall take as an example here the FDI that the French automotive group *Renault* established in Morocco in 2012 with a value of 1.6 B. US$, with the aim to manufacture entry level cars and reexport them to Europe (Benabdeljlil et al., 2019: 1). With this investment, Renault was interested in the low LC and in the facilities that Morocco could provide. These are, the creation of a free economic zone with full tax exemptions for the first five years, the establishment of important infrastructures linking their factory to railroads and ports and the creation of training centers for the human capital destined to work in Renault factory (Benabdeljlil et al., 2019: 3).

Dependent Variable: Log of FDI inflows (lnFDI)
Sample Morocco; 1982-2020; N Obs. Morocco: 39
Sample Türkiye: 1987-2020; N Obs. Türkiye: 34
Table 8: The Determinants of FDI in the Long-run Estimates

Variables	Morocco ARDL (1,1,2,1,0,0)		Türkiye ARDL (2,1,2,2,2,2)	
	Coefficient	t-statistic	Coefficient	t-statistics
Log of GDP	4.197[b]	2.55	6.590[b]	2.77
Inflation	-0.265[c]	-1.74	.006	0.92
Openness	-0.040	-1.35	-0.074[b]	-2.83
Credit	-0.013	-0.44	-0.109[a]	-3.40
Log of Life Expectancy	-15.561	-0.94		
Infant Mortality			0.143	1.87
Constant	-22.634	-0.66	-156.532[b]	-2.47

Note: "c" significant at 10% level, "b" significant at 5%, and "a" significant at 1% level.

Dependent Variable: Δ(lnFDI)

Sample Morocco; 1982-2020; N Obs. Morocco: 39

Sample Türkiye: 1987-2020; N Obs. Türkiye: 34

Table 9: The Determinants of FDI in the Short-run Estimates

Variables	Morocco ARDL (1,1,2,1,0,0)		Türkiye ARDL (2,1,2,2,2,2)	
	Coefficient	t-statistic	Coefficient	t-statistics
Δ(log of GDP)	-5.035[a]	-3.01	-5.877[b]	-2.42
Δ(Inflation)	0.227[a]	3.35	0.008[c]	1.91
Δ(Openness)	0.071[b]	2.62	0.054[b]	2.39
Δ(Credit)	-0.011	-0.45	0.108[a]	2.99
Δ(log of Life Expectancy)	-13.197	-0.97		
Δ(Infant Mortality)			1.923	1.61
ECM	-0.848[a]	-5.87	-0.976[a]	-5.22

Note: "c" Significant at 10% level, "b" at 5%, and "a" at 1% level.

4.2.5. Inter-countries Comparisons of FDI Determinants

In this section, we will try to compare the effects of the independent variables on FDI inflows in Morocco and Türkiye both in the long and short run. An overview of the calculated estimates seems to reveal a similarity in the determinants of FDI in the two countries. For instance, we can see in table 6 that in the short run three factors affect FDI in Morocco against four factors in Türkiye. Among them three factors appear to have the same effects on FDI in the both countries. These are:

- Market size which has negative and strongly significant effect on FDI in both countries;
- Inflation with positive effect in short run in both countries with a significance at 1% in Morocco and 10% in Türkiye;
- Openness which has positive effect with 5% significance in both countries.

Besides, the other independent variables remain effectless on FDI inflows in the short run in Morocco while for Türkiye, Credit has, as expected, a positive and strongly significant effect on FDI in the short run.

Concerning the long run (see table 5), the situation seems less similar between the two countries than it is for short-run. Here there are only two factors that affect FDI in Morocco. While in Türkiye four among the five selected variables are significant, with market size as the only factor which seems to make unanimity for both countries. Market size has a positive effect on FDI and is significant at 5% in both countries (Abouch & Maarouf 2007; Dumludag 2009; Bouoiyour 2003), while inflation has a negative effect in Morocco and is significant at 10% but has no significance in Türkiye. The rest of the variables; openness, credit and infant mortality, negatively impact FDI inflows in Türkiye but are insignificant not in Morocco.

Comparing the obtained results for both countries, we think that the incentives of FDI attractiveness that Türkiye established are more effective than the ones that are in Morocco. When market size has a positive effect on FDI in Morocco and Türkiye, it shows that foreign investors are more interested in commercializing their products locally. And a negative effect of inflation shows the will of other investors to use Morocco as a producing platform to reexport their products (example of Renault, Peugeot & Citroen, aeronautic manufacturers…). Openness on the other hand, being insignificant for FDI inflows in Morocco and negative in Türkiye shows that it is inefficient as a determinant for both countries (Mudiyanselage et al 2021). The strong negative effect of credit on FDI inflows in Türkiye shows that the country has important ability to finance its local private sector from its banking sector. In this case, FDI will no longer play the role of a financing substitute, which discourages foreign investors looking for exclusivity in some business fields to relocate their investments to Türkiye (see also Ben Mim & Belhadj, 2013).

5. CONCLUSION

This work aims to examine and compare FDI determinants' effects on FDI attractiveness in Morocco and Türkiye. To cover this topic entirely and to reach the purpose of our study, we referred to several theoretical and empirical works that were made previously. Starting from the definition and historical course of international capital movements, we tried to paint an image of this phenomenon and all the influencing elements that impacted it through time. This helped us comprise the important role that capital movements play in the countries' economic development. We then examined the different types of international capital movements and among them FDI. The theoretical part of our thesis consisted of a general overview of the most important foreign capital investment theories, and in particular FDI theories. It also consisted of gathering several empirical works that were made about FDI determinants and their impact on FDI attractiveness in different regions. The analysis of these works' findings showed us the complexity of this phenomenon and that no generally accepted theory would give a clear explanation of how countries can attract a maximum of FDI inflows. These empirical works also served as guidelines in explaining the results of our empirical models. We also cited the different forms that FDI takes, and how beneficial they can be to the receiving economies. Countries wishing to receive FDIs are required to work on their appealing characteristics to match MNCs' requirements. FDI determinants are thus factors that countries can improve to attract more FDI inflows.

In the first part of our empirical analysis, we tried to gather data about all the economic and social parameters of Türkiye and Morocco. The aim was to situate each of these countries according to their socioeconomic levels and then proceed to a comparison between them. This allowed us to identify the similarities between these two countries and understand the difference in their respective economic and social development. Therefore, the observation of this first comparison shows that Morocco is following the same economic path as Türkiye but at a slower pace. As a result, we can conclude that the education and health systems in Morocco require important improvements. In addition to that, the institutional and social situations are greatly impacted by the lack of transparency of governmental institutions and the large gap in social disparities. However, despite all these elements which require improvements, Morocco is making significant efforts in increasing its economic growth and developing its economy, which ranks it among the freest economies in the MENA region. Türkiye on the other hand is also having some shortcomings in its economic and social systems compared to the countries of its European region. Though its economic growth is sustainable and its ability to attract FDI is more important than several other countries.

Morocco and Türkiye are among the countries that introduced a multitude of incentives to attract foreign investors to their territories. Some of the incentives worked and evolved into encouraging factors for FDIs and others didn't. Thus, to examine the effectiveness of FDI determinants in these two countries we proceeded in the second part of our empirical study by using the ARDL modeling approach for each country separately and then compared their results. In this part, we tried to choose the same variables for both countries considering the existence of co-integration between FDI and the selected variables. We have also tried to use the same econometric model that would be significant for both countries using these variables.

The initial results of our empirical study show few differences in some variables between Türkiye and Morocco. From these results, we can conclude that there is an important similarity between the FDI determinants' effects in Morocco and Türkiye in the short run and a less important similarity in the long run. This can be explained by the difference in the level of economic development of each of these countries. The Turkish economy might be more receptive to the encouraging policies for FDIs, which makes it attract different types of foreign investors than Morocco, and this can be seen in the FDI target sectors in both countries. For example, in Türkiye the two most attractive sectors to FDI are first the financial sector and second manufacturing. While in Morocco Agriculture is the main sector and the second is insurance and financial activities, with future investment promises in green energies. Thus, from our end, we think Morocco should work more on its financial incentives to boost its credit ratings and invest more in its workforce to increase its absorptive capacity to foreign technologies. MNCs will always foster countries that offer financial assistance and a qualified workforce to properly host their technologies. Moreover, we also think Morocco and Türkiye need to multiply their trade agreements to attract MNCs wishing to export their products, especially to Africa and the Middle East.

Subsequently, we can conclude that there is a lack of appropriate measures that would encourage foreign investors to invest in high-added-value businesses in Morocco, such as financial development measures, and openness measures. We also think that Morocco needs to improve its governmental institutions' transparency and the education of its population, to attract a bigger variety of MNCs. Thus, in our sense, Morocco should focus more on training its workforce, improving its financial system, developing its infrastructure, and increasing its openness. In this case, the country will take advantage of its geostrategic position and attract MNCs who are interested in manufacturing their products at a low cost and exporting them to Africa and even Europe. On the other hand, Türkiye is required to adopt long-term strategies to attract high-added-value investments that would guarantee sustainable economic growth. Moreover, the country should focus more on its political and security stability, while keeping inflation under control. This way, MNCs interested in a highly qualified workforce, a large consumer market, low production costs, and a gate to export their products to Europe and Asia, will choose Türkiye as a destination for their investments.

Our study focused on the factors that are impacting the attractiveness of FDI in Türkiye and Morocco. The limitation of the available data obligated us to choose specific variables among others, and use ARDL modeling instead of VAR model methodology. Future studies shall consider different variables or even choose different countries, for example, compare Morocco with North African countries, or compare Türkiye with a closer country in size and economic development. It shall also be interesting to examine economic growth determinants in countries that do not have petrol or gas resources. A study comparing the impact of FDI on the economic growth in Türkiye and Morocco can add more value to our current study by verifying how impactful FDI attractiveness measures can be on FDI inflows and thus on the economic growth of these both countries.

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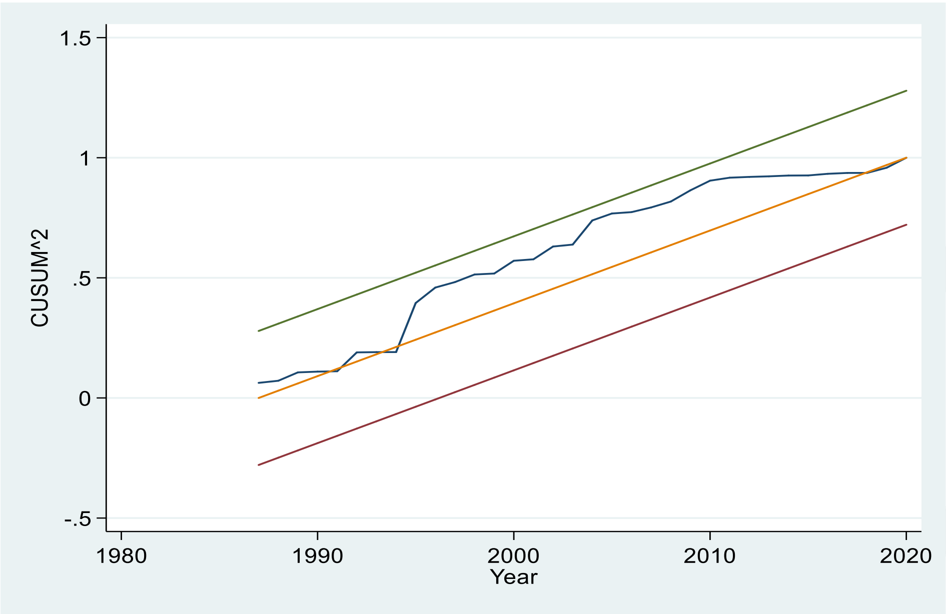
APPENDICES

Appendix 1: Parameter Stability test

CusumQ Morocco



CusumQ Türkiye