



KAUNAS UNIVERSITY OF TECHNOLOGY
SCHOOL OF ECONOMICS AND BUSINESS

Yassine Es-Safi

**THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE
ECONOMIC DEVELOPMENT IN MOROCCO**

Final Master Thesis

Supervisor

Prof. dr. Jadvyga Čiburienė

Kaunas, 2017

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Reviewer

Prof. dr. Vytautas Snieška

2017-05-15

Project made by

Yassine Es-Safi, VMVEen-5/1

2017-05-15

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DECLARATION OF ACADEMIC INTEGRITY

15 May, 2017

Kaunas

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Yassine Es-Safi. The Impact of Foreign Direct Investment on the Economic Development in Morocco. Final Master Thesis in Business Economics / supervisor. prof. dr. Jadvyga Čiburienė. The School of Economics and Business, Kaunas University of Technology.

Social Science: 04 S Economics.

Key words: *Foreign Direct Investment, Economic Development, Regression Analysis, Morocco.*

Kaunas, 2017. 80 p.

SUMMARY

In the recent decade, a lot of emerging countries endeavour to attract foreign direct investment (FDI) due to its direct or indirect impact on promoting and empowering the economic development. Morocco has been putting lots of incentives to be one of the leading countries for inward FDI in the North Africa by adopting new policy which lead to create partnership with different countries around the world in order to increase the local economic resources, enhance the infrastructures, provide more job opportunities, augment the exchange rate, convert debts to investments, and mainly to ensure sustainable economic development. The aim of this study is to inspect the impact of FDI on the economy of Morocco, with a focus on underlining the challenges that affect the inflow of FDI and causality of higher inflow of FDI. The main objectives of this study are to gauge the structure and the performance of FDI in Morocco. Where the methodology used in this study included graphical presentation and analysis which helps to understand the inflow of FDI in the major sector of the economy and in the overall economy, in addition to the regression analysis which gave econometric evidence for the impact of FDI on economic development. The data used in this study highlight the period of 2006-2015 which is provided by Bank of Morocco and World Bank. The calculation for the multiple linear regression method was made with SPSS statistic version 23 to analyse the relation between economic development and FDI, the variables implemented for this assessment were gross domestic product (GDP) growth, FDI, inflation, exchange rate, debt, and labour force. The result shows the F-statistics is 1.253 and R^2 is 0.61 which mean that the model could be accepted and the variables are reliable for explaining the impact of FDI on the economic development in Morocco. The result was positive but not statically significant, this could be due to some FDI have been targeting sectors which are already strong rather than empowering weak sectors which could led to the economic development of Morocco. It also explains that there is a need for reviewing the policy of investment in the country. The suggested recommendation was, there is a need to attract FDI that create jobs and increase the salaries for the labour force, adopting a policy that creates a friendly atmosphere which attracts foreign investors, but at the same time help local investment to grow by lowering taxes and facilitate the credits from the banks.

A total of 12 Figures and 13 Tables were used for the thesis.

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INTRODUCTION

Morocco is considered as a part of the Middle East and North Africa (MENA) region, known as Al Maghreb in the Arabic language, represent the only kingdom in North Africa and one of the oldest monarchies in the world. The country is a mixture of Arabic, Berber, African and European culture. The economy of Morocco is one of the most blending in the region, the gross domestic product (GDP) are mainly depending on agriculture, tourism, industry, and services. Agriculture is considered as a major sector where is providing 40 % of employment for the population, while the industry is the most beneficial where is contributing around 30 % to the GDP.

The kingdom has been so blessed and profitable due to the new law Constitution that was made in 2011, which allowed the foundations of more open, democratic and modern state with updated of the business regulatory environment, separation of powers, and raised decentralisation. These reforms have laid to a long period of economic stability. The inflation has not exceeded 3.7 % since the world financial crisis in 2008 and the economics growth has maintained to 4.5 % in according to World Bank data.

The Moroccan government were conducting two important reform plans to attract foreign direct investment (FDI), since the independence, the kingdom was following the privatization of several sectors, invest in infrastructure and the modernization of the financial sectors, after those numerous agreements on the free trade were signed with different partners especially with the EUROPE (EU) and the United States in addition to various neighbour countries. This new distinguished status among the strongest commercial partners has encouraged Morocco efforts to improve the business climate, with ease administrative simplifications and facilitating the process for treating investment applications. In 2017 the World Bank report rank Morocco in doing business index at 68th in the world, 1st in North African countries, 3rd at the African continent and 4th in the MENA region. In addition, the Business Monitor International a Fitch Group Company predicted that Morocco in the medium-term will become an attraction for foreign investors as their interest in the country as an export-oriented manufacturing hub for the European market as well to the level of security in the country comparing to MENA region. And recently the kingdom succeed in attracting the important amount of FDI in the sector of automotive industry, especially from France.

However there are other factors which helps to attract more FDI inflows such as dealing with construction permits, providing electricity, taxes reduction, protection of investors, affording credit, trade openness, transportation facilities, good infrastructure, eliminating corruption, market size, labour force, human resources and macroeconomic risk as a main determinant for FDI. Any improvement or change in these determinants could impact positively on the FDI climate in the country. The study conducted is mainly based on the data carried out by World Bank and Bank Al Maghreb (Moroccan Bank) statistical bulletins

and annual report which is covering the period of 2006 to 2015. The research methodology used in this study is regression analyses based on SPSS calculation and interpretation to assess the impact of labour skills and level of education on enticing of FDI and economic development.

The aim of this study is to discover the impact of FDI on the economy development with examining the different motive and determinant of FDI inflow and the effect resulting from the improvement of FDI inflow in the Kingdom of Morocco.

The board objective of this study is to measure the performance of FDI in Morocco while the specific objectives are:

- To examine the main structure and component of FDI in Morocco;
- To find the main problem affecting and slowing the increase of FDI in Morocco;
- To determine the core motive, determinant and reason for FDI;
- To inspect the impact of FDI on economic development;
- To evaluate how FDI inflow was having an impact on the economic development in Morocco.

1. CHANGES OF FOREIGN DIRECT INVESTMENT IN MOROCCO

This section is highlighting the analysis of the different sectors of foreign direct investment (FDI) in Morocco, by examining the composition of different figures of the gross domestic product (GDP) in Morocco. This short reflection about the country situation during the past few years is permitting to understand the great impact of investments on the economic development of Morocco during the recent years. Thus examining the core micro-economic and macro-economic changes, in addition to the problems affecting FDI in Morocco.

1.1. Changes of foreign direct investment in different economic sectors

The frame of FDI in Morocco is mainly focused on diversification, due to the large sectors available in the county. However, the collected data of the GDP at the current price illustrate three most valuable sectors which are industry, agriculture & fisheries and real estate. These mentioned sectors were showing a significant development during the period of 2006 to 2015. Nonetheless, the rest of sectors as mentioned in Table 1 were slightly increasing and could be considered as stable due to the fluctuation that they were facing during the period.

Table 1. The gross domestic product structure in Morocco 2006-2015, in million USD (Ministry of Economic and Finance ..., 2016)

Sectors	Years						
	average 2006-2010	average 2011-2015	2011	2012	2013	2014	2015
Industry (excluding oil refinement)	13,151	16,265	15,705	14,968	16,571	18,053	16,028
Agriculture & fisheries	10,611	13,083	13,300	12,116	14,303	12,824	12,872
Real estate	6,803	9,622	9,194	9,206	10,017	10,473	9,221
Trade	7,759	8,821	8,903	8,940	9,021	9,178	8,065
Construction and public works	4,551	5,850	5,637	5,642	5,993	6,358	5,620
Transports	3,078	3,595	3,449	3,414	3,631	3,856	3,627
Mining Industry	2,195	3,258	3,912	3,873	3,572	2,692	2,242
Hotels and restaurants	1,796	2,249	2,156	2,124	2,347	2,498	2,119
Electricity and water	1,606	1,807	1,722	1,467	1,816	1,936	2,096
Education, health and social action	1,193	1,460	1,438	1,399	1,492	1,549	1,424
Other	32,517	37,375	35,954	35,116	38,062	40,465	37,280
Total	85,261	103,387	101,370	98,266	106,826	109,881	100,593

Table 1, shows that most three important sectors which experienced improvement during the last five years are: industry (excluding oil refinement) which it has reached the maximum amount of 16,028 million USD as current price of GDP in 2015, followed by agriculture and fisheries which have reached the maximum amount of 12,872 million USD, then real estate, lease and services rendered to enterprises which rocketed to reach the maximum amounts of 9,221 million USD in 2015. These three different sectors have been obviously the main focus of investments and they have expressed a good inflow of benefits during the last five years in Morocco.

From this small reflection, it is considerable that the FDI inflow has targeted those fertile sectors which they have expressed a dramatic increase in their capital, which will allow supporting other relative sectors which they are also important for the growth of the Moroccan economy.

Nevertheless, trade and construction and public works also could be seen as powerful sectors where Morocco has made a good increase, enhancing the development of these sectors would help to make valuable benefits. As it is shown in Table 1, the trade has been jumped up from the value of 7,759 million USD in 2006 to reach a value of 8,065 million USD in 2015, additionally construction and public works which have increased from 4,551 million of USD to reach 5,620 million of USD. Other sectors like education, health and social action, transports and electricity and water were showing a slight increase due to the low investment in education, most of universities and schools are based in the big cities which contain huge population and a number of universities are the same since 2007 while the population is growing fast, the same case are for hospitals (UNESCO, 2015). For transports, public transport in the country confront lot of issues especially due to limited number of transportation which could not support the size of population (World bank, 2013), Also the supply of electricity and water cannot reach some towns which are located in the high mountain's due to poor infrastructure, these are the problems which confront the growth and the development of these sectors (UNDP, 2007). However, despite the weaknesses in some sectors, the good governance helped to compensate those feeble sectors as mentioned in the total of GDP at the current price who jumped from 85,261 million of USD in 2006 to reach 100,593 million USD in 2015.



Figure 1. Foreign direct investment by sectors in Morocco in 2006-2015, in million USD (Bank AL-Maghreb, 2015)

Figure 1, shows that FDI in the sector of industry decreased dramatically from 1,023 million USD in 2006 to 258 million USD in 2008 as a minimum value noticed during the period, which obviously was affected by the worldwide crises in that period. However, since 2008 industrial FDI started to increase to reach the maximum amount of 1,786 million USD in 2013 after that it went down to 820 million USD in 2015. This fluctuation is caused mainly by French and Spanish investor's partners which were facing an economic issue during that period (Bouchaara, 2015). Otherwise the sector of banking remained strong in 2008 with the highest amount of 1,032 million USD while all the world was facing financial crises with the management of risk associated with transactions in the international banking market, however it start to go down after to reach amount of 461 million USD in 2015, which is a very low compared to previous years. The real estate investment was generally stable with average 1,000 million USD over the period, one of the main investors in the sector of real estate, Karim Tazi argue that "the sector face high corruption and long term procedure which annoy investors and let them decide to invest in other countries" (Saleh, 2015). On the other hand investments in tourism was heavily declining, the Figure 1 shows that in 2006 FDI was 1,023 million USD and go down to 307 million USD this is due to the drop of foreign tourist which are visiting Morocco as the main reason for this decline. Lastly, the FDI in trade sector has a small added value to the total FDI because Morocco had a weak integration into the global financial market, with a young stock market and shares of foreign assets representing 4 % spread over sectors of FDI (Bouchaara, 2015).

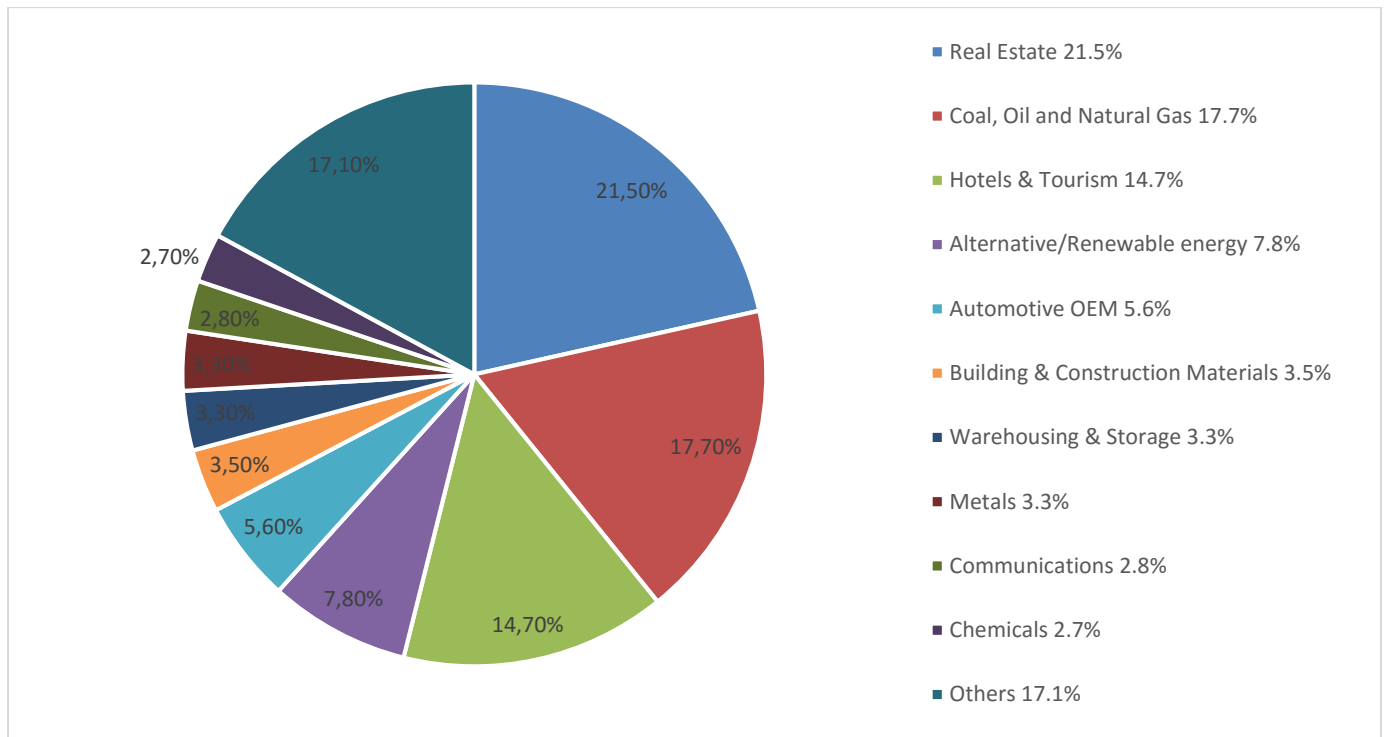


Figure 2. Average inward foreign direct investment in Morocco by the sectorial distribution in 2006-2015, in % (FDI Intelligence from The Financial Times, 2016)

Figure 2, describes the repartition of FDI through ten sectors during the period of 2006 to 2015 in Morocco. The real estate investment represent the most attractive part during the period with a rate of 21.5% and this is related to the big projects launched in the sectors of house building which is highly attractive by different companies also the low price of lands which is the main motivator for investing in morocco (Lalaine, 2016). Coal, oil and natural Gas shows the average rate of 17.7 % this sector still faces lots of issues since all these resources are imported from Spain and Saudi Arabia and also these two countries are one of the biggest investors in Morocco, so the investment in those sectors mainly depend on them (Energylopedia, 2016). Alternative/Renewable energy was representing a total rate of 7.8 %, which looks low for a country such as Morocco who have important desert area in the south where the sunshine all most the year and high mountains which afford wind power but Morocco still launching lots of projects in that area and expecting good results in 2020. The automotive industry represents just 5.6 % of FDI. Morocco has recently attracted the biggest French car brand Renault which it has started its investment in 2012, and also they have signed the contract with Peugeot and Citroen but the project will be fully ready in 2019 (Saleh, 2016). On the other hand, warehousing & storage and metals were representing respectively the same rate of 3.3 %. Communication and chemicals were recording the lowest percentage with an average rate of 2.8% and 2.7 % respectively.

1.2. Changes of main macroeconomics indicators in Morocco

Despite the competitiveness of the world economy and the globalisation, Morocco is still continuing to put impressive reform for progress to involve its economy into the worldwide marketplace. Huge facilities were made for helping people to start their business and FDI is becoming attractive in all sectors. However Morocco has a quite enough stability comparing to African countries in its economy, with a slight growth over last two decade, and this imperfect increase is due to the limited resources which are mainly agriculture, phosphate, and tourism. Sales of fish also have a big impact on the growth of its economy, as well the industry and mining which have an important impact on the increase of GDP. Also the macroeconomic data reveal that Morocco was successfully able to reduce the rate of general unemployment since the 90s, but youth are still suffering from unemployment, inflation rate it never has a considerable impact on the value of the currency, the huge investments and expenditure on infrastructure rather than developing other sectors has slowed the economic growth during the period of last decade. In addition, labour force participation was always stable due to the balanced demography that Morocco has.

Table 2. Unemployment, inflation, economic growth, labour force participation, gross domestic product per capita rate and foreign direct investment per capita rate in Morocco 2006-2015, in % (The World Bank, 2017)

Years	Unemployment rate, %	Inflation rate, %	Economic growth rate, %	Labour force participation rate, % (15 - 64 years)	GDP per capita rate, %	FDI per capita rate, %
2006	9.7	3.3	7.6	54	6.4	0.77
2007	9.8	2	3.5	53.8	2.4	0.91
2008	9.6	3.7	5.9	53.5	4.7	0.79
2009	9.1	1	4.2	52.9	3.0	0.62
2010	9.1	1	3.8	52	2.5	0.39
2011	8.9	0.9	5.3	52.1	3.9	0.77
2012	9	1.3	3.0	52.3	1.6	0.86
2013	9.2	1.9	4.7	52.5	3.1	1.00
2014	10.2	0.4	2.4	52.7	1.1	1.04
2015	10.1	1.6	4.4	53	3.1	0.95

The statistics show that the rate of unemployment is slightly increasing since 2006, youth unemployment is a major problem that Morocco faces in a new era. However, this situation is not concerning only Morocco but all North-Africa. Where they have the highest rate of youth unemployment in all over the world. Abdeslam Seddiki is the minister of labour and social affairs in Morocco claim that “in Morocco, four out five unemployed people are aged 15 to 34. Although the unemployment rate has declined over the past decade, youth unemployment is still twice that of the total population. In 2003 youth unemployment was 19.3 % and general unemployment was 9.2 %. There are variations according to gender, age, the area of residence and education.” (Holly, 2014. p 1). He added that urban youth have more chance to be unemployed than rural youth. Girls and women are even worse off, whereas Morocco is much better compared to several neighbouring countries for providing employment to youth female. But if the problem is viewed from another angle, people who are holding higher degree have a great rate of unemployment in comparison to people with a medium level of education and people without a diploma, and this is due to the high salary that people with good degrees required. Also, the important increase in demographic aspect compared to the economic capacity lead to the obstruction of job creation in both private and public sectors. On the other hand, the Moroccan central bank was doing a pretty good effort in order to keep the low rate of inflation. Data in Table 2 shows that the inflation was 3.3 % in 2006 then decreased to 2 % in the following year. In 2008 due to worldwide crises, inflation was reaching the highest level over the period with a rate of 3.7 %. But quickly remained low again to reach 0.4 % in 2014 which is quite impressive. However, in 2015, it goes up to 1.6 %. “In an information note provided by the High Commission for Planning (HCP), the increase referred to the index of food products (2.7 %) and non-food products (0.7 %)” (Morocco World News, 2017). Nevertheless, the speed of economic growth should be increasing due to the stability that Morocco has compared to other countries in North Africa which they are till now trying to fix the damage caused by Arab spring and all revolution which they experienced. This situation helped Morocco attract diverse industries like automobile, aeronautics, and electronics and so on comparing to the other North-African countries. However with all these mentioned factors Morocco still have a weak economic growth, the data showed that economic growth is decreasing every year wherein 2006 the rate of economic growth was 7.6 % and fall down to 4.4 % in 2015. The GDP per capita decreased dramatically since 2006. It almost dropped by half from 6.4 % in 2006 to 3.1 % in 2015. Lastly, the FDI per capita have a very small added value because of the big size of the population, but the total FDI net inflow represents a huge profit for the country.

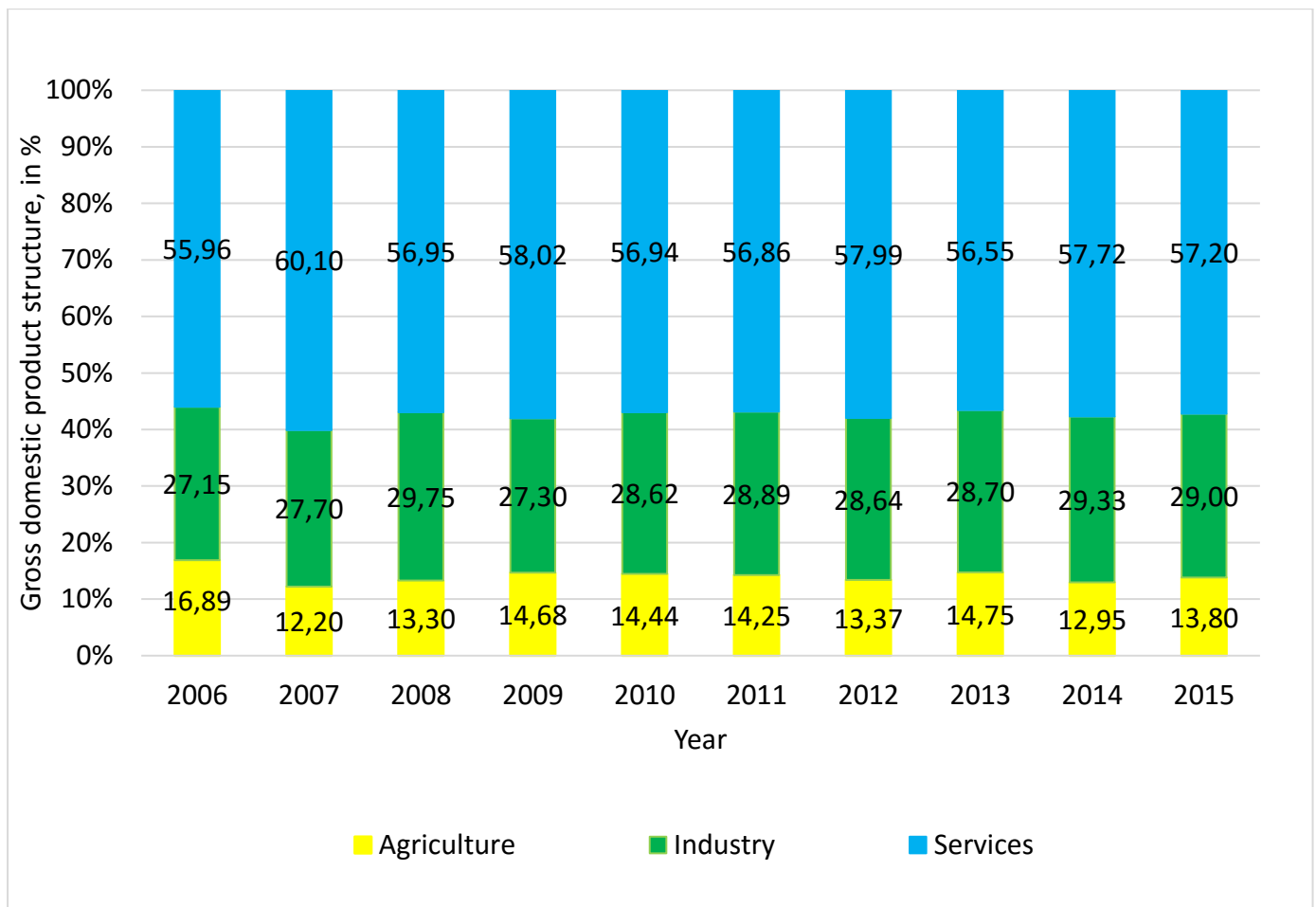


Figure 3. Distribution of gross domestic product across economic sectors in Morocco in 2006-2015, in % (World Bank, 2016)

Figure 3 shows that services which include tourism, information technology, retail, finance, insurance, broadband internet access and some others sectors were representing the major of GDP with an average of 57 % during the period of 2006-2015. The services sector could be considered as a key determinant of the annual GDP value. Moreover, the industries contain several sectors such as manufacturing, textiles, mining and construction sector, the share of industries in GDP was fluctuating between 27 % and 29.75 % during the period of 2006-2015, every year there is an up and down in the GDP rate. The sector of agriculture which is composed of land and fishing play an important role in the growth of the GDP of Morocco, this sector was experienced a decline during last years it was dropped from 16.89 % in 2006 to 13 % in 2014, this sector is very sensitive due to its dependence on the rainfall and water resource, and any climatic change could affect dramatically the sector. In general, the economic situation of Morocco could be improved by not putting the focus on one sector and giving less importance to the development of the others.

1.3. Main problems of foreign direct investment in Morocco

During the last two decades, the development and the improvement of the economy of Morocco have been partially reached due to various brave and wise reforms that the government has conducted to reinforce the business climate of the country (Mechyakha, 2016). New strategies have been exercised to enhance the attractiveness of FDI in Morocco and ameliorate the Moroccan ranking which is now 3rd in Africa and 68 out of 189 world economies in Doing Business Index. In addition, Morocco has made a new constitution in 2011 has led to great improvement in the democracy over the territory, and change the frame of law to make it more suitable to the desire of the population. During that law renovation in Morocco, different countries were facing the Arab Spring manifestation which they had made their economy even worse than before. However political lands in Morocco has been mostly stable this fact helps to make a pace in the field of trade, investment and privatisation of different sectors. Moreover, the government is working on the business climate in Morocco through wide conversation and negotiation with the different countries wondering to invest, by providing them a clear and favourable image of the rich multi-sectorial composition regarding investment in Morocco. In addition to reach its target, Morocco is working on improving its infrastructure to grow up the connection between all cities in the territory, putting strict measurement to fight corruption, emphasize activities that generating employment and developing skills of management, ease administrative procedures and improving institutional coordination in different areas are also one of the important things that the authorities focusing on. The Moroccan government has been successfully attracting an important flow of foreign capital comparing to African countries by adopting the national privatisation program and converting foreign debt into investments (Mechyakha, 2016). Nevertheless, Morocco is still facing many economic problems in his major sectors, the FDI was not well structured and framed. The following section will discuss the different problem facing FDI in Morocco in different sectors: tourism, agriculture, and industry.

Tourism: during these recent year's lots of people argue that the decline in the FDI in the sector of tourism happened due to the international tense and terrorism. However many internal problems are the main cause. Hassan Faouzi claims that: “With the current international situation very difficult, we are seeing a drop or even a decline in the number of tourists going to Morocco. The tourism crisis is obvious. The attacks in Nice, Paris, Germany, Brussels and Istanbul further aggravate the situation, hampering the resumption of the destination. Following its events, the image of the Maghreb countries is stained by the reopening of the amalgam cycle. Morocco is, of course, the first destination to be affected by this crisis. But, it must be said, it is not only the terrorist threat from Morocco.” (Faouzi, 2016). Basically, the figures show that the decrease in tourism occurs before those international events due to many factors, such a

European crisis and the shrink of foreign clients, and new other countries are seeking for tourist and cultural attractions, a variety of countries who afford natural tourism destination, and so on. Morocco as a touristic destination is not anymore a dream for tourist. These factors explain that Morocco has a problem in the structure of the sector. The FDI in tourism in Morocco is mainly concentrated in one hub Marrakech and Agadir and the other touristic regions are not well specified. Tourism in the area of art of living and cultures has a poor development because of the low attention to developing the nature tourism (Faouzi, 2016). Nevertheless, Morocco has a great potential and lots of strengths to become one of the most attractive touristic destination. With diversity in landscapes like mountains, deserts, coastline, forests and a wealthy constitution of several cultural, ethnic groups within a society (Invest in Morocco website, tourism). But unfortunately, the government is focused only on lux tourism where they are advertising only fancy hotels.

Agriculture: FDI in the sector of agriculture create two problems in the economy of Morocco. First of all, problems related to land and labour: when foreign investors come to Morocco they are using vacant land and labour with a low salary which they are unqualified or unskilled, this fact lead to the increase of employment and use of land without augmentation of minimum wages or rental price of land. Also, investors imports all inputs, including qualified and skilled labours which do not lead to any economic growth. The second problem is related to the price of goods: if foreign investors in agriculture can increase the prices for resources used in the production, they will affect directly the increase of prices in other sectors not only in the sector of agriculture. Even if the price of resources used are fixed, if they increase labour's wages in the investment project, their demands for goods will increase naturally because of the higher salary that they earn, thus the high consumption of good including food and house holding (electricity, water) will lead to inflation (Manitra, 2016). The impact of foreign agricultural investment on the price of food in host countries also varies depending on whether the production is sold on the domestic market, in foreign markets, or both. The investment will have a more direct and immediate impact on the price of food in the host country if the investor targets the local market rather than the export markets (Manitra, 2016).

Industry: The industrial acceleration plan is a new a strategy adopted by Morocco to implement efficient ecosystems which will integrate the value chains and unify the local relations among big firms and Small and Medium Entreprises (SMEs). This strategy with the aim to create half million jobs in the sector of industry by 2020 and make great growth for the share of industry in GDP to increase from 14 % as a current share to 23 % in 2020 (Invest in Morocco website, Industry). Thus the results have not been achieved one Moroccan newspaper claim that in 2008, the emergence program identified the automobile sector as an activity that could generate 36,000 jobs, including 6,000 direct jobs. In 2010, Ahmed Réda Chami added to this prediction the creation of 220,000 industrial jobs by 2015. The two promises failed to be realised, as

the industrial sector lost 100,000 jobs, mainly in the artisanal sector. Haemorrhage has not been stopped by promises of job creation in the sectors of the future. In addition to the 120,000 jobs that could have been maintained in line with the growth of the labour force as a whole, preventing the destruction of the 100,000 jobs over the past 15 years could perhaps have achieved this goal (Ait-Benhamou, 2015). In addition, the main problem is that the Moroccan economy is not able to produce something which is destined to export which will create a great value added to the GDP, the majority of the products are consumed in Morocco which is useless to make gain from the product.

2. THOERICAL SPHERS OF FOREIGN DIRECT INVESTMENT

2.1. General definitions and theories toward foreign direct investment

For a better understanding of the concept of FDI, different theoretical papers and international organisation were discussing the real meaning from their own perspective. United Nations Conference on Trade and Development (UNCTAD, 2012) believe that, “Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliated enterprise or foreign affiliate)” (p. 245). FDI indicates that the investor exerts an important degree of guidance on the management of the enterprise located in the other economy. This investment implicates both the initial transaction among the two organism and all following transactions between them and among foreign partners, both incorporated and unincorporated. FDI may be carried out by individuals as well as business entities (UNCTAD, 2012). They added that FDI has a great motive for the host country to achieve sustainable development (UNCTAD, 2014).

While the Organisation for Economic Co-operation and Development (OECD, 2008) define FDI as a “category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long-term relationship with the direct investment enterprise to ensure a significant degree of influence by the direct investor in the management of the direct investment enterprise” (p. 17). When the direct investor owns 10 % of the casting your vote of the direct investment enterprise then the lasting interest is demonstrated. The direct investor may be allowed to have access to the economy of the direct investment enterprise. The purpose of direct investment differed from those of portfolio investment, however, generally investors do not look forward to affecting the management of the enterprise.

However, the assessment of the definition of FDI could be based on different theories which rise the problematic of giving one unique and general definition, Recently Moosa was analysing different studies undertaken, to try giving a definition based on different theories but few was added comparing to old theories (Moosa, 2015). According to Moosa, (2015) on his analysing of new theories, he began with Nayak and Choudlhury (2014) who were analysing many theories of FDI and realise that no theory fits the different types of direct investment or the investment made by a particular multinational corporation or country in any region. They were following the development of the theories of FDI since last century and tried to explain the growth phenomenon of third world multinational companies. Also, the claim that the

implementation of a specific theory change with the type and basis of the investment, theories of FDI did not prove yet that companies are moving to foreign countries seeking for benefits and advantages in form of location, firm-specific or internationalisation of markets. In parallel, Denisia (2014) claim that the theoretical studies on FDI help to reach a better understanding of the economic mechanism and the behaviour of the economic agents, both at the micro and macro level. Denisia (2014) argues that to understand FDI it is mandatory to understand the staple factor that pushes the firm to invest in a foreign country instead of export or outsource production to national firms. He tries to figure out the main trends in FDI theory and finding how these theories were developed, which led to looking for new approaches to fertilising economic theory of FDI.

On the other hand, it is not generally accepted that the theory or the new proofs could add some new elements and criticism to the previous ones because every definition is given based on the factors taken into consideration. Mcgrattan (2012) say that economic effects of FDI quantified by empirical studies have not provided convincing evidence that they are positive, as theory predicts. She shows that the lack of empirical evidence is reliable with the theory if countries are in transition to FDI openness. She points out that welfare gains lead to temporary declines in domestic investment and employment, while the growth measures miss some intangible FDI, which is expensed from company profits. She tries to harmonise theory and proofs by using a multicountry dynamic general equilibrium model characterised with data from a sample of 104 countries in 1980–2005. Artige and Nicolini (2006) analyse the determinants of FDI inflows for a group of European regions. Based on regional data. They develop a qualitative description of their database and discuss the importance of the macroeconomic determinants in attracting FDI. Then they provide an econometric exercise to identify the potential determinants of FDI inflows. In spite of choosing regions presenting economic similarities, they show that regional FDI inflows rely on a combination of factors that differs from one region to another. However, Wang (2013) was conduction research on why fiscal decentralisation could have a non-monotonic effect on the FDI inflows over policies which they are endogenic. The political-economy model that Wang presented to explain the different effects lead to reinforcing the idea that the difference in fiscal decentralisation is a major fact for the nine-fold difference in FDI per capital. Wang et al. (2011) develop a self-enforcing contract model to realise that the economic fundamentals may be efficient when there is a fragile law to attract FDI, while tax-lowering is not surely helping. Based on cross-region data of China, he conducts that the balance between tax rates and the standard quality of formal contracting institution are not homogenate with the inflows of FDI in the regions, while the characteristics of leadership show a good correlation. So the new discovery was that the FDI is diminishing in the locations where firms have good accession to finance and where quality is weak.

Meanwhile to have a clear vision about FDI a research were made by Ito who were analysing the theories of FDI from the perspective of export, he was proposing a model called export-platform for FDI which is a form of FDI that is common in the data but rarely discussed in the theoretical literature (Ito, 2013). The theory gathers most of the exemplary modes of supply, vertical and horizontal FDI. The test he conducts shows that while reducing an inter-regional (or intra-regional) trade costs it encourage companies to follow the export-platform FDI (Ito, 2013). And the model is supported by his results. Further study was conducted related to international trade and FDI, which show the liberalisation of regional trade as a driver of export-platform FDI in an international oligopoly model with asymmetric firms (Nguyen and Sgro, 2014). They find out that different kind of settings and demands, which free-trade in a trading area encourage foreign firms to select the export-platform FDI as one of the best options. For the linking of the labour market and FDI, according to Schmerer (2014) proposes a simple multi-industry trade model with search frictions in the labour market. He argues that unimpeded access to global financial markets enables capital owners to invest abroad, thereby fostering unemployment at the extensive industry margin. Whether a country benefits from FDI in terms of unemployment depends on the respective country's net-FDI, measured as the difference between inward and outward FDI.

2.2. FDI definition and reason to accept foreign direct investment for the economic development

The definition of FDI has a wide variation, its theatrical complexity related mainly to the nature of the problem that the FDI face in a new era. Also, the definition is depending on the background of different schools thinking and their concrete leaders who put the theatrical basis. By seeking for attracting FDI. The economic development is one of the main target that most countries are wondering to achieve, especially the developing countries group, from one side, on the other side, to reach their target they are facing many issues like identifying sustainable methods to acquire, preserving and intensifying the power that leads to the development which helps to preserve a robust, solid and durable development mode. "Defined narrowly, foreign investment is the act of acquiring assets outside one's home country. These assets may be financial, such as bonds, bank deposits and equity shares or they may be so called direct investment and involve the ownership of means of production such as factories and land" (Weiss, 1995, p. 403). FDI is counted to be integrated if the ownership of equity shares provides control over the operation of a firm (Chang, and Grabel, 2004). In addition, according to Meier (1995), to let the developing economies accepting FDI as a strategical factor for development, there are four main reason and possibilities which are: 1. Compensation of the low level of domestic saving; 2. Lack of foreign exchanges; 3. Need for social infrastructure to develop human

resources; 4. Unique and selective preferences in societies and special aims. Some of them would be defined at a macroeconomic level and the others are formed at a management and microeconomic level (Meier, 1995).

1. **Compensation of the low level of domestic saving.** FDI must recompense the decrease in the level of domestic savings, which is fetched to a vicious circle of poverty that come out from the poor level of real income, presenting poor productivity, which is caused by insufficient capital. This led by the low capital for saving which do not help to reinvestment which leads them again the low rate of real income (Nurkse, 1955). Thus the FDI have the ability to offer some extra resources and to make an end to the domestic capital deficits. The combination of internal and external resources enable to break down the vicious circle of poverty and provide a smooth development, increase real income, support the social convenience allocation of incomes and integrate a high level of employment. Nevertheless, FDI is a just a supportive elements for domestic resources.

2. **The lack of foreign exchanges.** Unsuitable terms of trade, a deficit in the balance of payment and current account and a decline in the capacity to export are part of causes. The mentioned causes could lead to an incurable poor amount of capital investment. In such a situation, there are no impulse to invest, due to the low purchasing power of the citizens (Gupta and Islam, 1983; Stoneman, 1975). This represents the second aspect of the vicious circle of poverty theory (Nurkse, 1955). At this phase, the weak level of motive to invest in developing economies or the strong level of motive to invest in developed economies could be depending about the equilibrium of trade and capital movements. This would help developing economies to grow beyond their capacity (Salvadori, 2003). This is also a specific way of accumulating capital through imports, based on export earnings and capital movements, particularly FDI (Meier, 1995).

3. **Need for social infrastructure to develop human resources.** The FDI inflows are associated with the necessity for social infrastructure and for the development of human resources (Salehi-Isfahani, 2005.). This does not encourage the economy in the short path but is a controlling and social necessity, which will suitably influence the economy in the long path (Yusuf and Stiglitz 2004). In fact, social fundamentals should smooth the innovative part of the economy. Beyond a surge in a number of dynamic factors, it is essential to develop the quality of the people as economic mediators and to continue to ease the productive activities (Meier, 1995).

4. **Unique and selective preferences in societies and special aims.** Is linked to the exceptional and selective preferences in societies and special aims. To illustrate, there is the need to funding the essential old economic sectors and their enhancement, as of their huge share of GDP. This necessitates a massive amount of investment and gets a lot of compression on the governments. Examples are the agricultural and

mining, the raw materials and oil industry sectors of developing economic countries. In challenging conditions, these countries have to preserve or to expand their aptitude to stay competitive concerning quality and quantity in order to keep or to grow its market shares. For example, the oil exporting countries have in recent times enquired for novel investment due to the bigger demand for oil and because of more rigorous competition for market shares. That is opposing to the earlier normal comportment on the oil market, where shares were fixed. Hence, fast fluctuations in the market all the times generate a necessity for pressing investments that, regularly, must be carried out by domestic means.

Consequently, if the industrial sectors lead to rising the production and demand, the rise of investment will lead to making a direct or indirect tension on the producers of raw materials. The rate of debts will be increased to finance those investments, to create domestic saving more intensity is made to sell on national or international markets, increasing exports generate new external dependency. At the same time, because of sharp competition, not sufficient revenues are created by financing investment. Also, this factor leads to increasing liability. In that case, the only manner to get out of this is FDI. Therefore, small domestic savings, a shortage in the foreign trade and general payments balance, lack of social infrastructure, the human resource development, the particular preference that some sectors have and the exceptional social and political targets to be attained are the main motives to attract FDI. In general, the foreign debt as well rely on necessity of infrastructure investment and some specific sectors necessitate gigantic expenditure from the capital to diminish the weakness hole, the rates of interests which is too low, the great deficit of the current account, the low national output growth rates, the unemployment rate which is great, the unfair of income distribution which have bad consequence on the purchasing, efficient demand and production, make a reduced amount of capital productive. All these factors lead, in a neoclassical perspective, to the impression that capital is scarce and that FDI is required.

Simultaneously, the developed economies could lead to explaining the motives of why they are seeking for transferring capital abroad. According to Meier (1995), "A country can have greater equity and greater output in the future only if it ensures greater inequality in the present"(p. 65). One of the main economic reason is to find lucrative investment opportunities funding by an external financial capital is surely a supreme priority. Companies or enterprise are relocated to a foreign country to look after cheap resources to maintain low expenditure on production and gaining different markets which will afford lower costs supply of human resources. In that level it should not be forgotten that attracting FDI is at the present moment, bearing in mind that the supreme essential and general economic policy suggestions and the strategic keys to the evolution and the development. FDI goes along with liberalisation of trade, privatisation, internationalisation, and globalisation. This takes attention due to these indications at the

enthusiasm of several countries, especially who have developing economies, to involve alternative policies and fundamental theories in order implement many professionals and adaptable instruments of the economy (OECD, 2008). Figure 4 resume the factors involved in the implementation of FDI which are leading to economic development.

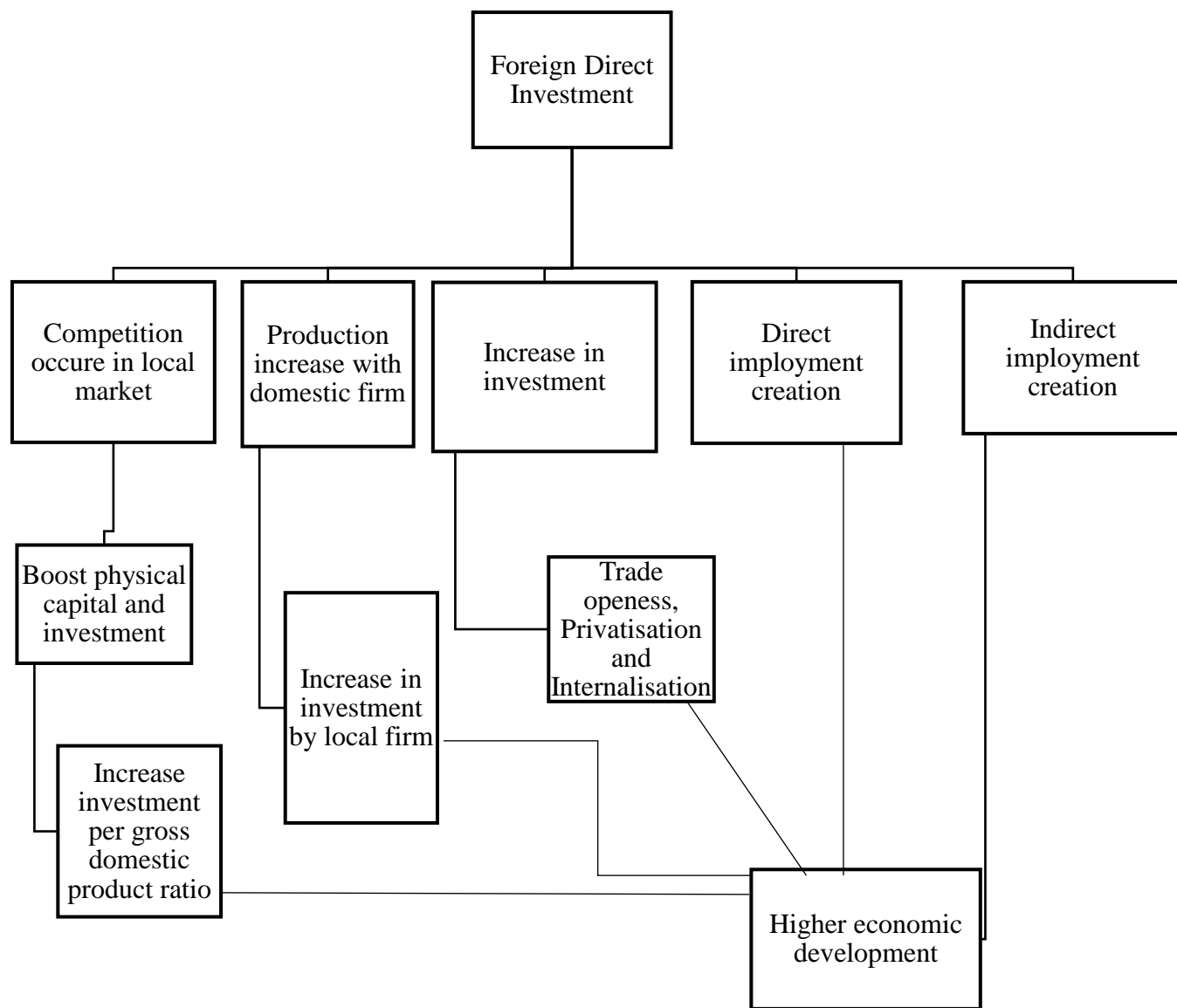


Figure 4. Framework of foreign direct investment for economic development (Carkovic and Levine, 2002, p. 15)

2.3. Motives and differentiation of foreign direct investment

Through the recent years, the main attraction of the world investment toward Africa and support to development has slightly decreased, and rapidly with the growth of emerging market, and the upsurge part of FDI toward Africa become the major signification of increasing the economy of both sides - foreign country and target country (UNTCAD, 2016). In parallel with this development, there has been an amplified interest between researchers, policymakers, and politicians headed for economic policy and politics in African countries, particularly concerning access to energy, raw materials and the democratic development of African countries (Klare & Volman, 2006; Kragelund, 2009). The research conducted reveal that four major factors are claimed to have improved the interest of African countries to entice FDI. The first one, the concentration of global lending institutions has switched to transitional economies in Eastern Europe and emerging markets in Asia, which led to decrease available funds for African countries. The second factor, African countries has understood that the size of their debt service is making huge barriers to assemble money for domestic development projects. The third factor, the severe amount of debt services is making the situation harder for African countries to afford satisfactory service in terms of health, education, and infrastructure for its citizens. Finally, the obligations of African governments to creditor nations hinder them from acting independently in the global economy (Onyeiwu & Shrestha, 2004).

According to Kragelund (2009) who found out that the footpaths that leading foreign countries to invest in Africa are due to the small profit margins in African countries, hence subsidising the economic fertility of African countries. Moreover, Kolstad and Wiig (2012) claim that FDI in Africa might be the result of the amalgamation of the multiplicity of natural resources the absence of government control in the African countries. In addition, Ramasamy et al. (2012) conclude that some foreign countries are enticed to higher political risk locations like some countries in Africa. The leading type of companies investing in Africa are technology, manufacturing, and energy firms, which look to have a wide-ranging scope, usually investing in diverse business sectors (Malgwi et al., 2006). Also, some studies noted that companies investing in Africa are usually well expanded, have a great diversification, and make huge profits in comparison to a control sample of multinational corporations (MNC) (Malgwi et al., 2006). Foreign firms investing in Africa are usually state-owned companies and funded by their governments. Especially, these funds come at three different levels: to direct FDI to Africa, to maintain established FDI, and to build linkages between established firms and domestic actors in the region (Kragelund, 2009).

Overall, the significance of domestic and foreign MNC is rising in all economies around the global. Between the period of 1980-2005, the stock ratio of inward and outward FDI to gross national product more

than trebled (Rugman, 2009), However in 2007, just before the financial crises, worldwide FDI flows attain a terrible level it was recorded 1.5 billion (UNCTAD, 2009). The creation of economic knowledge and the globalisation are leading to the internalisation of many business services and professions, and the possibility to increase FDI in the world proposes that intra-industry foreign-owned production in parallel with other forms of cross-border activity will rise (Rugman, 2009).

There are many explanations and definitions for the existence and motives of FDI by MNCs extracted from ownership, location and internalisation (OLI) paradigm, according to (Dunning & Narula, 2004) the paradigm offers four motives of FDI performed by MNCs. Which are: 1. Market-seeking FDI; 2. Resource-seeking FDI; 3. Efficiency-seeking FDI; 4. Strategic asset seeking FDI. Generally, Firms relocate abroad or raise their level of internalisation to exploit their current specific advantages or to generate new advantages.

1. **Market-seeking motive.** It happens when a firms launch themselves in essential export markets to benefit from advantages like investment factors, cost factors and trade barriers (Rugman & Verbeke, 2004). Besides trade barriers, high transportation costs or country specific consumer preferences or market structures can also be a reason for market-seeking investment. It always promotes growth, as the firm knowledge is mixed with the knowledge acquired in the local market. Eventually, the firm's existence helps to understand better the customer demand and business opportunities. The market motive is mainly based on strategic location advantages and enhancing the firm's international, regional and local power of the market.

2. **Resource seeking motive.** It appears when the firms find natural resources at the minimum real cost in a specific country. However, it could be also taking in consideration location-specific advantages rather than natural resources, like the technology, labour costs and skills, proper institution framework and high-quality infrastructure. In the same path with the development of global chains value, it would be harsh to expect the trade flows linked with resource-seeking FDI. However, Franco et al., (2010) have extended some location determinants solutions for resource seeking FDI. As a solution they suggest, the implementation of international trading intermediates and outsourcing, especially when transaction costs are favourable and supply is approved. Meanwhile, if the exchange rate at the host country is fluctuating all the time, FDI is one of the keys which is used to protect MNCs from exchange rate importation.

3. **Efficiency-seeking motive.** It is usually formed at the firm level as it is included in the optimal structure of the MNC with concern to its global network of foreign subsidiaries. It combines a better effective transfer of knowledge inside the MNC and its capability to use the location specific advantages of its network of geographically scattered foreign subsidiaries. Certain subsidiaries may be expertized in some

operations and turn into world product authority or competence-creating subsidiaries (Cantwell & Mudambi, 2005). Conventionally, these investments take advantage of lower labour costs in developing countries by allocating the labour-intensive parts of the production processes there. Efficiency-seeking investment is situated in the manufacturing and service sectors (UNCTAD, 2014).

4. **Strategic asset-seeking motive.** Includes research and development operations also the value-added activities of firms in host countries. It pulls on the concept of sustained competitiveness and firm growing over acquisitions, strategic alliances, and joint ventures that allow the firm to build synergies and new knowledge by merging existing firm knowledge with new knowledge (Rugman & Verbeke, 2004). Others see that the aim of this kind of investment is to obtain and enhance the new technological base instead of using the existing assets.

Practically, by analysing a research done on Chinese FDI in Africa (Buckley et al., 2007; Voss, 2011) with the focus on the four motives for FDI: market seeking, resource seeking, and strategic asset seeking. Efficiency-seeking, as explained previously, is a motive for FDI by advanced and outsized global MNCs, and it is less expected that Chinese firms figure out themselves in such a mature position given their relatively late entry to the global market, particularly in comparison to Western companies (see, e.g., Buckley et al., 2008). Additionally, Buckley et al. (2008) argue that efficiency-seeking FDI is of partially important to Chinese firms because of the plentiful pool of low-cost labour and other factor contributions in the Chinese market.

Figure 5, explain the different factors involved for each motive that push to invest in foreign country, these factors are the general standard while each company has its own specific incentive that lead to invest in foreign country.

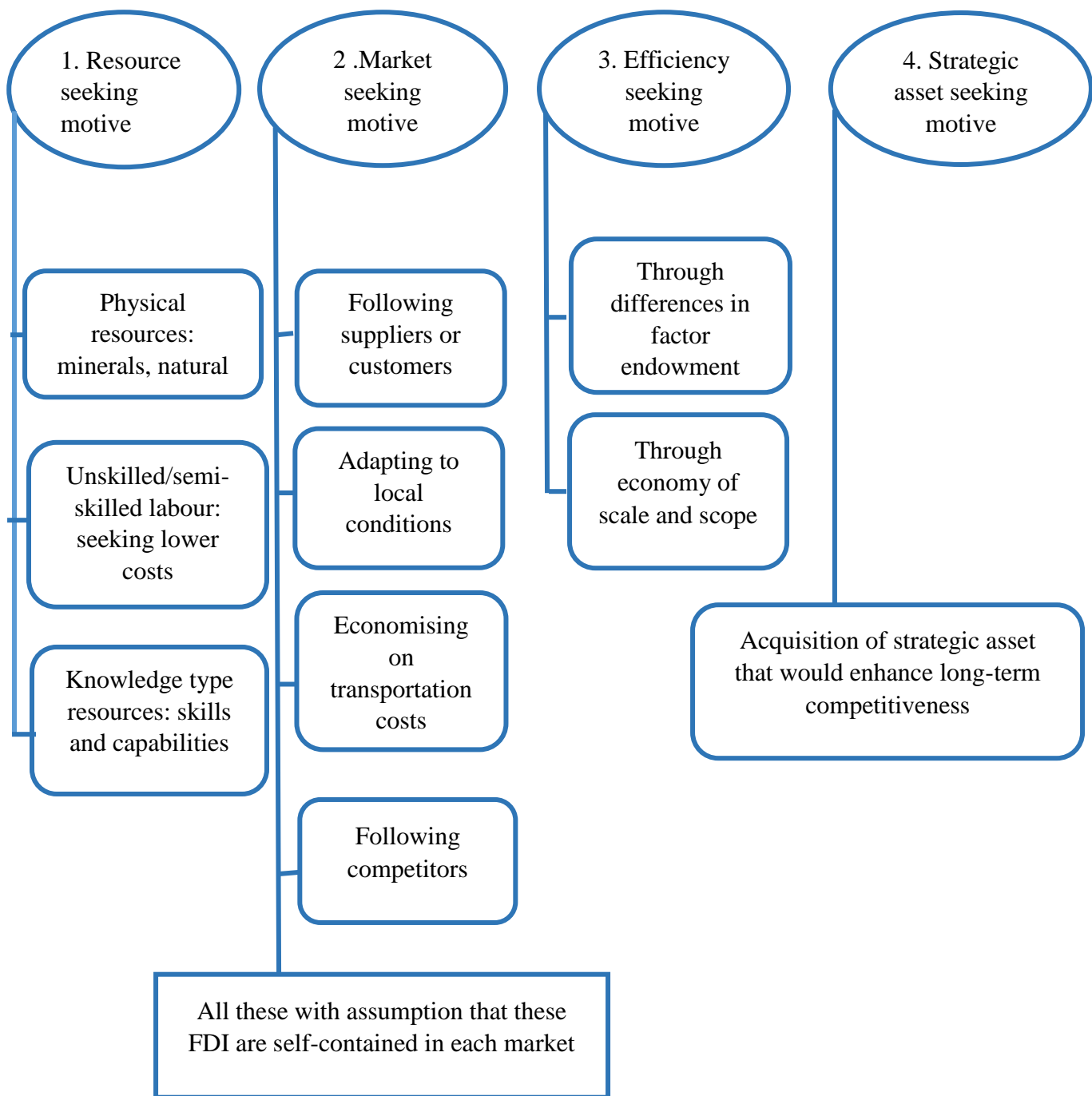


Figure 5. The frame of the four seeking motives for foreign direct investment (Pavida, 2013, p. 5)

2.4. General theories and forms of foreign direct investment

2.4.1. The eclectic paradigm (OLI-Framework)

Dunning's eclectic paradigm which refer to ownership, location, and internalisation (OLI) has been for long period the supreme important framework for the empirical examination of determinants of FDI. Definitely, OLI has been stretched to host different criticisms (Dunning, Pak, & Beldona, 2007). And this study joins this strand of research on expanding it by incorporating institutional theory, as Dunning (2006) himself suggests, in the choice of the location advantages variables. These institutional determinants can be both firms as well as country specific (Dunning, 2006). The eclectic paradigm gave a holistic framework to investigate the importance of factors manipulating both the initial expansion of MNEs by foreign production and the following growth of their activities (Estrella Tolentino, 2001). The framework enables comparison among diverse theories by forming the common ground between many approaches and by making clear the particular questions theorists have stated, as well as the different levels of analysis (Cantwell & Narula, 2001). Due to its generality, OLI has only some degree of power to explain specific types of foreign production or the comportment of some enterprises (Dunning, 2001) except somebody applies the framework to a predefined specific context. Indeed, OLI is specific context, and particularly its configuration is suitable to vary across firms, regions or countries, industries or value-added activities. Also, its usage is depending on the different motives seeking for FDI (Dunning, 2001).

OLI paradigm illustrates three interrelated factors drive the 'why', 'where,' and 'how' of FDI activities by MNCs (Dunning, 1977). The first letter refers to competitive ownership (O-specific) advantages of MNCs which is generally described by the resource-based, evolutionary, and organisational theories of companies. The O-specific advantage hence refers to the exceptional contribution that firms must have to successes its investment abroad. The second letter is location (L-specific) advantages of countries, which consist of the specific assets offered in the local context. The L-specific advantages of some market determine whether it is worth for firms to invest in that market. The third factor is internalisation (I-specific) advantage, which illuminates why firms make FDI choose a market mechanism solution (Rugman, 2009). Direct investments are mainly selected when firms have better usage of their O-advantages in the country by full ownership.

OLI or eclectic paradigm is giving the explanation of the existence of MNCs:

The O-factor answers the 'why' question, which describes the fact of why the firms invest abroad. The motive is to use its firm-specific advantages in further markets and countries; these firm-specific advantages (FSAs) enable the firm to cut the costs of transactions and productions in a foreign location.

The L-factor answers the 'where' question of location. As international production necessitates the usage of foreign factors in combination with the FSAs, the MNCs choose the location of its FDI by comparing the attractive locations of different countries with evaluating the country specific advantages factors like economy, society/culture, and policy.

The I-factor helps to answers the 'how' question, such as what is the mode of penetrating foreign location the firms might use. The MNCs has a range of different contractual arrangements, varying from the size of international trade through the possessed foreign subsidiary, and measure their benefits and costs to figure out how the enterprise access the foreign market and expands its activities during the period.

The successful MNCs concurrently incorporate these OLI advantages to planning its network of activities and associates in order that get the most out of its market shares and growth. Lastly, as Dunning suggested (Eden & Dai, 2011) if any MNCs engages in FDI it must satisfy OLI three conditions which are as following:

Ownership specific advantages. Ownership advantages are the vital explanation for the existence of MNEs. The main notion is that firms are assemblages of assets and that applicant MNEs own higher than average levels of assets which represented as internal public goods. These assets could be useful to production at several locations without decreasing their effectiveness. Examples contain product development, managerial structures, patents, and marketing skills, all of which are surrounded by the carry all term of headquarter services (Antras et. al., 2004).

Whereas this is obviously a multi-dimensional factor, it is communal to model it in relationships to a single index of firm production. The best-sophisticated usage sideways this path is found in latest work on heterogeneous firms by Helpman, et al., (2004), which is linking the simplest form of the horizontal motive for FDI (to be discussed in next section) with the notion that firms vary in their productions. A potential firm need pay a sunk cost to control its productivity, and, when it is measured, dynamic firms categorise themselves to change the modes of production. Low-productivity firms their production target only the local market; medium-productivity firms differ from others and they decide to pay the fixed costs of exportations (Portugal Ferreira et al., 2011). However, just the greatest productive firms select to pay the expensive fixed costs of engaging in FDI. As just foreign firms must pay costs of foreignness, they must find out further techniques to earn either greater revenues or have lower costs which enable to stay in business. So if any MNE looking for being profitable abroad it need obtain unique advantages which are not shared by its competitors. These advantages need to be particular to the firm and flexible transferable inside the firm and among countries. These advantages are called ownership or firm specific advantages or core competencies (Dunning & Lundan, 2008).

Location specific advantages. The firm needs to use certain foreign factors in linking with its domestic FSAs to enable earning all rents on these FSAs. Consequently, the location advantages of several countries are the main key for determination of the host countries for the MNE. Undoubtedly the comparative attractiveness of diverse locations may change over the time which pushes the host country to multiply their engineers for competitive advantage as a location for FDI (Zhou and Guillén, 2015).

The country-specific advantages (CSA) which refer to L-specific can inspire where an MNE takes the decision to invest and for that, they are taking into consideration three factors: economic, social and political (Berry et al., 2010). Economic advantages contain the qualities and quantities of the sectors of production, the market size, and scope, the cost of transport and telecommunications, etc. Social/cultural advantages consist of geographical distance between the home and target country, overall approach towards foreigners, language, education level and culture differences, and the general attitude towards free enterprise. Political CSAs take into consideration the overall and particular government policies and country stability which could disturb inward FDI flows, global production, and intrafirm trading. The perfect CSA package for a multinational enterprise (MNE) would take account of the market size, growth and average income, low costs for production, a large endowment of factors scarce in the home country, and an economy that is politically stable, welcomes FDI and is culturally and geographically close to the home country (Procher, 2011).

Internalisation specific advantages. ‘How’ going abroad is an additional issue. The OLI model reveals that exterior arm's length markets are both imperfect or in some circumstances just imaginary. Thus, the MNE could place its internal market and collect some efficiency savings (Li et al., 2013). As an example, firms could go in a foreign country by just exporting its products to foreign markets; nevertheless, uncertainty, research, and customs cost are additional costs that will discourage such trade. Likewise, the firm could give a license to a foreigner for distributing the product but the firm needs to worry about the opportunistic attitude of the licensee (Denk et al., 2012). The OLI model assumes that the hierarchy (the vertically or horizontally integrated firm based on internal markets will discuss it in the next section) is a higher method of organising transactions than the market (trade between unrelated firms) at any time external markets are non-existent or imperfect (Slangen and Beugelsdijk 2010). The theory interprets that internalisation benefits will drive the MNE to prefer entirely owned subsidiaries over smaller ownership or arm's length transactions. For that reason, the I-specific advantages part of the OLI paradigm that describes why MNEs are integrated businesses, producing in diverse countries, and ship goods, services and intangibles between their affiliates by using intrafirm trade. Internalisation amongst the MNE is intended to decrease market failures by substituting missing or imperfect external markets by the hierarchy of the

multinational organisation. Transactions costs are the major reason of natural market failure, the higher the costs, and the smaller the volume of trade. The whole markets are facing with the costs of research, communication, measurement of details, quality monitoring, negotiation, transport and taxation (Henisz et al., 2014). Furthermore, market failure arises due to external markets fail to deal effectively with risk and uncertainty (Ambos and Ambos, 2009). Moreover, when governments levy taxes, tariffs and other forms of trade barriers, these rules create further costs for firms that diminish profits. While the rules normally have a legitimate economic determination (e.g. raising government revenue), from the point of view of firm's these are exogenous factors misrepresenting international markets (Meschi, 2009). Unconnected firm's trade abroad need to pay these taxes. This explains that the choice amongst the market and the hierarchy is not so simple. There are numerous diverse modes of taking part in the international production, starting from simple exporting in one side, through subcontracting, licenses and joint ventures, to the polar extreme of a wholly owned subsidiary or branch (Globerman and Shapiro, 2009). Everyone has its particular benefits and costs to the MNE and these fluctuate depending on the home and host countries, potential partners, the market for the product, government and non-governmental barriers to trade, and so on (Henisz et al., 2014).

According to Zhou and Guillen, (2016) they made a relationship between the three component of the eclectic diagram relevant to all four seeking motive of FDI, their relative importance differs, and some additional cost could appear depending on the situation as shown in Table 3.

Table 3. Relationship between foreign direct investment motives and specific advantages (Zhou and Guillen, 2016, p. 9)

Motive \ OLI	Ownership-specific	Location-specific	Internalisation specific
Market-seeking foreign FDI	More important	Less important	Less important
Efficiency-seeking FDI	Less important	More important	More important
Strategic asset seeking FDI	Less important	More important	More important
Natural resource seeking FDI	Less important	More important	Less important
Corresponding distance	Cultural distance, economic distance, demographic distance	Political distance	Administrative distance, political hazard
Corresponding cost	Product adaptation Cost	Discrimination cost	Governance cost, appropriation cost

Table 4, give a resume for all major theories about ownership, internalisation, and location specific advantages.

Table 4. Major theories about OLI specific advantages

Authors	Topic of study	Finding
Portugal Ferreira et al., (2011)	Ownership specific advantages	So if any MNE looking for being profitable abroad it need obtain unique advantages which are not shared by its competitors. A potential firm need pay a sunk cost to control its productivity, and, when it is measured, dynamic firms categorize themselves to change the modes of production. Low-productivity firms their production target only the local market; medium-productivity firms differ from others and they decide to pay the fixed costs of exportations.
(Henisz et al., 2014).	Internalisation specific advantages	Internalisation amongst the MNE is intended to decrease market failures by substituting missing or imperfect external markets by the hierarchy of the multinational organization. Transactions costs are the major reason of natural market failure, the higher the costs, and the smaller the volume of trade. The whole markets are facing with the costs of research, communication, measurement of details, quality monitoring, negotiation, transport and taxation.
Zhou and Guillén, (2015)	Location Specific advantages	Location advantages of several countries are the main key for determination of the host countries for the MNE. Undoubtedly the comparative attractiveness of diverse locations may change over the time which pushes the host country to multiply their economic, social and political factors for competitive advantage as a location for FDI.

2.4.2. Types of foreign direct investment

Theoretically, FDI in its classic definition is termed as a company of one nation putting up a physical investment into building a facility in another country. There are various vehicles through which FDI can be acquired and there are three main types of FDI strategy which are. 1. Horizontal; 2. Vertical; 3. Greenfield investment.

1. **Horizontal FDI.** It is also known as the market seeking the type of FDI. This type of investment is considered by multinationals which produce the similar good or services in multiple locations in diverse countries. The leading force of this type of investment is the major fact of cutting transportation cost at the same time with having the ability in each location to serve the local market in the host country. Additionally,

the further benefit is quicker delivery. Generally, if a firm has a high cost for trading, it could make profits by founding a new plant in the host country. Nevertheless, two vital components for setting up a new plant are positive trade costs and firm-level scale economies (Collie 2011). The cost of creating a plant in an external market rely on the production costs that is founded by both technology and factor prices. A criterion is consequently that the benefits outweigh the costs for multinationals to conduct FDI. Neary (2009) claims that a firm with two plants has a lower fixed cost than double the ones of single plant firms. Which it means that there are reasons for firms to create multi-plant productions. This type of FDI is frequently common in industrial countries where the firms have the intention to have the ability to serve the local market.

2. **Vertical FDI.** It is considered by multinationals that move upstream and downstream in the value chain. That is, the firm divides its production activity in diverse stages and in several geographic areas to be able to exploit variances in factors costs. This type of FDI is encouraged by MNE's which having diverse input requirements for different part of the production. For example by conducting labour intensive production in countries with lower labour costs and locate their headquarters in countries that estimate skilled labour that is low-priced. Additional, a theoretical model of the vertical FDI developed by Helpman (2004) suggest that the location of the diverse stages in production is established on differences in factor endowments and factors prices through countries. Meanwhile the reason for MNE's is to diminish their total cost by dividing their activity into two different components: high skilled labour intensive headquarter activities and low skilled labour-intensive production activities, this type of investment is popular in African countries that hold worthy resources, but they have shortage the educated labour force. Similar to horizontal FDI the motivation for vertical FDI is, therefore, a trade-off between costs and benefits. The benefits raised from lower productions costs in a foreign location. The criterion is that the costs of fragmentation such as transportation and the costs of acting in a new country are lower than the cost of savings (Iwamoto & Nabeshima, 2012).

3. **Greenfield, merger & acquisition (M&A) investment.** Greenfield is a type of FDI where a headquarter company constructs its activity in a foreign country from the bases. Moreover, it allows the building of new production facilities, these projects could as well consist of the construction of new distribution network, offices and living residence (Investopedia, 2017). According to Maverick (2015), the major benefits of greenfield investments originate from the great facilities of direct controlling the production or services manufacturing or sales of the enterprise. This consist of controlling the product quality, duration and speed of production, and controlling the proportion at which the enterprise enlarges its existence in the country.

Bertrand et al. (2012) argue that governments have a tendency to be concerned about foreign acquisitions of high-quality domestic firms. The policy-makers seems to have big preferences toward greenfield FDI because it generates new capital assets and additional production bulk, while cross-border M&As only include a change from local to foreign ownership of existing assets and production capacity. Likewise, theoretical ambiguity wins out with concern to the distribution of FDI-related managerial and technological knowledge. Agreed that the best effective firms generally seem to choose entry through greenfield FDI, the prospective for knowledge diffusion seems to be actual huge for this mode of FDI (Balsvik and Haller, 2011). The limited empirical panel studies speaking about the economic development effects of diverse types of FDI are not able to resolve these theoretical ambiguities. Harms and Méon (2011) discover that greenfield FDI has a considerably positive influence on economic growth for the developing host countries, while M&As have no important influence. In contrast to Harms and Méon, the sample of Wang and Wong (2009) covers developed host countries. This may explain why Wang and Wong find that M&As can be beneficial for host countries endowed with sufficient human capital.

M&A is a common term that refers to the unification of companies or assets. However there are a number of types of transactions classified under the notion of M&A, “a merger means an amalgamation of two different companies to form one new company, whereas an acquisition is the purchase of one company by another in which no new company is formed.” (Investopedia website, 2017). Moreover, the term M&A mentioned have a link to the department of financial institutions which dealing with mergers and acquisitions. Between the first to popularise this idea, Brennan, (2009) argue that in internalisation of strategic assets through FDI ‘acquisition offers a fast path’ for MNEs. Kedia et al. (2012), in a review article that theoretically explores MNEs the entry type choice and location, argue that: “MNEs are often latecomers to the industry in which they compete, forcing them into accelerated internationalization with the explicit goal of gaining access to assets, resources, or capabilities not found in their home market” (p. 158). In addition to this, he claimed that “MNEs will try to overcome their latecomer disadvantage through aggressive, proactive and risk-taking acquisitions” (p. 159).

Nevertheless, mergers led by synergies could be estimated to increase welfare in the world, provided the synergies are recognised in practice. In contract, mergers led by strategic attentions could be estimated to diminish welfare since they rise concentration. Neary (2007) illustrates that these intuitions are imperfect for two causes. First, in the lack of synergies, the particular mergers which will happen in parallel are those in which the acquirer could have enough money to buy out the target firm. This suggests that the target firm must be significantly smaller, and so abolishing it is expected to improve global competence. Second, in general balance, the extension of more effective acquiring firms and the abolition of less effective target

firms sets a descending pressure on incomes, so boosting amplified output and decrease prices in whole sectors. Therefore mergers are expected to increase whole welfare, while income distribution changes in the context of profits at the expenditure of wages. Neary model also creates the positive expectation that mergers are following the identical direction as the trade then it is supported rather than the horizontal model of greenfield FDI which is dejected by decreases in trade costs.

2.5. Determinants of foreign direct investment

An overabundance of studies (like Adams, et al., 2014; Ezeoha & Cattaneo, 2011) was conducting research about the previous circumstances of foreign investment. Backgrounds of FDI can be mostly characterised as “pull” which refer to host country or “push” to home country factors. Pull factors attract MNEs by the institutional context of the host country, while push factors encourage MNEs for outward investment in foreign markets and this is generated by the institutional-level of the home country. In order to shift their manufacturing to a low-cost production base or to grab the domestic market of the host country, an MNE will prefer a foreign destination. These determinants of an MNE for FDI are boosted by the quality of the physical infrastructure (roads, railways, airports, and communication infrastructure) as well as the quality of the human resources of the host country. In addition to this, traditional factors like labour costs, the growth potential of the macroeconomic, politics, exchange rates, currency worthiness and Market size, as well as domestic returns, privatisation, and trade openness also matter in attracting FDI. The potential and importance of these factors are mostly affecting FDI inflow. The proposed factors are: 1. Infrastructure; 2. Labour cost & human resources; 3. Macroeconomic and political; 4. Exchange rates and currency worthiness; 5. Market size; 6. Privatisation; 7. Trade openness. Could be explained and discussed as follow.

1. Infrastructure. To increase the productivity perspective and ensure greater profitability in the long path one of the main factors is well-developed infrastructure facilities. Therefore, the FDI inflow is attracted by the good quality of infrastructure facilities. Related infrastructural facilities contain an easy way of communication and transport networks, in addition to transferal facilities for electricity, gas, and water (Mollick et al., 2006). The further literature claims that enhanced transportation facilities which referred to road & highway, railway, and airport networks entice FDI (Leibrecht & Riedl, 2010). Improved transportation facilities lead to diminishing the freight costs inside the country, also it contributes to decrease the importation and exportation costs. Ease of communication in terms of telecommunications and internet penetration also influences FDI inflow. Previous studies in developing countries especially African countries conclude that the host country’s telecommunications infrastructure represent a major factor in the investment decisions of MNEs (Leibrecht & Riedl, 2010).

Generally, quality of infrastructure is assessed and measured by the investment in energy projects (Inv_Energy) with private investment participation targeting infrastructure projects in energy (electricity and natural gas transmission and distribution) that have attained financial saturation and serve the public directly or indirectly way. There are three variables that measure transportation efficiency, namely, air transport (Air_Freight), railway transport (Rail_Freight), and the road network (Roads_Paved). Air_Freight is the volume of freight, express, and diplomatic bags held by flights calculated in metric, tonnes, times, kilometres travelled. Likewise, the volume of goods transported by railway are defined as Rail_Freight, they are measured in metric, tonnes, times, and kilometres travelled. Roads_Paved are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete, or with cobblestones, as a percentage of all the country's roads, measured in length. (Manpreet et al., 2016).

2. Labour cost & human resources. Primary theories on international human resource management (HRM) advocated that when MNCs going to foreign markets they prearranged methodologies to people management, generally expected to be about a specific best practices model. Nevertheless, there has been an increasing acknowledgement that national variances in HRM remain frequently different, and MNCs in several cases, need to adapt to local situation (Brewster & Mayrhofer, 2012). The main factor that appear contain not just the transmissions of home country HR models, however, as well the degree to which such firms adapt in moving into a location with different or sometimes stronger regulation of labour in their country of origin (Khavul et al., 2010; Zhu et al., 2008). By comparing FDI into African countries from emerging markets with mature ones. Correspondingly it is argued that FDI is more expected to be motivated by an educated workforce, reducing the cost of labours training and decrease risk for developing the firms (Dibben, et al., 2011). Once more, a country that supports investment in human resources may help firms to shift from low-cost to upper value-added production paradigms (Dibben et al., 2011). The increase of MNCs from emerging markets has created an extra dimension to this debate (Zhu et al., 2008). It has been claimed that MNCs might be less interested in factors of regulation abroad, labour costs, variations in labour skills, than the high concerned for the acquisition of strategic assets, more precisely mineral or agricultural resources. This contradiction would conclude that HR issues might be immaterial to FDI selections, or that the profits in terms of gain access to resources may not support any costs of adjusting labour and human resources to fit new locales. From one side, it has been claimed that extremely high labour's wages rates might create competitiveness among countries (Parrinello, 2008). From the other side, small average labour wages explain that local consumer markets keep on immature, resulting in incessant crises of domestic demand. Therefore, MNCs could be discouraged from investing in countries, not because of the high wages, but because low labour wages are making local demand weak. Definitely, it is suggested that, given greater

access to relatively low labour cost at home, emerging market MNCs are preferring to base their investment decisions on market size, compared to mature-market MNCs which they are more mindful about wage costs. Moreover, as Asiedu (2009) notes, there has been comparatively tiny work on the determinants of FDI flows to Africa. Furthermore, Brambila and Massa (2010) claim an important increase in FDI to Africa. This upsurge reveals not just higher demand for raw material by fast-growing emerging markets, but as well strong regulation established on stronger property rights. Equally, Kinda (2010) claims that the shortage of workers with elementary skills may be a specifically a severe handicap for firms who want to enter foreign markets.

3. Macroeconomic and political. The macroeconomic variable is assessing as accounting a variance FDI inflows during the time for GDP growth. Coan and Kugler (2008) claimed that economic growth is a factor consistently involved in empirical studies of FDI. The upcoming perspective of a country's economy has direct effects not only over the level of capital accessibility at any given point in time, but as well on variations in the economic motivator structure of the population, on the mode of FDI existing, and on the whole investment opportunities. More precisely, variations in growth could both entice new FDI and change the dynamics of previous FDI, as the motivator structures of the population differed relatively to the income changing levels. The leads for development not just result in increased customer basis, but significantly moves within industries in host countries, which may in time incentive future FDI.

Among the macroeconomic theories that speak to the positive effect of a region or country's openness on FDI. Liargovas and Skandalis (2012) examining Dunning theories claims that rent-seeking motives conduct foreign firms pursuing cheaper factors of productions like primary goods. Market seeking FDI motive conduct foreign firms exporting or trading in the host countries markets to rise sales. And also this helps businesses to avoid trade boundaries such transport costs and taxation. The efficiency-seeking firms want to use different small countries to serve bigger markets. The motive of this technique is location, government restrictions, and endowments. Lastly, the strategic asset motive is related to keeping foreign firms' international position and competitiveness.

It is commonly said that governments that are operational or proficient, nevertheless of how this is defined, are more attractive as locations for FDI and for economic growth in overall. While a diversity of measures have been unconventional to measure political achievements, there has been a shortage of agreement on the best method to structure it or what it is eventually the needy variable to be measured. To place government performance at the door of being a function of regime type, economic power, military capabilities, or population is to simply rename these variables (Kugler and Tammen, 2012). Consequently, a factor of government performance is valuable in providing an investor with a numerical means of

measuring the efficiency and stability of government policies. To measuring government performance. The World Bank has made a concept of capacity in good governance terms. The Worldwide Governance Indicators (WGI) project reports collective and governance signs for 213 economies, for six measurements of governance: Voice and accountability; political stability and absence of violence; government effectiveness; regulatory quality; rule of law; and, control of corruption. The aggregate indicators conglomerate the opinions of a big number of firms, naturalised citizen and expert investigate in industrial and developing countries. The unique data sources highlight the aggregate indicators are concluded from a different range of survey organisations such as international, non-governmental and research organisations (Kaufmann et al., 2011). To that end, the government effectiveness indicator is defined as capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the trustworthiness of the government's promise to such policies (Kaufmann et al., 2011).

4. Exchange rates and currency worthiness. Several studies have been conducted, which are helping to identify the determinants of FDI. Nevertheless, there is no agreement for accepting any regulations of illustrative variables that can be considered as the correct determinants of FDI (Hsu et al, 2011). The connection between FDI inflows and exchange rate variations are founded on the currency field of FDI theory which is directed in two different way. A financial vision of FDI is dependent on a certain form of information asymmetry or defectiveness in international financial markets where the most important financial variables are exchange rate which affects the relative advantage of an MNE in the relationship with a local firm (Choi and Jeon, 2007). A company is anticipated to maximise its profits prearranged an exchange rate for a prospective host country with respect to the FDI source country. Within this structure, depreciation of the host country currency is expected to entice FDI inflows mostly for the following two reasons. First of all, MNE has an advantage over a domestic firm because they are able to get hold financial fund in international capital markets in a currency stronger than the domestic country has for lower cost of interest due to its reputation. Hence, they can take greater beneficial project because they can obtain higher value from the same project than the local firms due to lower cost of capital. In accordance with this, countries with feeble currencies are expected to be receivers of FDI whereas countries with robust currencies are expected to be sources of FDI. Second reason, the currency depreciation decreases the costs for production in the host country, thus becoming attractive for FDI seeking production efficiency and revenues (Osinubi and Amaghionyeodiwe, 2009). This explains that FDI can be an instrument for foreign exchange risk hedging supported by the hypothesis that MNE could be more efficient in hedging the risk.

5. Market size. Asiedu (2009) well identifies the market size profit of regionalism. His study proposes that there are three reasons of FDI improvement by regionalization of economic cooperation. First, regionalism can support political stability by controlling membership just to elect a democratic government. Second, management of policies between member countries which detects reduction corruption, realising sound, constant macroeconomic policies and friendly framework for investors. Third, it enlarges the size of the market, which makes FDI more attractive in regions. In addition, Asiedu carries out the importance of regionalism in those countries which their size are small with limited income. Small countries are also able to attract FDI in enhanced way as they make an alliance in order to reach large market size. However, regionalism offers the opportunity to boost FDI, but policy coordination between nations who have membership group is the major problem to be addressed. The huge market size which has regional distribution might also need regionalized FDI determinants. Zhang (2008) describes that regional distribution factors affecting FDI have motivators, historical and cultural relationships with foreign investor sideways with other location factors. Mlambo (2006) stresses on the significance of regional infrastructure projects which help the aims of regional collaboration, integration and improve FDI. In addition, he identifies regional power pool market which guarantees adequate accessibility of trustworthy and lower cost energy supplies, transportation, communications and other essential elements. Market size could not be a manipulating factor in countries targeting FDI in export industries.

Coleman & Tetty (2008) argue that the size of the market is not playing a dynamic role in the affecting FDI inflows, perhaps that majority of the investors invest in sectors which have orientations to export. The examination of the exchange rate as one of the major factor for FDI inflows and reports that the real exchange rate volatility sends a negative impact on FDI inflows.

6. Privatisation. In a study by Boubakri et al. (2011), it has been proposed that privatisation could generate an opportunity to enhance the investment climate. Also in a recent study by Filipovic (2015), it has been argued that the successfulness of privatisation mostly depends on legal and regulatory restructuring, specifically the incentives policy. There are limited studies on the connection amongst FDI and privatisation. For example, the inspection of privatisation and FDI relationship in developing countries. Suggest that privatisation not just directly raises FDI inflows into developing countries, but also has an external effect which is attracting extra investments. In addition to that, the privatisation has a good effect on inward FDI, even in the period of economic recessions. Moreover, privatisation is a motive to become more effective, more money-making for firms and raise their capital investment expenditure, and become for both transition and non-transition economies. Other investigations reveal that the potential investors comprehend privatisation as a signal of a country's positive attitude for private enterprise and a country's expected

economic development. Therefore, a country could keep attracting important FDI even if the most sectors are privatised, because the lack of a large government sector considered positive factor for transnational corporations to select the countries. Merleved and Schoors (2009) divided privatisation into two complex processes: non-direct privatisation and direct privatisation. The direct privatisation strategies have a good impact on the balance level of FDI. By analysing data from the 500 largest manufacturing companies. Roberts et al. (2008) conclude that FDI by privatisation attracted greenfield FDI, with low costs and direct entrance to current distribution channels. Mukherjee and Suetrong (2009) discovered cause and effect between privatisation and FDI inflows. Depending on their results, privatisation raises the motive for FDI. Reece and Sam (2012) examined the cause and effect of pension privatisation on FDI flow via a data of 17 countries. Their economic forecast results show that privatisation prompts a considerable increase in the net FDI inflow.

Trade openness. Is a measurement of the economic policies that both limit or invite trade among countries. For example, if a country puts a policy of high trade taxation, so restricting the attraction of international trade, this restrictive policy will prevent other countries from sending exports and accepting imports from that country. Karras (2013) conduct studies about the effects of trade openness on economic growth via two sheet data groups: one involved 56 countries and another involved 105 countries. The results show a positive influence of trade openness on economic growth, statistics was significant and the effect was strong across the two data groups. Vohra (2010) investigating the role of export–growth linkage in different countries. The results show that exports have a positive and great impact on economic growth of the countries and has realised a various level of economic development. The results also propose the significance of liberal market policies, like export expansion strategies and enticing more FDI. Jayachandran and Seilan (2010) has tested the connection among trade openness, FDI and economic growth using co-integration and Granger causality techniques. The co-integration examination proposes that there is a long-run balance connection. The Granger causality test demonstrates that there is a causal relationship among the inspected variables. Jayachandran and Seilan (2010) conclude that economic growth, trade openness and FDI seem to be reciprocally strengthening on behalf of the open-door policy. Omisakin et al. (2009) study the indication of both causal and the long-run interrelationship between FDI, trade openness and economic growth using the Toda–Yamamoto non-causality test. The results show all of them are moving and operating in a single direction of causality, going from FDI to productivity and from trade openness to productivity. Table 5, resume the major studies conducted on the determinant of FDI.

Table 5. Relevant studies conducted on the determinant of foreign direct investment

Author	Topic of Study	Findings
Omisakin et al. (2009)	Interrelationship between FDI, trade openness and economic growth using causality test.	The results show all of them are moving and operating in a single direction of causality, going from FDI to productivity and from trade openness to productivity.
Asiedu (2009)	Regionalism of market size as determinant for FDI.	Regionalism can support political stability helps to management of policies between member countries put friendly framework for investors. Also it enlarges the size of the market, which makes FDI more attractive in regions.
Osinubi and Amaghionyeo diwe, (2009)	Depreciation of the host country currency influence on FDI.	The currency depreciation decreases the costs for production in the host country, thus becoming attractive for FDI seeking production efficiency and revenues.
Leibrecht & Riedl, (2010)	The role of infrastructure to determinate FDI inflow.	Improved transportation facilities lead to diminishing the freight costs inside the country, also it contributes to decrease the importation and exportation costs. Ease of communication in terms of telecommunications and internet penetration also influences FDI inflow.
Dibben, et al., (2011)	Relationship between labours skills and FDI.	FDI is more expected to be motivated by an educated workforce, reducing the cost of labours training and decrease risk for developing the firms. Once more, a country that supports investment in human resources may help firms to shift from low-cost to upper value-added production paradigms.
Kugler and Tammen (2012)	Political achievements determinant for FDI.	Factor of government performance is valuable in providing an investor with a numerical means of measuring the efficiency and stability of government policies.
Brewster & Mayrhofer, (2012).	FDI in relation to Human resource.	When MNCs going to foreign markets they prearranged methodologies to human resource management, generally expected to be about a specific best practices model. The acknowledgment that national variances in HRM remain different, and MNCs need to adapt to local situation.
Karras (2013)	Effects of trade openness on economic growth.	Analysed two sheet data, one involved 56 countries and another involved 105 countries. The results show a positive influence of trade openness on economic growth, statistics was significant and the effect was strong across the two data groups.
Filipovic (2015)	Impact of privatization on attractiveness of FDI.	The successfulness of privatization mostly depends on legal and regulatory restructurings, specifically the incentives policy.

2.6. The impact of foreign direct investment on the host country economic growth

Some studies reveal that FDI should increase economic growth in the host economy and also it is more effective in enhancing economic growth than domestic investment (Alfaro et al., 2010). There are five ways in which the FDI are giving positive impact on economic growth in the host economy, and this development depend on policies of the host country and the basic level of development (OECD, 2002): FDI facilitates the transfer of technological advances; it increases human capital and improves labour market and capital market; it integrates the economy towards the world economy, and it pushes for more positive development of firms.

It is suggested that the position of the host economy need to have an “absorptive competency”, the spillovers that the FDI brings could be absorbed by the usage of more developed technologies carried over by FDI, investment projects require an adequate level of human capital to be able to use technologies, and one of the important parts of this factor is education. For that reason, if there is not a sufficient amount of human capital put in place with the capability to absorb the spillover, FDI will not have a positive impact in promoting economic growth. The education quality has an important role also (Wang & Wong, 2011). FDI increase the productivity of all companies and not just the receiving foreign capital. The technological development is considered as a major key for the growth to rise productive capacity and the general enhancement of the life quality of the population. Moreover, to this factor, there is correspondingly the extended job opportunities increasing with the FDI, consequently crowding in the market. Foreign companies are sufficient to transfer technology and influence on the domestic market which helps to boost the total productivity of the country as a whole. In a different situation, it may also lead to higher tax payment to the government by the foreign companies.

Moreover, the form in which the FDI is done is very important. The capital stock of the host country’s gave a different rate progress and develop when the FDI is in the form of M&A compared to when a greenfield investment. For example, when the foreign MNCs looking for constructing new facilities related to the FDI rather than buying existing ones (Harms & Méon, 2012). If the provided capital stock is invested in the production of goods and services the expectation for economic growth will be lower in the situation of an M&A FDI activity compared to a greenfield FDI activity. Wang and Wong (2009) figure out similar variances in the impact of FDI on economic growth relying on the comparison between greenfield investment and M&A activity. The greenfield has a great impact on economic growth while the M&A will have benefits if there was adequate human capital in the host country prior to the FDI inflow.

2.6.1. Impact of foreign direct investment on technological transfer

One of the most important spreaders of technology diffusion across borders is FDI where the FDI inflows include the understanding of new materials and production technologies or management skills of organisations. According to Bodman and Le (2013) who investigated the impact of technology which is embodied in FDI on the total factor productivity of FDI in host countries, shedding an investigation on where the sources of R&D spillovers have a connection and putting a direct question of whether more FDI conducts to a well-trained labour force. Their discoveries were that countries that have fold one's arms a more open international investment regime had generally grown considerably faster than others who had not. It is mentioned that the fact of FDI transmits technological knowledge, it helps to contribute to a capital stock, also to trade and financial inflows, which provides a significant driver of economic growth. It was also established that apart from human capital being, required for the direct overall development of the technological level itself, it is also important for the aptitude to learn from foreign technological sources.

In addition, the globalisation process, as countries turn out to be more open to international technological diffusion, FDI, and international trade, overall productivity growth might also be determined by R&D activities of other countries (Bodman and Le, 2013). Researchers have assumed that there are effects of R&D capital formation and international technological spillovers on a country's production structure and productivity. Moreover, it is claimed that domestic R&D spending is important for productivity growth and there exists a network over which R&D capital formation in one country affects the productivity in another (Le, 2008). FDI is an operative conductor for technology transfer over technology spillovers to locally owned companies in the host country.

Le and Pomfret (2011), in a study, figure out that domestic firms are gaining technology spillovers through vertical connections with foreign firms, however, the effect of the horizontal occurrence of foreign companies on the productivity of domestic companies was negative. They claimed that it proposed that potential technology transfer amongst foreign firms and local competitors is more than counterbalanced by the competition prompted by the entry of foreign firms and the existence. Also, the strength of horizontal and vertical spillovers hang on industry and firm features and on the types of FDI.

2.6.2. Impact of foreign direct investment on human capital and labour market

There is a remarkable quantity of consensus in the empirical literature in relationships of the direct effects of FDI on labour markets. Mostly in the worldwide, discovered points to FDI conducting to higher salaries, more productivity, and enlarged the wage inequality, generally because of the increase in the skill premium, which makes the variance in wages between skilled and unskilled labours. Moreover, for developing countries, the analysis have a tendency to find a positive effect of FDI on employment, while for well-developed economies they have mixed effect on employment.

Moran (2006) suggested that in the case of labour market spillovers, there is also little of consensus. Indication shows steadily augmented wages and productivity in domestic firms because of FDI in the similar industry. The spillover effect of FDI on other industries' labour markets is yet to be fully researched. The outcomes of the analysed literature are approximately consistent with the notion that FDI enlarges the whole production of the economy to more modern goods or bring together a more advanced technology, thus raising the demand for skilled labour. This conduct to higher total labour demand, higher salaries for skilled labour, leading to a greater skill premium and amplified average salaries, and advanced labour productivity. These effects are particularly huge in countries where skilled labour is rare and the technological gap is significant.

Different tools and instruments are used in the literature analysing labour market effects of FDI in relation to other determinants of FDI. Sune et al. (2009) found instrument for FDI with foreign R&D expenditures, which could be represented by regional-level import strength, the share of patent applications, and the share of science and technology subsidy offered by the government and foreign partners. Lin et al. (2013) conduct the research on trade openness with using geographic variables like the regional market size, population, distance to the equator (latitude), and government FDI policy to an instrument for FDI. He points out that a major motivation of foreign investment is to avoid high labour cost at home; thus, they use the average wage rate of the home country as an instrument for FDI. Finally, Figini and Gorg (2011) use lagged values of FDI as instruments.

2.6.3. Impact of foreign direct investment on capital market

Soumaré and Tchana (2011) found a relationship between stock market development and FDI in developing countries. One of the justifications for this connection comprises the spillover effects on domestic stock markets carried by FDI, as the inflows of FDI raise the possibility that the branches of multinational companies integrated into direct investments will be registered on a domestic stock market. Other explanations involve the hypothesis that the existence of FDI inflows motivates policy makers to implement friendly regulations in the market, like investor security and trading quality regulations, which boost the development of stock markets. Causality in the multi-direction is explainable by a high developed stock market facilitating to entice foreign investors, a sign of strength, an encouraging climate for investment and the openness of the country to foreign investments. This is particularly true for emerging markets, whose stock markets are well developed comparing to those in other developing countries (Soumaré and Tchana, 2011).

The validity of relationships between stock markets and FDI was also established by Batten and Vo (2009) who reach the conclusion that FDI had a higher positive impact on economic growth in countries with greater levels of stock market development. Capital markets are representing an essential role in determining the directions of cross-border M&A, which represent an essential part of FDI. Chousa, Tamazian and Vadlamannati (2008) found a solid positive connection between the development and quality of capital markets and M&A inflows in developing economies. Empirical evidence revealed that higher effectiveness of domestic capital markets motivate foreign investors and entices international M&A.

Baker et al. (2009) examine ways in which FDI flows have linkage on the stock market directions in host and source countries. They conclude that FDI is much high positively associated with movements on the source country's stock markets, however not high negatively linked with the movements on the host country's stock markets. They highlight that this inconsistency has two natural justifications. One is that "multinationals might have more information about their own cost of capital than about the cost of capital or misvaluations in foreign capital markets" (p. 114). The second is that "an inconsistency limit on arbitrage, like a short-sale constraint, might raise the scope for FDI as a means to exploit overvaluation relative to undervaluation" (Baker et al., 2009, p. 114).

2.6.4. Impact of foreign direct investment on balance of payment

Lipsey & Chrystal, (2007) describe the balance of payments (BOP) of a country as a systematically recording of wholly economic transactions between the residents of the host country and residents of external countries during a given period of time. In order to be able of recognising the activities undertakings in the international payments, the country's preserve record of the financial transactions between the host and foreign country. The record of these transactions is registered in the BOP account. Additionally, the BOP is separated into two most important parts, named as the current account (CA) and the capital account (KA).

FDI inflows are stated under the KA of BOP. The initial effect of FDI inflow on BOP is constantly positive. Moreover, the FDI inflows affect the BOP statement incidentally through the CA of BOP because FDI inflows have a major impact on the size of trade (import and export) of a country. As a result, the FDI inflow has an essential role to regulate the BOP account of a country (Lipsey & Chrystal, 2007). However, in the last decade, due to developing empirical evidence which advocates that FDI might have a more positive impact on the BOP of the foreign country than on that of the host country.

Nevertheless, capital inflows which consist of FDI inflow are a worthy source of improving the BOP situation (Nag & Mukherjee, 2012). BOP is a draws the attention of emerging economies throughout the history of their development (Kulkarni & Kamaiah, 2015). FDI separately from market efficiency involvement help to finance the deficit of BOP and protect the foreign currency reserves (Ahmad, Yang & Draz, 2015).

Reaching macroeconomic stability through BOP is the prerequisite for enhancing external sector policies which have an impact on trade, exchange rate and the supervision of reserves. The policies to be implemented with respect to KA of BOP must contain the understanding on the problems such as features of FDI inflows, cost consideration, and modalities of monetary and fiscal policies in the interests of macroeconomic stability. The model of KA of BOP developed by Ranjan and Nanchane (2004) concentrated on two interactive paths through which the KA of BOP impacts the remainder of the economy. Nonetheless, it is suggested that KA would enhance the domestic savings to increase gross investment in the economy which would also have an impact on productivity growth. Table 6, resume the major important studies carried out for inspecting the impact of FDI on the host country.

Table 6. Important studies carried about the impact of foreign direct investment

Author	Topic of study	Finding
Moran (2006)	Impact of FDI on labour market.	FDI enlarges the whole production of the economy to more modern goods or bring together a more advanced technology, thus raising the demand for skilled labour.
Lipsey & Chrystal, (2007)	The effect of FDI inflow on BOP (trading benefit).	FDI inflows have a major impact on the size of trade (import and export) of a country. As a result, the FDI inflow has an essential role to regulate the BOP account of a country through The current account (CA).
Vo (2009)	Effect of FDI on the stock market.	Capital markets are representing an essential role in determining the directions of cross-border mergers and acquisitions (M&A), which represent an essential part of FDI.
Alfaro et al., 2010	Impact of FDI on economic growth.	FDI should increase economic growth in the host economy and also it is more effective in enhancing economic growth than domestic investment. Development depend on policies of the host country and the basic level of development.
Soumaré and Tchana (2011)	Impact of FDI on the stock market development.	FDI inflow raise the possibility that the branches of multinational companies integrated into direct investments will be registered on a domestic stock market.
Le and Pomfret (2011)	The transmission of technology through FDI.	The domestic firms are gaining technology transfer through vertical connections with foreign firms, however, the effect of the horizontal occurrence of foreign companies on the productivity of domestic companies was negative.
(Wang & Wong 2011)	The importance of human capital in promoting economic growth.	If there is not a sufficient amount of human capital put in place with the capability to absorb the spillover, FDI will not have a positive impact in promoting economic growth. The education quality has an important role also.
Bodman and Le, 2013	The importance of research & development to transfer technology.	Domestic research & development spending is important for productivity growth and there exists a network over which R&D capital formation in one country affects the productivity in another.
Lin et al. (2013)	Regional market size, population, distance to the equator (latitude), and government FDI policy as instrument for FDI.	The major motivation of foreign investment is to avoid high labour cost at home; thus, they use the average wage rate of the home country as an instrument for FDI.

3. RESEARCH AND METHODOLOGY OF THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMIC DEVELOPMENT

A methodological research approach is a framework that bonds research together to the research questions in order to be analysed effectively. This section highlights the methodology used to gather data which help to explore the research question that is the hub of this thesis, the aim is to provide more accuracy to the core of this study. This chapter includes: 1. Research methods; 2. Data collection methods and source; 3. Model used for the calculations.

1. Research methods. The methodology is enabling to investigate the impact of FDI on economic development in Morocco, and this will be analysed through a quantitative and econometric model which will involve the generation of data in quantitative form which will then be subjected to stringent quantitative analysis in a format of tables, graphs and charts which are used to present the results. The equations proposed is mainly developed based on the literature analysis and the estimations drawn based on regression analysis of the different factors influencing on the FDI which mainly the GDP will be considered as a dependent variable for the analysis in addition to the Human capital development which will be also included in the formulation of the equation model. The empirical exploration of econometric characteristics of the impact of FDI on economic development in Morocco is focusing on the period of 2006 to 2015.

The research method used in this study is the ordinary least square (OLS) regression, it is designed for the calculation of the multiple regression which is an amplification of simple linear regression. Generally, this method is employed for predicting the value of one variable based on the value of two or more different variables. The dependent variable refers to the variable that it is wondering to predict. The independent variables refer to the other variable used to predict the dependent variable. The OLS advantages are to minimise the squared error between the data trying to approximate and some functions or class of functions that trying to approximate the data with, and also it is widely used because its property of Best Linear Unbiased Estimate (BLUE) which easy to understand (Damodar and Dawn, 2009).

SPSS and Microsoft Excel are used for the calculation and the analysis. Those programs do the statistical test of the variables chosen for the estimation based on the standard error, F-test, T-test, R and R². The economic function gives an assessment of whether the coefficients of the variables match our expectation and confirm the validity of the theory, in addition, to gauge the significance of the regression analysis.

2. The data collection. The chosen component for the analysis will be based on the econometric criteria to assess FDI, the sources data used in this evaluation are mainly from the annual report of Bank of Morocco Statistical bulletins of the Ministry of Finances of Morocco and annual statistics provided by

World Bank. The sources used in this analysis are officially trusted and widely consulted for collecting data, also they are providing the world standards data. The annual data series are from 2006 to 2015. The study is based on multiple regression analysis to find out empirical results for the impact of FDI on the economic development of Morocco.

3. The model used for the calculation. Regression analysis is a technique which is mathematical predictive modelling that inspects the correlation between a dependent and independent variable. This method is employed for forecasting, time series modelling and assessing the causal effect relationship between the variables. In this study, GDP is the dependent variable whereas FDI, inflation, foreign debt, exchange rate and labour force are the independent variables. All above mentioned independent variables could give a positive sign for the economic development of the country, however, inflation and exchange rate could give negative relationship if the dominating FDI is targeting a specific sector rather than overall sectors in Morocco as known in general empirical theories prediction.

The economic development is mostly referred to the real GDP changes between the current year and the previous one, the descriptive variable for economic development such as FDI, inflation, debt, exchange rate and labour force could indicate a significant relationship to GDP in a positive or negative way. In addition to the strength impact of multiple independent variables (FDI, DBT, ER, LF) on a dependent variable (GDP).

The multiple regression model is written in this form (Damodar and Dawn, 2009, p. 147-187):

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon, \quad (1)$$

- where: Y – dependent variable;
- X – independent variable;
- β_0 and β_1 – parameters;
- β_0 – intercept (constant);
- β_1 – slope (coefficient of X);
- ε – random error.

The multiple regression model developed to compare FDI to economic development will be written in the following form (Damodar and Dawn, 2009, p. 147-187):

$$\text{GDP} = f(\text{FDI}). \quad (2)$$

FDI incorporated as one of the factor inputs. The functional relationship between the variables and proxies can be expressed as (Damodar and Dawn, 2009, p. 147-187):

$$\text{GDP} = f(\text{FDI}, \text{LF}, \text{ER}, \text{DBT}, \text{INF}), \quad (3)$$

where:

LF – labour force;

ER – exchange rate;

DBT – debt service;

INF – inflation.

Based on (1), (2) and (3) formulas the model employed includes the following:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon, \quad (4)$$

where: Y – gross domestic product;

X₁ – foreign direct investment;

X₂ – labour force;

X₃ – exchange rate;

X₄ – debt service;

X₅ – inflation;

ε – stochastic error term;

β₁, β₂, β₃, β₄, β₅ – slope of the regression equation.

That is:

$$\text{GDP} = \beta_0 + \beta_1 \text{FDI} + \beta_2 \text{LF} + \beta_3 \text{ER} + \beta_4 \text{DBT} + \beta_5 \text{INF} + \varepsilon. \quad (5)$$

As explained before the GDP is representing the economic development which is the independent variable, the functional relationship are foreign direct investment (FDI), inflation (INF), debt service (DBT), exchange rate (ER), labour force (LF)

4. THE EVALUATION OF THE FOREIGN DIRECT INVESTMENT IMPACT ON THE MOROCCAN ECONOMY DEVELOPMENT

4.1. The foreign direct investment inflow trends in Middle East & North Africa and Sub-Saharan countries

The aim of this analysis is to gauge the FDI inflow in the two different cluster of Africa which is separated to North African countries which are composed of Morocco, Algeria, Tunisia, Libya, Egypt, and Sudan. The Sub-Saharan countries are referred to the 48 countries left excluding the above countries mentioned before. The Middle East is a transcontinental region centred on Western Asia and east of Egypt.

The Figure 6 shows the changes of FDI inflow in the North-African countries.

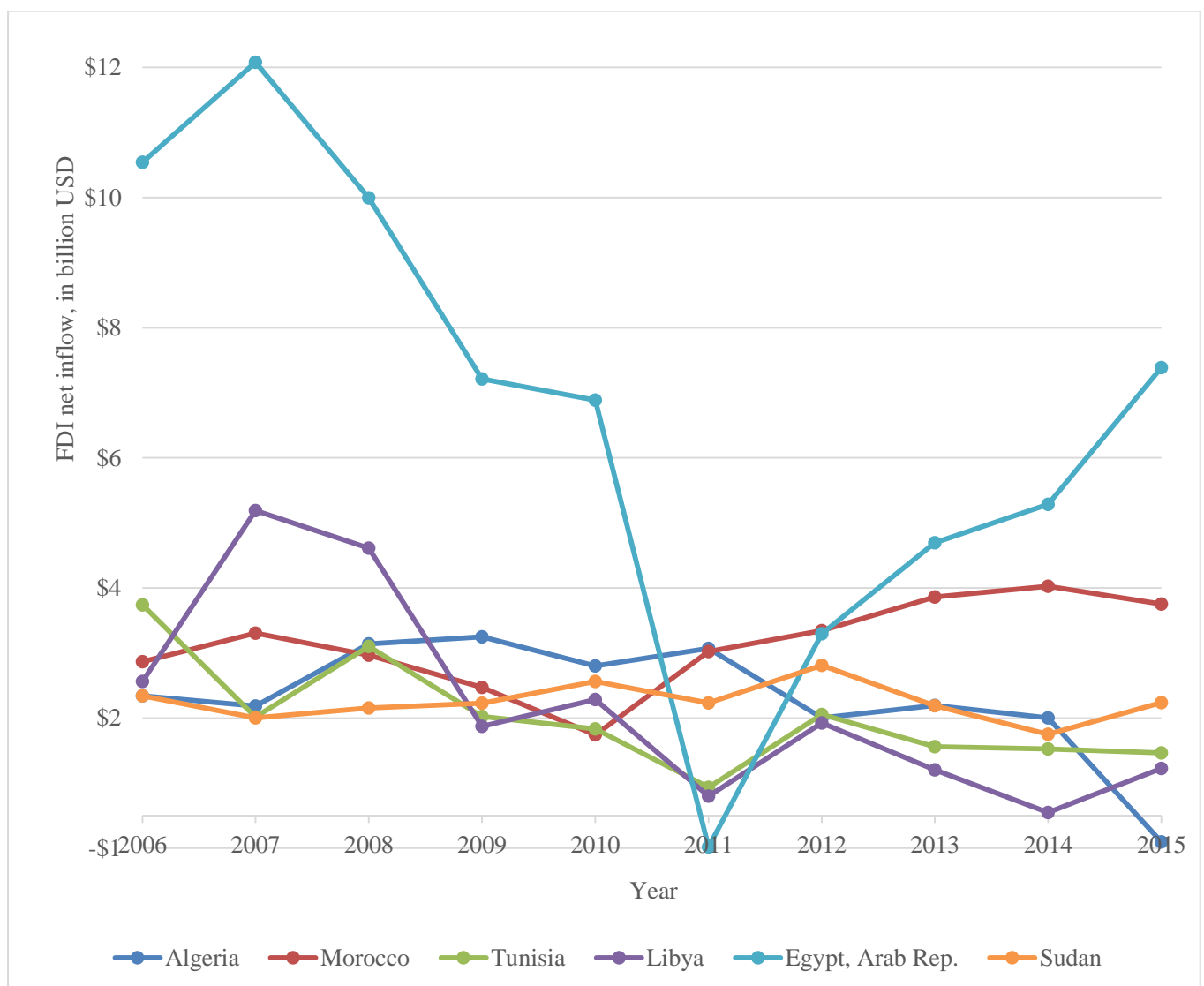


Figure 6. Foreign direct investment inflow in North-African countries in 2006-2015, in billion USD (World Bank, 2017)

Figure 6, illustrate that in the beginning of the period, the net inflow of FDI was mostly targeting Egypt with 10 billion USD in 2006 followed by Tunisia 3.23 billion USD the gap of FDI inflow between the 1st and the 2nd country was huge while Morocco, Libya, Sudan and Algeria the gap between them were not that far in the concept of attracting FDI. In between 2007 and 2011 this period was facing lots of fluctuations the amount of FDI inflow was completely impossible to predict every year they were sharp variations in the inflow of each country as in 2011 the ranking of the countries reversed definitely.

Egypt who was dominating from the beginning of the period shut down to minus 0.482 billion USD in 2011 which mean that it lost all their foreign investors and it has a huge debt, Libya who reached 4.5 billion USD of FDI inflow in 2007 plunged to 0.3 billion USD in 2011, Tunisia was not that far from Libya with an amount of 0.432 billion USD, However Sudan kept the same amount of FDI inflow in 2011 compared to 2006, meanwhile Algeria stood at the top in 2011 with an amount of 2.57 billion USD followed by Morocco who took place in the second position with an amount of 2.52 billion USD. These mentioned changes are due to the political instability caused by Arab spring in 2011 which has decreased the security and led to escape the foreign investors and outflow of FDI. After 2011, in the following years Egypt recover quickly to remain at the top again in 2015, Morocco was increasing slightly to reach the 2nd position in 2015, Sudan was slightly decreasing to reach the 3rd position in 2015, Tunisia remains stable during the period of 2011 to 2015 and went to 4th position. However, Libya was decreasing dramatically comparing to the beginning of the period while Algeria went to the bottom with an amount of minus 0.403 billion USD.

On the other hands, the comparison between the North Africa and the Middle East helps to understand the distribution of FDI among the two regions and find out which region has a significant inflow of FDI, also the assessment is providing an overview about the level of FDI attraction in the region of North Africa, Figure 7 is giving more details about the distribution of FDI these regions.

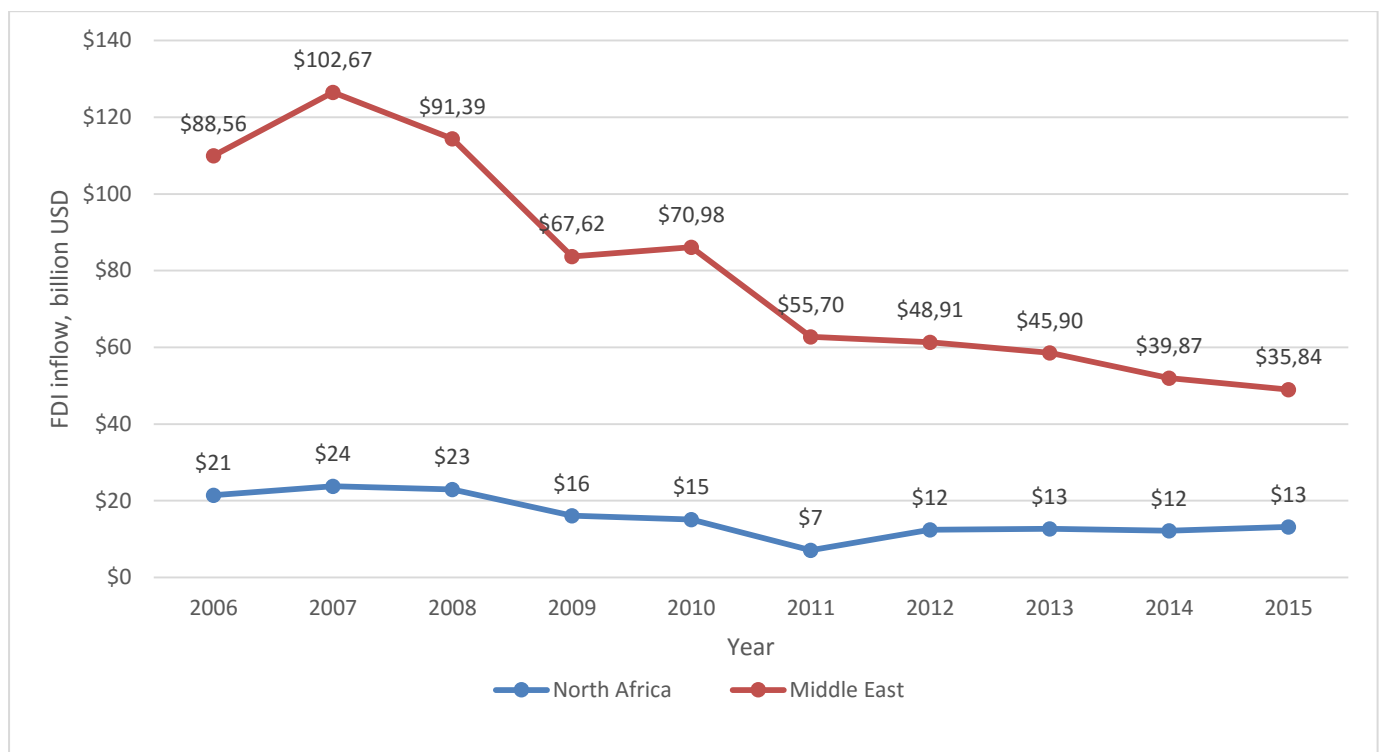


Figure 7. The distribution of foreign direct investment inflow in the Middle East & North Africa region in 2006-2015, in billion USD (World Bank, 2017)

Figure 7 shows that generally, the trend of FDI in the Middle East is hugely comparing to the amount of FDI inflow in North Africa. While during the period of 2006 to 2012 the amount of FDI inflow in the Middle East was representing four times the amount of FDI inflow in North Africa and in 2011 the FDI inflow in the Middle East was almost eight times in comparison between the two regions. However, the Middle East countries seem to have a strong economy and good facilities in term of investment where the data provided by World Bank shows that only the average of FDI in Saudi Arabia from 2006 to 2015 is more than the FDI inflow in whole North Africa region. In contrast, the trend of FDI in Middle East region was decreasing sharply wherein 2007 the total FDI was 102.67 billion USD than in 2015, the total FDI decreased to 35.84 billion USD which three times less than before. Whereas in North Africa the trend of total FDI was recording an amount of 24 billion USD in 2007 then plunged to 7 billion USD in 2011, this amount was recorded as a lowest amount in the whole period, But in 2012 quickly increased to reach 12 billion USD and after that remain stable until the end of period with a slight grow up of 1 billion in 2015 in comparing to 2012.

On the other hands, the comparison between North Africa and Sub-Sahara regions will give a better understanding of the distribution of FDI in Africa. However, the number of countries in Sub-Sahara region are 48 countries where in North Africa are only 6 countries which mean that the assessment between the

two regions will be unequal. So for the comparison, an equal number of North Africa and sub-Sahara countries will be chose. It mean that only 6 countries out of 48 Sub-Saharan countries, which are: Angola, Mozambique, Ghana, Nigeria, Congo Republic, and Ethiopia, were chose. Those countries were respectively has the highest FDI inflow in Sub-Sahara region in 2015, and Figure 8 shows the changes of the total FDI inflow in these countries.

Figure 8, shows that in the beginning of the period, the amount of FDI in North African countries were greater than the FDI in Sub-Saharan countries were three times higher with a total amount of 21.4 billion and 7.74 billion USD respectively. However, the inflow in North African countries were decreasing dramatically wherein 2011 the FDI inflow record an amount of 7.8 billion USD which is too low comparing to the beginning of the period, while the Sub-Saharan countries was showing a good improve in term of inward investment through their countries where in 2011 they record a total amount of 15.54 billion USD which is almost twice the amount of the beginning of the period. In 2013 both regions show a similar inflow of FDI where the difference between them was only 0.46 billion USD. Just after that, in 2014 the amount of FDI in Sub-Saharan countries rocketed to reach a total amount of 22.57 billion USD while North African countries decreased slightly to 12.14 billion USD in 2014 but in 2015 they did an improvement with realizing a total amount of 13.16 billion USD while Sub-Saharan countries recorded a total amount of 23.13 billion USD.

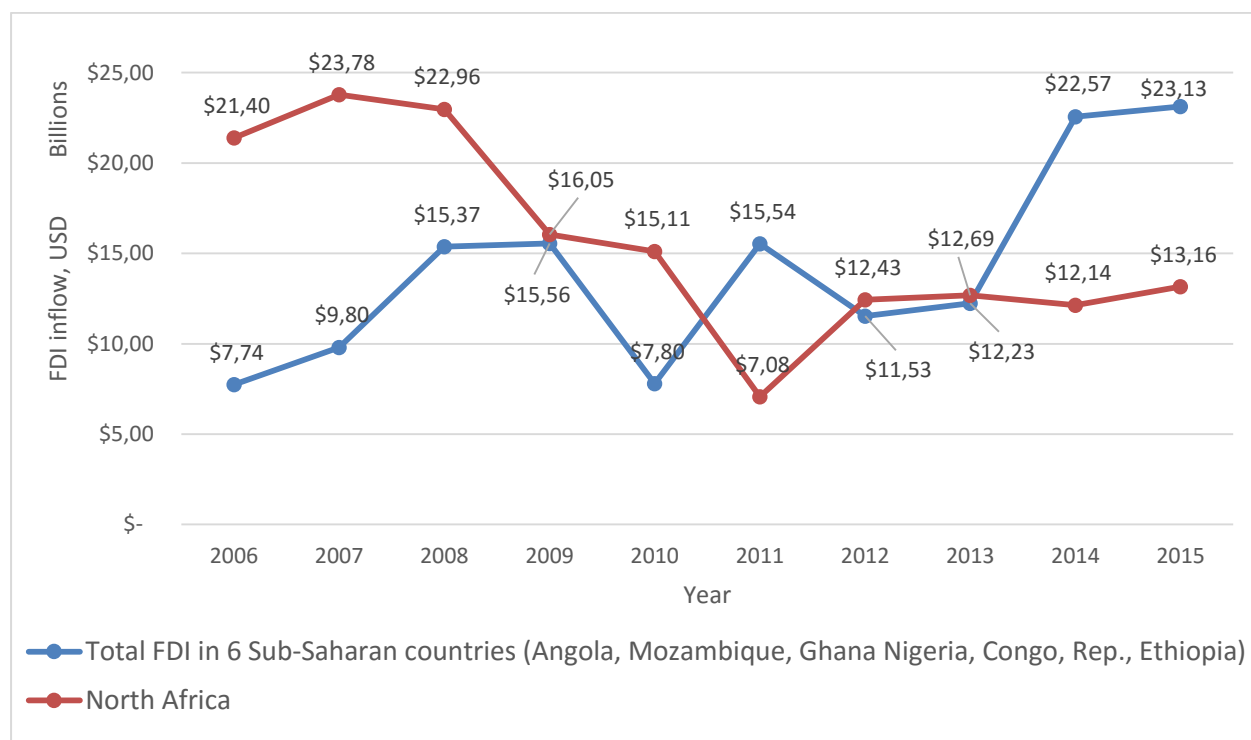


Figure 8. The comparison of foreign direct investment inflow in North Africa and some Sub-Saharan countries in 2006-2015, in billion USD (World Bank, 2017)

4.2. The main countries investing in Morocco and the distribution of foreign direct investment in the Moroccan regions

The inflow of FDI depend on the number of MNE located in Morocco, this is mean that every foreign enterprise is referring to a foreign country which is building its branch in Morocco. In this section, the Table 7 provides information's about which country had the higher investment within the past few years.

Table 7. Average inward foreign direct investment in Morocco in 2006-2015, in million USD (FDI Intelligence from The Financial Times, 2016)

Rank	Countries	Number of companies	Number of projects	Created jobs	Inward FDI, million USD
1	UAE	25	46	21,120	11,693
2	France	168	220	47,997	11,639
3	Spain	121	148	29,432	9,001
4	United States	71	90	16,835	3,108
5	Ireland	6	9	2,148	2,888
6	China	3	3	2,017	2,157
7	Switzerland	16	21	5,865	2,121
8	Russia	2	4	7,594	2,081
9	Japan	21	26	14,499	1,671
10	United Kingdom	26	29	6,282	1,226
	Other countries	123	132	34,433	8,217
	Total	582	728	188,222	55,802

Table 7 shows that the ranking of inward FDI in Morocco is assessed on the amount of FDI inflows by country, while it is illustrated that the major investor in the Kingdom is the United Arab Emirates which has invested an average amount of 11,693 million USD during the period of 2006 to 2015 and UAE has only 25 companies in Morocco but its inward FDI is considered as the highest amount during the period of 2006 to 2015. France which is the second main investor in Morocco has a total average amount of 11,639 million USD which is enough close to UAE, however, the total companies and project that France has created in Morocco it is considered as the highest between all the foreign countries investing in Morocco with a total companies of 168 which they have conducted 220 projects with the employment of 47,997 people in the period of 2006 to 2015. Spain which is the nearest European countries have been ranked in

the 3rd place and it has the 2nd highest number of companies located in Morocco with a total of 148 of the project during the period of 2006 to 2015. In addition, USA which is considered one of the greatest economies in the world has been investing 3,108 million USD (the amount is 3 times less than total investment of Spain) with total companies of 71 which they are employing 16,835 people has taken place in the fourth place. On the other hand, Ireland, China, Switzerland, Russia were respectively ranked 5th, 6th, 7th and 8th, where the average investment was between 2.9 and 2 billion USD in the period of 2006 to 2015, however in between the mentioned countries above (Ireland, China, Switzerland, Russia), Switzerland has the highest amount of companies and project implemented in the Kingdom while Russia has the highest number of jobs creation during the period. In the Bottom, Japan and UK which they were respectively ranked 9th with a total amount of 1,671 million USD and 10th with the total amount of 1,226 million USD during the period of 2006 to 2015. While Japan was ranked the 5th country in the creation of jobs with an average number of 14,499 people employed in Morocco.

Table 8, provides data about rate of foreign enterprises located in each region of the kingdom, where the analysis enable to find which region has the highest attractiveness of foreign enterprises.

Table 8. Distribution of foreign enterprises by regions in Morocco in 2015, in % (Territoires Morocco, 2016)

Rank	Regions of Morocco	Distribution of foreign enterprises, %
1	Grand Casablanca	55.6
2	Tanger Tétouan	14.3
3	Rabat Salé Zemmour Zear	9.3
4	Marrakech tensift Al Haouz	5
5	Chaouia Ouardigha	3.6
6	Souss Massa Draa	3.5
7	Doukkala Abda	2.1
8	Oriental	1.7
9	Gharb Cherarda Beni Hssen	1.6
10	Fès boulmane	1.5
11	Meknès Tafilalet	1.1
12	Taza Al Houceima Taounate	2
13	Provinces du Sud	0.1
14	Tadla Azilal	0.1
Total		100.0

The distribution of foreign enterprises in Morocco is showing that there is no equilibrium between the regions while from the Table 8 it is shown that most MNEs are concentrated in the region of Grand Casablanca which the attraction there is representing more than the half of MNEs with a total rate of 55.6% where the city of Casablanca is also called “the economic capital” is ranked as the biggest city in Morocco with 3.36 million of population and area of 386 km² which is 3 times bigger than Paris. The second region in the attraction of MNEs is Tanger Tétouan which is located in the North of Morocco and contains a free trade zone where the foreign enterprises can settle with only 8.75 % tax in charge instead of 30 %, this northern region accumulates 14.3 % of MNEs. In the 3rd place, there is Rabat Salé Zemmour Zair which consists of 9.3 % of MNEs this region is mainly referred to the capital which is Rabat and the neighbouring cities which all of them create a dynamic region mostly consisting of Administrative offices which represent foreign enterprises. In addition, there is Marrakech Tensift Al Haouz which accumulates 5 % of foreign enterprises the region is famous for its touristic attraction while Marrakech was ranked the best destination in the world by Tripadvisor in 2015. Moreover, Chaouia Ouardigha and Souss Massa Draa have a similar rate of the number of foreign enterprises with an average rate of 3.5 %. While the 8 regions left represent only 10 % of the number of foreign enterprises in the country.

4.3. The economic situation in Morocco compared to some developed countries

The economic development in Morocco is characterised using economic growth rate changes and GDP per capita changes during the period of 2006-2015. In order to have a deep understanding of the current economic situation of Morocco, the comparison between the leading economic growth rate countries – China, Morocco, United States, United Kingdom, Germany, and France – in the world, giving a concrete assessment of the level of development of the Kingdom of Morocco, as shown in Figure 9. Where the both economic growth rate and GDP per capita are reflecting directly the situation of the country and the performance made since the previous years.

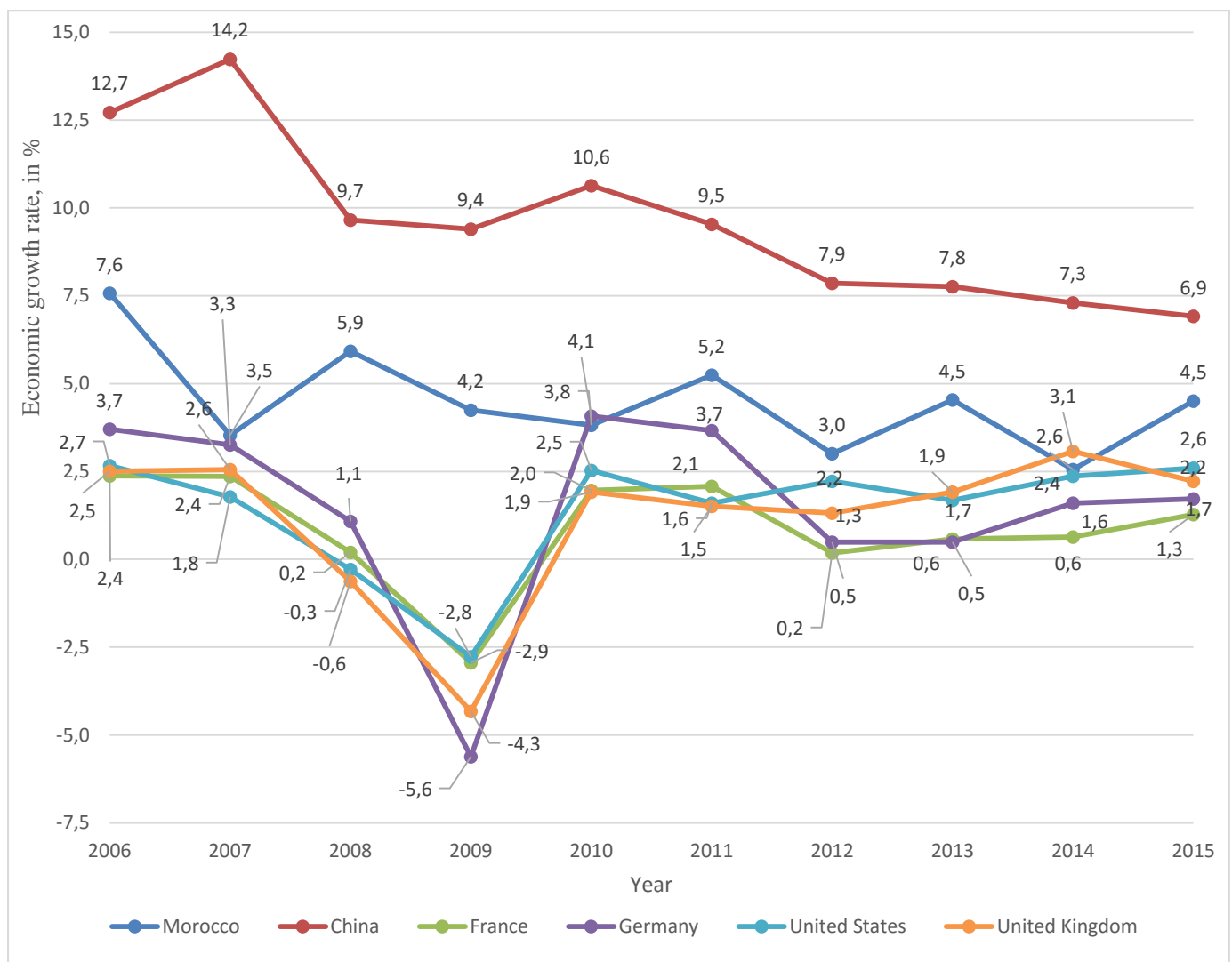


Figure 9. Economic growth rate comparison of Morocco and five developed countries in 2006-2015, in % (World Bank, 2017)

Economic growth rate is measured in percentage by the rate change of the real GDP and it is defined by comparing one-quarter of the country economic output or GDP to the previous one to measure how fast the economy is growing. The economic growth rate is determined by the four components of GDP. The most important determinant is personal consumption, which includes retail sales. The second one is the business investment, which includes construction and inventory levels. The third determinant of economic growth is government spending. According to Figure 9, the data shows that China has the greatest economic growth among the six countries. During 2006 to 2015 the average growth in China was 9.6 %, with a maximum rate of 14.2 % in 2007 and minimum rate of 6.9 % in 2015. Morocco records an average economic growth rate of 4.5 % from 2006 to 2015, during the period the maximum rate was 7.6 % in 2006 and the minimum rate was 2.6 % in 2014. The data provided by World Bank for economic growth of Germany show

that from 2006 to 2015 the average growth rate was 1.45 %, where the maximum rate was 4.1 % in 2010 and the minimum rate was -5.6 % in 2009. The trend of USA economic growth rate from 2006 to 2015 gave account for an average rate of 1.43 % during the period with a maximum growth rate of 2.7 % in 2006 and minimum rate of -2.8 % in 2009. For the UK the average economic growth rate was 1.2 % from 2006 to 2015, where the maximum value recorded was 3.1 % in 2014 and the minimum growth rate of -4.3% in 2009. Lastly, France comes with an average growth rate of 0.87 % from 2006 to 2015 during the period the maximum growth rate was 2.4 % in 2006 and the minimum growth rate of -2.9 % in 2009.

GDP per capita comparison between Morocco and the five countries with highest economic growth rate are shown in Figure 10.

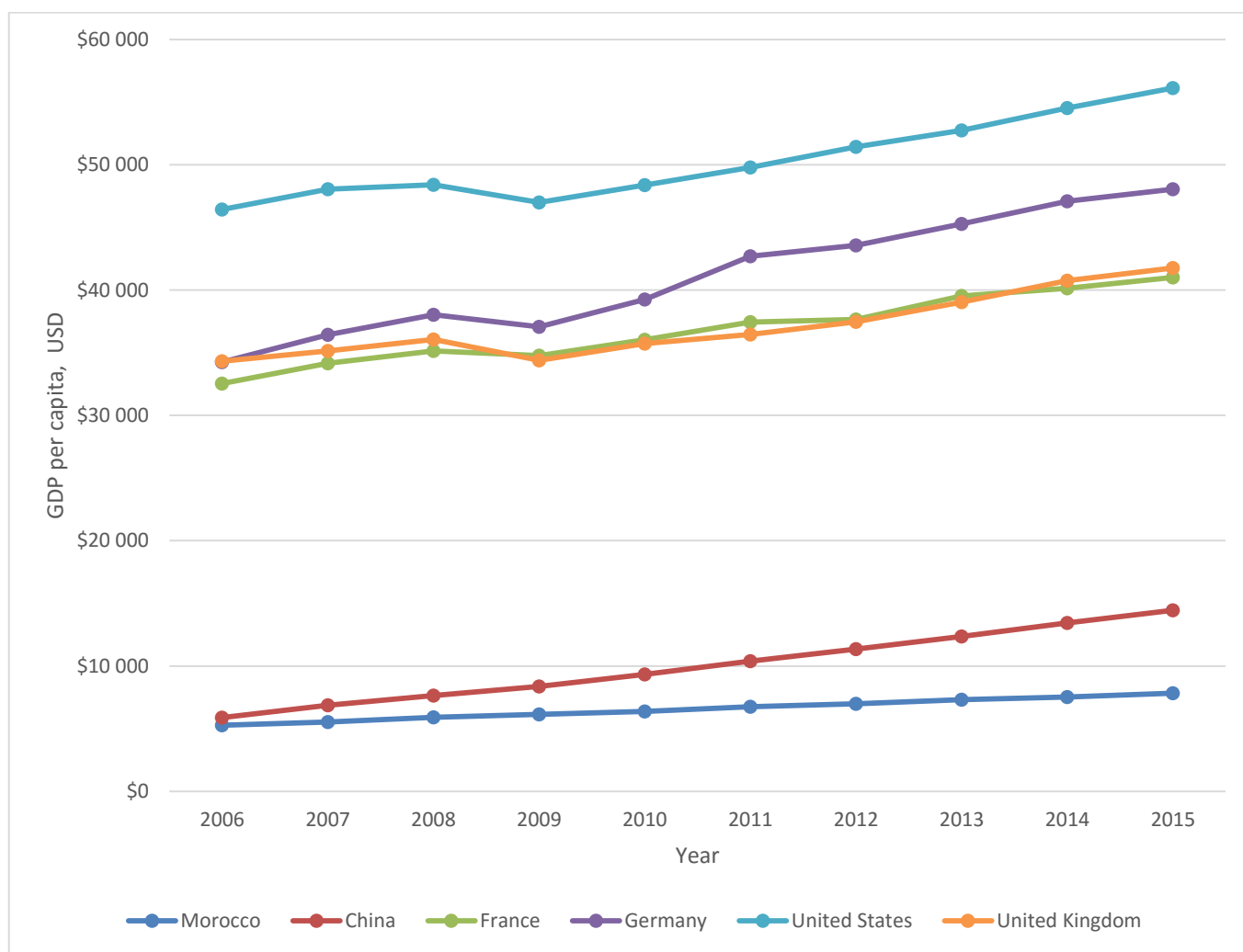


Figure 10. Gross domestic product per capita comparison between Morocco and five countries with highest economic growth rate in 2006-2015, in USD (World Bank, 2017)

GDP per capita is defined by the total output of the country, and it is measured by dividing the GDP by the number of people in the country. The GDP per capita is mainly useful when comparing one country to another, as it illustrates the relative performance of the countries. An increase in GDP per capita is an indicator of growth in the economy and signify an increase in productivity. According to Figure 10, the World Bank data reveal that the highest GDP per capita is for the USA with an average amount of 37,118 USD during the period of 2006 to 2015, where the maximum amount was 56,116 USD in 2015 and the minimum amount was 46,437 USD in 2006. The following country is Germany with an average amount of 41,174 USD during the period of 2006 to 2015, where the maximum amount recorded was 48,042 USD in 2015 and the minimum amount was 34,261 USD in 2006. United Kingdom comes in the third place with an average amount of 37,118 USD during the period of 2006 to 2015, with a maximum amount of 41,756 USD in 2015 and minimum amount of 34,332 USD in 2006. While in the 4th place there is France with an average GDP per capita of 36,845 USD from 2006 to 2015, with a maximum amount accounted of 41,017 USD in 2015 and minimum amount of 32,543 USD in 2006. In the 5th place there is China with an average GDP per capita of 10,008 USD during the period of 2006 to 2015, with a maximum amount accounted of 14,450 USD in 2015 and minimum amount of 5,884 USD in 2006. Lastly, Morocco has the lowest GDP per capita amongst the above-mentioned countries with an average amount accounted of 6,561 USD during the period of 2006 to 2015, where the maximum amount registered was 7,841 USD in 2015 and a minimum of 5,263 USD in 2006.

4.4. The evaluation of foreign direct investment on the economic development in Morocco

The data gathered for the econometric regression analysis are taken from the World Bank, as it mentioned in the methodology. So the dependent variable GDP growth rate which is mostly representing the profit made from the good production and services in addition to the taxes accumulated from product and services made in Morocco, the major independent variable is FDI which it helps to understand the impact of this variable on the economic development, but to have more accurate analysis the labour force, exchange rate, total debt service and inflation rate are additional variable which give more certainty about the economic growth. Hence Table 9 illustrates the annual rate of each component stated above from 2006 to 2015. To carry the regression analysis the data in Table 9 are used for the quantitative analysis.

Table 9. Factors influencing the economic development in Morocco in 2006-2015, in % (World Bank, 2017)

Variable (year)	GDP growth, %	FDI net inflows, % of GDP	Labour force participation rate of total population, %	Official exchange rate, MAD per USD	Total debt service, %	Inflation according annual consumer prices, %
2006	7.57	3.45	54.00	8.80	16.89	3.28
2007	3.53	3.55	53.80	8.19	16.15	2.04
2008	5.92	2.67	53.50	7.75	13.30	3.71
2009	4.24	2.12	52.90	8.06	13.67	0.99
2010	3.82	1.33	52.00	8.42	11.83	0.99
2011	5.25	2.49	52.10	8.09	9.86	0.92
2012	3.01	2.89	52.30	8.63	10.92	1.28
2013	4.54	3.15	52.50	8.41	15.32	1.89
2014	2.55	3.21	52.70	8.41	13.10	0.44
2015	4.51	3.23	52.90	9.76	10.51	1.56

Table 9, illustrates data gathered during the period of 2006-2015 from World Bank, for better understanding of the impact of FDI on the economic development six variable were analysed and included to the assessment. The GDP growth rate is defined by World Bank as “the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. Aggregates are based on constant 2010 USD of GDP at market prices based on constant local currency” (World Bank website, 2017). The data shows sharp fluctuation in the GDP growth rate, where in 2006 the GDP growth rate reach 7.57 % then dropped by half in the next year to account 3.53 % which is something totally unpredictable. From 2007, the GDP growth rate was fluctuating slightly to reach 5.25 in 2011. Since 2011 the growth rate start to decrease to reach 4.51 % in 2015. The economic development of the country in influenced by different factors which has direct or indirect impact, so to gauge the economic development five factors were taking in consideration.

FDI net inflows, percentage of GDP, is defined by the World Bank as “the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows in the reporting economy from foreign investors, and is divided by GDP” (World Bank website). The data of FDI net inflow rate shows that in 2007 the net inflow was 3,45 %, then, it start to decrease slightly to reach the lowest level of 1.33 % in 2010, after that in began to increase slightly again to reach 3.23 % in 2015.

Labour force participation rate is defined by the World Bank as “all people who supply labour for the production of goods and services during a specified period” (World Bank website). The data provided shows that in 2006 the labour force participation rate were 54 % of total population, then, in the following years the percentage of labour force were decreasing year after year to reach 52 % in 2010 which recorded as lowest rate during the period of 2006 to 2015. Since 2010 the rate of labour force were increasing again to rise to reach 52.9 % in 2015.

Official exchange rate defined by the World Bank as “exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market. It is calculated as an annual average based on monthly averages (local currency units Moroccan Dirham (MAD) relative to the USD)” (World Bank website). The exchange rate was 8.8 in the beginning of the period in the following years it was decreasing to reach the lowest amount of 7.15 in 2008. But quickly start increasing in the next years to reach 9.76 which it was recorded as the highest amount during the period.

Total debt service is defined by the World Bank as “the sum of principal repayments and interest actually paid in currency, goods, or services on long-term debt, interest paid on short-term debt, and repayments (repurchases and charges) to the IMF” (World Bank website). The debt service were recording a rate of 16.89 % in 2006 then start gradually decreasing to reach the amount lowest amount of 9.86 % in 2011, after that rocketed to reach 15.32 % in 2013, then the rate of debt services went down to reach 10.51 % in 2015.

Inflation according to the annual consumer prices is defined by the world Bank as “the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly” (World Bank website). In between 2006 to 2008 the inflation rate was representing an average of 3 %, while in 2009 the inflation rate significantly decrease to 0.99 % and remained stable until 2011. Then in 2012 rise slightly to reach 1.28 % and continue to rise to reach 1.89 % in 2013. In 2014 it was recorded the lowest inflation rate of 0.44% during all the period, but quickly jumped up to 1.56 % in 2015.

The result of the regression analysis is generated from the Table 9 data which includes GDP growth, FDI, LF, ER, DBT and INF. All the numerical data are gathered in percentage (rate), in order to have more homogeneity and correlation while assessing the relationship between variables.

The result of SPSS statistics (version 23) reveal the coefficient of all variable depending on Tables 10, 11, 12 and 13. So as it was explained in methodology the formulas given for the model is mainly the one used for the calculation of each econometric factors.

Model as was given in formula (4) in methodology:

$$\text{GDP} = -1.114 - 0.513 \text{ FDI} + 0.016 \text{ LF} + 0.472 \text{ ER} + 0.018 \text{ DBT} + 1.158 \text{ INF}$$

$$\text{T statistic} = (-0.016) \quad (-0.539) \quad (0.011) \quad (0.483) \quad (0.059) \quad (1.735)$$

$$\text{P - Value} = (0.988) \quad (0.618) \quad (0.992) \quad (0.655) \quad (0.956) \quad (0.158)$$

$$\text{Se} = (71.084) \quad (0.951) \quad (1.418) \quad (0.979) \quad (0.300) \quad (0.667)$$

$$R^2 = 0.610$$

$$\text{Adjusted } R^2 = 0.123$$

$$\text{F statistic} = 1.253$$

All these results are explained in Tables 10, 11, 12 and 13.

Table 10. Summary of regression result (IBM SPSS statistics version 23)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.781	0.610	0.123	1.378

Predictors: (Constant), FDI, LF, ER, DBT, INF

Dependent Variable: GDP_growth

R definition: coefficient between the dependent and the independent variable.

R Square definition: measuring of how much of the variability in the dependent variable is accounted for by the independents variable.

In Table 10 of the model summary, the values of the multiple correlation $R = 0.781$ or 78.1 % is the coefficient between the dependent and the independent variable. When the independent variables FDI, LF, ER, DBT and INF are used as predictors, this is the multiple correlations between GDP as dependent variable and FDI, LF, ER, DBT and INF independent variables (78.1 %). The value R square (R^2) is measuring of how much of the variability in the dependent variable is accounted for by the independents variable in another way how strongest the explanation the independent variables to the dependent variable. So in this case the independent variables FDI, LF, ER, DBT and INF explain 61 % the dependent variable GDP which refers to economic growth, this percentage of variance is fairly good if to consider it for the explanation, while 39 % remained which represent uncertainty is explained by other external economic factors. The adjusted R square explain how well the model generalizes and ideally its value have to be the same, or close to, the value of R^2 but here there are only 10 years ($N=10$) which quite low so the adjusted R^2 is 12.3 %. lastly the standard error represent the other the percentage of other predictors that must be used to know the impact of economic growth, so to predict GDP using FDI, LF, ER, DBT and INF predictors

the total outcome will be out by 1.378, which mean that we need more predictors to have accurate result so the high is the number of predictors to more accurate and reliable is the result.

Analysis of variance ANOVA. This part is mainly to gauge whether the model is more significant at the prediction of the outcome rather than using the mean as the best guess for economic development. The Table 11, describes and gives more details about ANOVA.

Table 11. ANOVA result from the regression analysis (IBM SPSS statistics version 23)

ANOVA						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.901	5	2.380	1.253	.425
	Residual	7.598	4	1.899		
	Total	19.499	9			

Dependent Variable: GDP_growth
 Predictors: (Constant), FDI, LF, ER, DBT, INF

According to Table 11, the F statistics explain the improvement in the model predicting the result will be accepted or not. So if the predictors are fitting the model the F statistic must be positive and higher than 1 and the calculation made by SPSS statistics (version 23) give the exact probability of obtaining the value of F statistics by chance. In this case, the F value is 1.253, thus the model could be accepted. On the other hand, P-value in this model is 0.425 (42.5 %), it mean that is higher than 5 % which is the statistical significance of ANOVA this conclude that there are no significance for this model, so the predictors did not do a great job in predicting the outcome in better way than just a chance. The next section of the regression analysis is to assess each independent variable to enable identifying which variable of the model is leading to the prediction of the outcome, the following information for the analysis is given in Table 12 (Coefficients).

It is important to look at the statistic value β and their significance; nonetheless, the standardised coefficient of the β values are easier to explain as they are not dependent on the units of measurement of the independent variables. The standardised coefficient β values are delivered by SPSS statistics (version 23) and they calculate the number of standard deviations that the outcome changes because of one standard deviation change in the predictor. The standardised coefficient β values are all measured in standard deviation units which could be directly comparable: consequently, they offer a good insight into the importance of a predictor in the model. So looking for the higher β value with ignoring its sig, rather the value is positive or negative. According to Table 12, the standardised coefficient β values for the variable

INF is 0.833 which is the higher value, it means that this variable makes a significant impact in explaining the independent variable GDP compared to other variables which all explain the variance in the model. This does not mean that the other variables FDI, LF, ER, and DBT have no meaning for the model but just they have less variation in the contribution to the model. In addition, each of these β values has an associated standard error indicating which are used to determine whether or not the β value differs significantly from zero. Hence, if the value in the column labelled Sig. is less than 0.05 then that predictor is making a significant contribution to the model. The smaller the value of Sig. the greater the contribution of that predictor. For this model, only INF has the lowest sig = 0.158 which bigger than 0.05 which it mean that none of the variables has to make a great contribution to the outcome (GDP), and this could be explained by the short-term of data, the overlap of the predictors or the multicollinearity of the variables that they have great relation to each other so the variation between them is to close that the chance to know the variable who has the great impact is too low.

Coefficients. Table 12 of coefficients provide the multicollinearity diagnostics which separated to Tolerance and Variance Inflation Factor (VIF), these coefficients enable to verify the accuracy of the model especially the strength of the predictors in explaining the independent variable.

According to the result generated and described in the model. The multiple regression model illustrates a model in the form of the equation that contains a coefficient β for each predictor. The first part of the equation give an estimation for β value, this value indicates the individual contribution of FDI, LF, ER, DBT and INF to the model. The estimation of β_0 is -1.114 which mean that the independent variables are negative, this explains that there is reversed relation between the dependent variable and the predictor's factors and it is not statistically significant at 5 % level.

The coefficient β_1 is -0.513 which suggest that there is an indirect relationship between the dependent variable and independent variables and it is not significant at 5 % level, so this suggest that FDI does not lead to economic development. However, $\beta_2=0.016$, $\beta_3=0.472$, $\beta_4=0.018$ and $\beta_5=1.158$ this show a positive relationship between independent variables and the dependent variable, where INF, DBT, ER and LB are statistically significant at 5 % level. Which mean that those variable are positively leading to the economic development in Morocco.

Tolerance: It refers to the degree to which one predictor can itself be predicted by the other predictors in the model. The higher the value of tolerance, the less overlap there is with other variables. If the tolerance value is higher, the predictors are more useful to analysis; if the tolerance value is smaller than 0.1, it mean there is a higher degree of multi-collinearity or multiple correlations. According to Table 12 value for the

variable FDI, LF, ER, DBT and INF are respectively 0.5, 0.216, 0.73, 0.403 and 0.423 which all of them are higher than 0.1, thus it can be said that there is no multi-collinearity in this model.

Table 12. Coefficients summary of regression analysis (IBM SPSS statistics version 23)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.114	71.084		-0.016	0.988		
	FDI	-0.513	0.951	-0.238	-0.539	0.618	0.500	2.000
	LF	0.016	1.418	0.008	0.011	0.992	0.216	4.635
	ER	0.472	0.979	0.176	0.483	0.655	0.730	1.369
	DBT	0.018	0.300	0.029	0.059	0.956	0.403	2.484
	INF	1.158	0.667	0.833	1.735	0.158	0.423	2.364

Dependent Variable: GDP_growth

Variance Inflation Factor (VIF): The VIF for a predictor indicates whether there is a strong linear association between it and all the remaining predictors. It is distinctly possible for a predictor to have only moderate and/or relatively weak associations with the other predictors in terms of simple correlations. So to check whether the predictor has a strong association with other predictors the value of VIF must be below 10. In this case, FDI, LF, ER, DBT and INF are respectively 2.000, 4.635, 1.369, 2.484, and 2.364 which are all below 10 so this confirms that we do not have multi-collinearity or association between the predictors. Note that theoretically if any VIF value exceeds 10, there is a reason for at least some further concern. In this case; then one should consider variable deletion or an alternative to least squares estimation.

Table 13 shows the correlation between the dependent variable GDP_growth and the independent variables FDI, LF, ER, DBT and INF.

Correlations results assumption. According to Table 13, the correlations give an idea about the relationship between dependent variable and the independent variables. So to check whether there is a good relationship or not the correlation value must be higher than +0.3 or -0.3, if the value of correlation is positive this means that as one variable increases in value, the second variable also increase in value, and the same if value decrease the second variable decrease in value; if value of correlation is negative this means that as one variable increases in value, the second variable decreases in value. The above results

illustrate that the GDP outcome for all variables value are positive which it conclude that there is a positive correlation in this model. The result shows that correlation between GDP and INF is the greatest one while it represents 0.752, in addition to LF which have a positive correlation of 0.501 which also good and we can take on consideration DBT which have a value of 0.330 which is fairly good. However ER and FDI it seems that they do not correlate with GDP because of the low value 0.001 and 0.123.

Table 13. Correlations summary of regression analysis (IBM SPSS statistics version 23)

		GDP_growth	FDI	LF	ER	DBT	INF
Pearson Correlation	GDP_growth	1.000	0.123	0.501	0.001	0.330	0.752
	FDI	0.123	1.000	0.608	0.324	0.449	0.344
	LF	0.501	0.608	1.000	-0.011	0.739	0.744
	ER	0.001	0.324	-0.011	1.000	-0.209	-0.111
	DBT	0.330	0.449	0.739	-0.209	1.000	0.528
	INF	0.752	0.344	0.744	-0.111	0.528	1.000
Sig. (1-tailed)	GDP_growth		0.368	0.070	0.499	0.176	0.006
	FDI	0.368		0.031	0.181	0.097	0.165
	LF	0.070	0.031		0.488	0.007	0.007
	ER	0.499	0.181	0.488		0.281	0.380
	DBT	0.176	0.097	0.007	0.281		0.058
	INF	0.006	0.165	0.007	0.380	0.058	
N	GDP_growth	10	10	10	10	10	10
	FDI	10	10	10	10	10	10
	LF	10	10	10	10	10	10
	ER	10	10	10	10	10	10
	DBT	10	10	10	10	10	10
	INF	10	10	10	10	10	10

Normality, Linearity and Outliers. In this section, Figure 11 shows demonstration of the normal probability plot of the residuals as a way of learning whether it is reasonable to assume that the error terms are normally distributed.

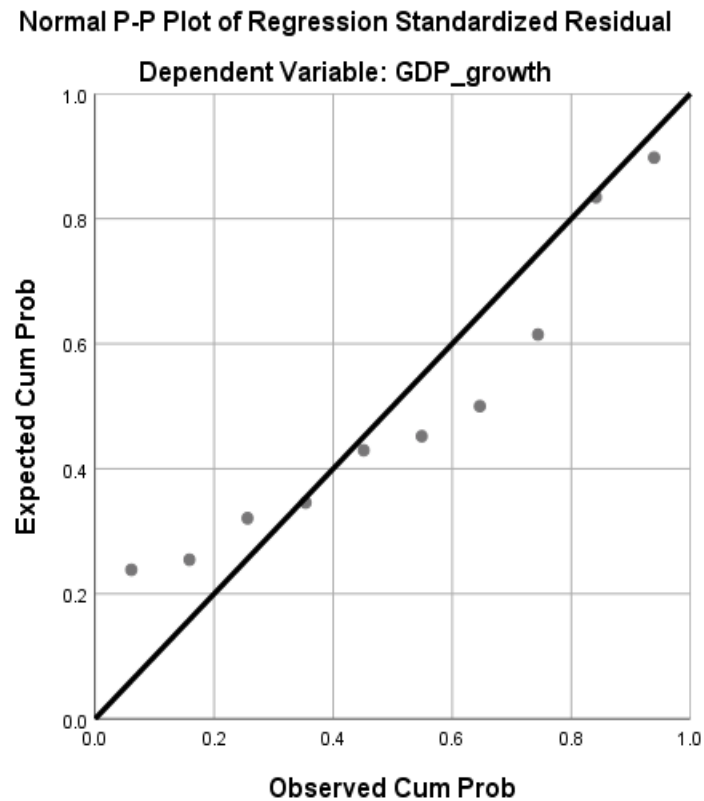


Figure 11. Normal P-P Plot of Regression Standardized Residual (IBM SPSS Statistics version 23)

Plots a variable's cumulative proportions against the cumulative proportions of any of a number of test distributions. Probability plots are generally used to determine whether the distribution of a variable matches a given distribution. If the variables are well selected and they matches the test distribution, the plotted points should follow the straight line. Serious departures would suggest that normality assumption is not met. So according to Figure 11, it appears that there is a good match on the P-P plot the plotted points are gathered and flow the straight line so there is no major variance from normality.

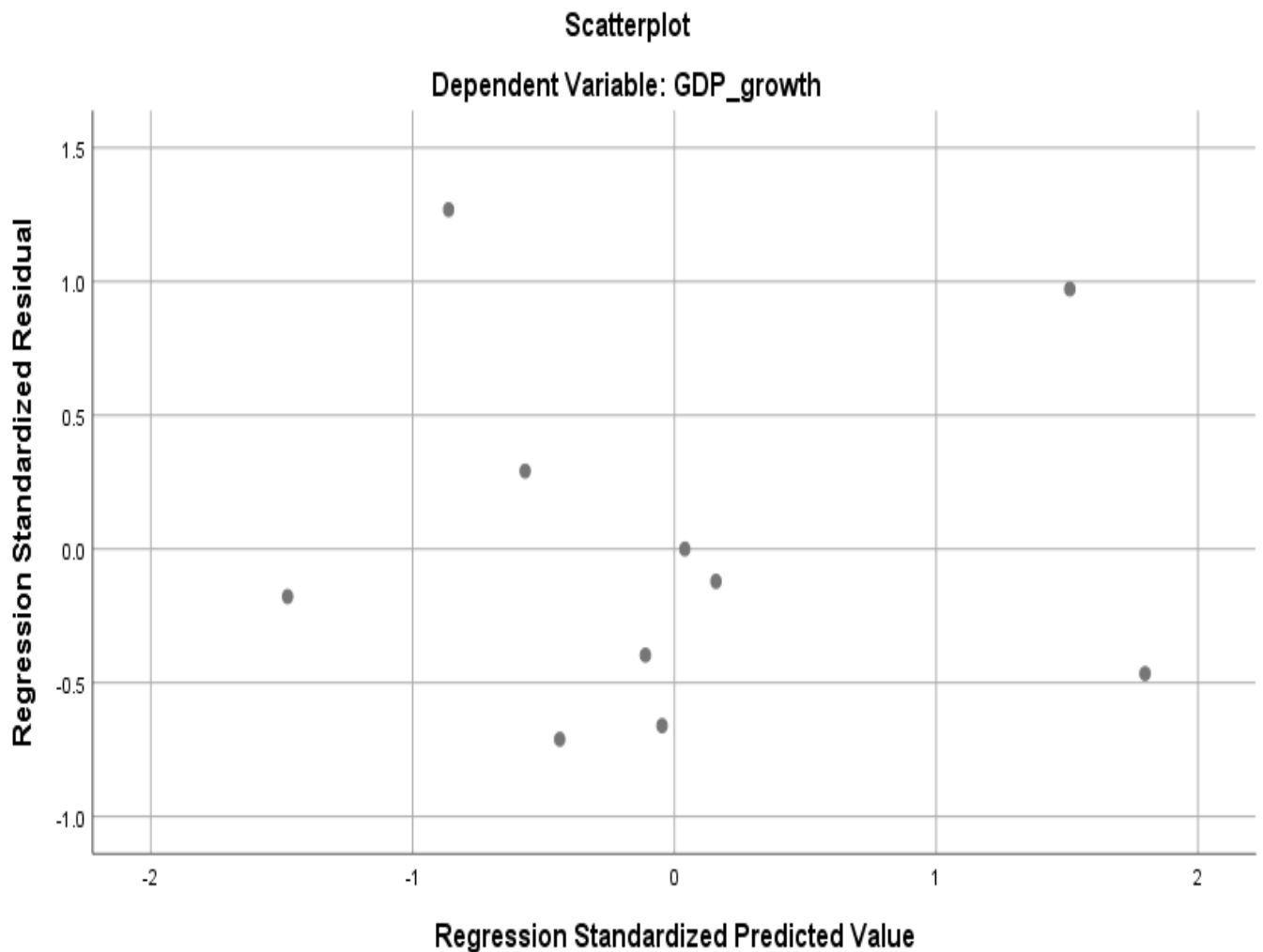


Figure 12. Scatterplot (IBM SPSS Statistics version 23)

Theoretically, the scatter plot of standardised residuals compared to predicted values should be a random pattern centred near the line of zero standard residual value. The points should have the same spreading around this line over the predicted value variety. From the Figure 12, there is no clear association between the residuals and the predicted values which are reliable with the assumption of linearity. Also the outlier can be detected from the scatter plot where are defined as an observation point that is far from other concentrated observations points which have a standardized residual in the scatter plot display of more than 3.3 or -3.3, and generally the points located outside this interval it is due to variability in the measurement or it may indicate experimental error. The distribution of standardised residuals points over the standardised predicted value range in the interval between -1 and 1 which seems constant, for predicted values below -1 there is only one point which could be ignored and not provide evidence against a change in variability.

CONCLUSIONS AND RECOMMENDATIONS

The study has inspected the impact of FDI on the economic development. The analysis of changes of FDI in Morocco allow to examine the significance of FDI over the Moroccan economy, through the inspection of the FDI distribution in the major economic sectors, the data reveal that during the period of 2006-2015 the real estate has been the most important sector for foreign investors where it shown that 21.5% targeting this sector, followed by investment in Natural resources (coal, oil and natural gas) which account 17.7 %, then tourism which attracts 14.7 % of inward FDI, moreover industries like energy and automotive represent a total of 13.4 % of inward FDI. In addition, the analysis of the structure of GDP gave an understanding about the sectors that were generating benefits for Morocco, while according to Table 1, the comparison of the average GDP between 2006-2010 and 2011-2015 revealed that most sectors were showing an increase, where the share of the sector of industry, agriculture & fisheries and real estate represented the highest contribution to the GDP. Thus, in the comparison of the major sectors attracting inward FDI and the major sectors that they provide highest share to GDP, the leading sectors (real estate, industry, tourism, natural resources) were matching in both parts of the comparison. The macroeconomic changes during 2006-2015 indicate that FDI per capita rate was increasing where in 2006 was 0.77 % then reach 1 % in 2015, the GDP per capita rate dropped by half mainly because of the increase of the population, labour force participation rate was fluctuating between 52 % and 54 %, inflation rate decreased from 3.3 % in 2006 to 1.6 % in 2015, unemployment rate was rising from 9 % to 10 % over the period of 2006-2015. Moreover trying to put the focus on the major problems that facing the important sectors which attract FDI, where problems facing tourism are the lack of attention to develop nature tourism, the art of living tourism and cultures tourism, while the tourism in Morocco concentrated only in the hub of Marrakech and Agadir city other cities are not well specified. For agriculture, there is the problem of using the labour who are unskilled and paid a low salary, so the foreign investment does not lead to any development in that sector and the minimum wage do not augment. The FDI in the sector of industry do not target the export to other countries, the majority of products are consumed in Morocco which are useless to generate added value and create profit. All these problems are slowing the economic development in Morocco.

The theoretical analysis of FDI, showed several definitions for FDI based on the different thought of the schools, generally FDI is defined as, a resident entity in one country invest in other entity located in other different country. The different ways of thinking lead to understand the reason which push countries to accept FDI, the major reasons and benefits that has for the economic development are the compensation of the low level of domestic saving, the increase of foreign exchanges, development of infrastructure and human resources, satisfy the preferences in the societies and special aims, all these reason lead host country

to accept foreign investment. Moreover, the examination of the structure and framework of FDI which included the market seeking motive, resource seeking motive, efficiency seeking motive and strategic asset seeking motive that push to attract foreign investment and has direct relation to the ownership specific advantages, location specific advantages, internalisation specific advantages (eclectic diagram). Furthermore, the explanation of the type which are horizontal and vertical FDI, also greenfield, merger & acquisition which are forms of FDI. The determinant of FDI such infrastructure, labour cost & human resources, macroeconomic and political, exchange rates and currency worthiness, market size, privatization, trade openness which has an effect on the FDI. Furthermore, the study carried the theoretical aspect of the impact of FDI on economy of Morocco

On the other hand, the study discussed the research methodology that was used to find the relationship between FDI and economic development in Morocco, chosen methodology explains the structure and the resources that were implemented for the formulation and creation of the model, the multiple regression analysis based on ordinary least square regression were implemented for the calculation. Additional factors included to the model (LF, ER, DBT, and INF) to assess the significance and the impact of FDI on the economic development in Morocco.

The evaluation of FDI impact on the Moroccan economy development was considered as practical part to prove the relationship between the GDP growth and FDI for the set of data gathered and carefully examined through the result provided by SPSS statistic (version 23). The empirical result illustrates that there is a positive relationship between FDI and economic development. The R^2 equal to 0.61 which mean that the independent variable FDI, INF, DBT, ER and LB explain 61 % the dependent variable GDP which refers to economic development, this percentage of variance is fairly good and implement a good fit to consider it for the explanation, while 39 % remained which represent uncertainty or error term as it named statistically which is explained by other external economic factors. The F statistics explain the improvement in the model predicting the result will be accepted or not. F statistic must be positive and higher than 1, F value is 1.253, thus the model it is accepted. The result was positive but not statically significant compared to another finding on empirical studies. This could be due to some FDI did not have been well employed for the economic development of Morocco, such as the cases discussed in chapter one where the problems of industries that do not target exportation to foreign country rather than selling its products in Morocco, tourism which not develop rural and natural area, foreign investors in agriculture who use unskilled and low wages labours in order to make more profits rather than developing the human resources, increase the salaries and transferring the knowledge and technologies.

Lastly, the recommendation originates from this study is that a sustainable inward FDI in the sector of industry, agriculture & fisheries, real estate, trade, construction and public works, transports, mining industry, tourism, electricity and water, education, health and social action could efficiently have a great impact on the economic development in Morocco. This suggestion is based on the deep analysis of the structure of Moroccan economy and the constitution of the GDP in the Kingdom. Where each sector relatively has a direct impact on the economic situation and every drop in the total amount of any sector have a negative impact on the economic development. In addition, the policy makers in the county should support the local investment by facilitating the procedures for getting a credit from a bank and have a security to not let their projects fails. Moreover, the reduction of tax rate from 30 % to 15 % for the start-up companies or small-medium enterprises until they start making an important amount of money, at that time they will be able to pay normal tax rate of 30 % for the government. On the other hand, more investment on the infrastructure have to be done to allow the connection between all the regions in Morocco, where in chapter four, the analysis of the regions shows that majority of foreign companies are located in just three regions in the country, while the other regions have very small amount of foreign companies. This policy is restricting the limitation for job seekers to find a job in their region. Furthermore, it is important for Morocco to give more importance for educating their labour force by providing them with a training every two years to keep them updates to the world technology development, and allowing them to get a position that required knowledge, skills, and practice. In addition, the government must attract FDI that help to integrate a high level of employment for skilled labours and increase the real income for the unskilled labour where both lead to empowering the purchasing power of the citizens. And to support the domestics saving the FDI must invest in infrastructures like building road, railway, and bridge, in addition giving training to the labours for more enhancement and empowering of the labour force. Also, the FDI must target in the first place the exportation which generates more profits and increases the exchange rate by bringing to the country the strong currency (€ or \$), which maintain the balance of payment, and all these recommendations could directly lead to the economic development in Morocco.

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ANNEXES

ANNEX 1. FOREIGN DIRECT INVESTMENT BY SECTORS IN 2006-2015, IN MILLION USD

sectors	years										Total	Average
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Industry	1023	366	258	311	535	742	1044	1786	1190	820	8075	807
Banking	227	366	1032	894	725	383	360	429	429	461	5307	531
Real estate	455	1001	1161	621	927	1112	870	964	1250	1025	9387	939
Tourism	1023	1587	774	435	547	371	232	476	476	307	6229	623
Trade	114	61	26	12	119	247	209	238	357	307	1691	169

ANNEX 2. FOREIGN DIRECT INVESTMENT PER CAPITA IN MOROCCO IN 2006-2015, IN USD

Years	Population	FDI (current USD)	FDI per capita	FDI per capita, %
2006	30 691 434	2 366 000 000	77,1	0,77
2007	31 011 322	2 807 000 000	90,5	0,91
2008	31 350 544	2 466 000 000	78,7	0,79
2009	31 714 958	1 970 000 000	62,1	0,62
2010	32 107 739	1 241 000 000	38,7	0,39
2011	32 531 964	2 521 000 000	77,5	0,77
2012	32 984 190	2 842 000 000	86,2	0,86
2013	33 452 686	3 361 000 000	100,5	1,00
2014	33 921 203	3 526 000 000	103,9	1,04
2015	34 337 511	3 253 000 000	94,7	0,95

ANNEX 3. DISTRIBUTION OF GDP ACROSS ECONOMIC SECTORS IN MOROCCO IN 2006-2015, %

sectors	years									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Agriculture	16.89	12.20	13.30	14.68	14.44	14.25	13.37	14.75	12.95	13.80
Industry	27.15	27.70	29.75	27.30	28.62	28.89	28.64	28.70	29.33	29.00
Services	55.96	60.10	56.95	58.02	56.94	56.86	57.99	56.55	57.72	57.20

ANNEX 4. FOREIGN DIRECT INVESTMENT INFLOW IN NORTH-AFRICAN COUNTRIES IN 2006-2015, IN BILLION USD

Countries	Sudan	Egypt, Arab Rep.	Libya	Tunisia	Morocco	Algeria
2006	\$1,841,833,814	\$10,042,800,000	\$2,064,000,000	\$3,239,909,093	\$2,366,000,096	\$1,841,000,000
2007	\$1,504,379,838	\$11,578,100,000	\$4,689,000,000	\$1,515,345,044	\$2,806,642,141	\$1,686,736,540
2008	\$1,653,120,315	\$9,494,600,000	\$4,111,300,000	\$2,600,674,976	\$2,466,288,357	\$2,638,607,034
2009	\$1,726,298,403	\$6,711,600,000	\$1,371,000,000	\$1,525,244,858	\$1,970,323,920	\$2,746,930,734
2010	\$2,063,730,998	\$6,385,600,000	\$1,784,000,000	\$1,334,497,695	\$1,240,625,859	\$2,300,369,124
2011	\$1,734,376,994	-\$482,700,000	\$300,000,000	\$432,666,012	\$2,521,362,081	\$2,571,237,025
2012	\$2,311,460,740	\$2,797,700,000	\$1,425,000,000	\$1,554,269,129	\$2,841,954,371	\$1,500,402,453
2013	\$1,687,884,179	\$4,192,200,000	\$702,000,000	\$1,058,622,582	\$3,360,909,924	\$1,691,886,708
2014	\$1,251,280,889	\$4,783,200,000	\$50,000,000	\$1,024,754,444	\$3,525,625,590	\$1,503,453,102
2015	\$1,736,764,247	\$6,884,800,000	\$725,667,000	\$965,678,965	\$3,252,913,902	-\$403,397,081
Y e a r						

ANNEX 5. THE DISTRIBUTION OF FOREIGN DIRECT INVESTMENT INFLOW IN MIDDLE EAST & NORTH AFRICA REGION IN 2006-2015, IN BILLION USD

Years	Region	
	North Africa	Middle East
2006	21,395,543,003	88,559,365,020
2007	23,780,203,563	102,673,429,412
2008	22,964,590,683	91,390,683,326
2009	16,051,397,915	67,623,684,952
2010	15,108,823,675	70,983,721,951
2011	7,076,942,111	55,697,483,367
2012	12,430,786,693	48,908,355,666
2013	12,693,503,393	45,904,511,161
2014	12,138,314,026	39,873,349,296
2015	13,162,427,034	35,840,387,988

ANNEX 6. THE COMPARISON OF FOREIGN DIRECT INVESTMENT INFLOW IN NORTH AFRICA AND SOME SUB-SAHARAN COUNTRIES IN 2006-2015, IN BILLION USD

Year	Regions	
	Total FDI in 6 Sub-Saharan countries (Angola, Mozambique, Ghana Nigeria, Congo, Rep., Ethiopia)	North Africa
2006	7,736,803,844	21,395,543,003
2007	9,801,902,190	23,780,203,563
2008	15,372,310,934	22,964,590,683
2009	15,558,067,472	16,051,397,915
2010	7,801,531,530	15,108,823,675
2011	15,535,233,146	7,076,942,111
2012	11,532,049,150	12,430,786,693
2013	12,234,212,708	12,693,503,393
2014	22,573,997,915	12,138,314,026
2015	23,125,211,644	13,162,427,034

ANNEX 7. ECONOMIC GROWTH RATE COMPARISON OF MOROCCO AND FIVE DEVELOPED COUNTRIES IN 2006-2015, IN %

countries	years										Average
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Morocco	7.6	3.5	5.9	4.2	3.8	5.2	3.0	4.5	2.6	4.5	4.49
China	12.7	14.2	9.7	9.4	10.6	9.5	7.9	7.8	7.3	6.9	9.60
France	2.4	2.4	0.2	-2.9	2.0	2.1	0.2	0.6	0.6	1.3	0.87
Germany	3.7	3.3	1.1	-5.6	4.1	3.7	0.5	0.5	1.6	1.7	1.44
United States	2.7	1.8	-0.3	-2.8	2.5	1.6	2.2	1.7	2.4	2.6	1.43
United Kingdom	2.5	2.6	-0.6	-4.3	1.9	1.5	1.3	1.9	3.1	2.2	1.20

ANNEX 8. GROSS DOMESTIC PRODUCT PER CAPITA COMPARISON BETWEEN MOROCCO AND FIVE COUNTRIES WITH HIGHEST ECONOMIC GROWTH RATE IN 2006-2015, IN USD

countries	years									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Morocco	\$5,263	\$5,533	\$5,909	\$6,134	\$6,365	\$6,747	\$6,980	\$7,310	\$7,524	\$7,841
China	\$5,884	\$6,864	\$7,635	\$8,374	\$9,333	\$10,384	\$11,351	\$12,368	\$13,440	\$14,450
France	\$32,543	\$34,151	\$35,156	\$34,767	\$36,027	\$37,457	\$37,645	\$39,539	\$40,152	\$41,017
Germany	\$34,261	\$36,437	\$38,029	\$37,080	\$39,263	\$42,693	\$43,564	\$45,273	\$47,100	\$48,042
United States	\$46,437	\$48,062	\$48,401	\$47,002	\$48,374	\$49,782	\$51,433	\$52,750	\$54,540	\$56,116
United Kingdom	\$34,332	\$35,151	\$36,068	\$34,403	\$35,741	\$36,456	\$37,478	\$39,052	\$40,745	\$41,756