

ECONOMIC STABILITY AND FOREIGN DIRECT INVESTMENT: AN EMPIRICAL STUDY OF THE MIDDLE EAST AND NORTH AFRICA (MENA) COUNTRIES

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| **Madiha Riaz, Naveed Ahmad Lone, Yousfi Karima, Dr. Nausheen Syed. Economic Stability And Foreign Direct Investment: An Empirical Study Of The Middle East And North Africa (Mena) Countries-- Palarch’s Journal Of Archaeology Of Egypt/Egyptology 18(1), 4922-4937. ISSN 1567-214x****Keywords: Foreign Direct Investment, Economic Stability, MENA, Vector Auto-Regression (VAR).** |

**ABSTRACT**

The aim of this study is to analyze and test the relationship between economic stability and foreign direct investment flows in 15 countries of the Middle East and North Africa (MENA) countries over the years (1980-2018). Since the most important economic stability indicator is economic growth and inflation, the paper studied the impact of economic stability on the foreign direct investment flows in long and short run in the sense that if there is a positive impact or a negative of economic growth and the inflation rate on foreign direct investment in these countries. The results indicate that there is no relationship in the long run. However, in the short run, the VAR results show that inflation rate has a marginally negative impact on foreign direct investment, as its predictive power greater than the rate of economic growth. The economic growth index does not have an impact on foreign direct investment.

**INTRODUCTION**

At present the world is witnessing lot of events and changes rapidly and multiple waves in the economic field, which altogether constitute a new world industry which differs in its features from earlier existing ones. The way economic development is seen by the economies of the countries has lead to the radical shift towards the introduction of a free economy. This trend towards the international and regional economic groupings, multinational mergers, giant institutions between economic units of large financial markets, the technological revolution and informatics have its impact on the economic nature of all participating economies. All of these concepts are in favor of economic globalization, having an effect on the economies, whether positive or negative which can be determined by the concept of economic globalization, with all its implications in the context of several factors. Foreign direct investment is considered as one of the most important images of economic globalization, which is one of the most important catalysts of economic growth in any country and raise the physical capital stock and increases the modern jobs and give local employment technical skills to contribute to improve the performance and efficiency of production. Plus it contributes to the strengthening of the scientific and technical potential and the transfer of expertise and resettlement in different areas in addition to the accumulation, acquisition and dissemination of knowledge in the future.

According to World Investment Report in 2014 (UNCTAD), the registered foreign direct investment flows to developing countries rose to 778 billion of dollar or 54% of total global flows. While FDI inflows to developed countries recorded an increase of 9% or 566 billion of dollars, making it affected 39% of the total global flows. The rest is a 108 billion of dollar went to the transition economies, while Asian countries are still the number one destination for investment. Despite the evolution of foreign direct investment rising towards the developing countries, it has effects on the host countries and which has become a subject of hot debate especially with regard to stability, as well as investor confidence in the country in the long term. So is there a positive or a negative effect of economic growth rate and inflation rate on foreign direct investment in the Middle East and North Africa MENA countries is a matter of question. In this backdrop, the study makes an attempt to ensure that the macroeconomic stability and the measured rate of inflation and economic growth play a great role in international capital flows and not in the respective host countries of these investments and in the 15 countries of the Middle East and North Africa (MENA). In addition, it will make some proposals and recommendations that could help these countries in creating conditions favorable for foreign direct investments and savings.

**REVIEW OF LITERATURE**

There are many studies on a global level to discuss the issue of foreign direct investment, these studies are characterized by diversity in nature and curricula used, where the economic literature focused on the study of foreign direct investment on economic factors such as economic growth of the host country effect, exports, and imports, or in general, the balance of payments, national investment private, the labor market in terms of creating new jobs, increasing the wage rate, and raise the production efficiency of the workers. There are also some studies on the impact of foreign investment on the exchange rate of a currency of the host country, and the extent and localization of technology transfer to the host country, and the impact of the activities of these investments on the environment and others. Below we address the models of these studies in order to stand on what has been reached from the results in this area.

Atef Nukaly (1988) studied direct and indirect foreign investment impact on the worsening indebtedness of the developing countries. This study shows how to finance foreign direct investment for expansion in developing countries, through the capital available locally, which contributed significantly to deprive the national investments and recourse to external borrowing to finance its investments, which resulted in the subordination of developing countries to industrialized nations. Romer (1993), in his study found that inward FDI can facilitate technology and knowledge management in the conduct of the host country move. In addition, foreign direct investment flows also facilitate access to export markets and contribute to improving the competitiveness of local companies.

Aitken and Harrison (1999), used the data from 4000 Foundation's in the field of manufacturing industries in Venezuela, during the period from 1979 to 1989 and did not find any evidence of the positive effects of foreign companies on the local companies. The same results were found in the study of Haddad and Harrison (1993), as well as Mansfield and Romeo (1980), where they concluded the absence of a positive impact of FDI on the pace of growth in developing countries in general and in the case of Morocco in particular.

 Blomstrom and others (1994) concluded that the educational level of the population does not contribute greatly to the establishment of a positive relationship between FDI and growth in developing countries flows. This finding contrasts with the results obtained by Borensztein and others (1998) according to whom foreign direct investment stimulates the condition that makes an educated workforce, skilled and effective use of technological spillovers to foreign investment. It produces negative effects of FDI on growth in countries with low levels of human capital. However, the direct effect of foreign direct investment stimulates growth when human capital exceeds a certain threshold.

The study of Borensztein and et al (1998) tested how foreign direct investment on economic growth affected their study by using multiple linear regression equation on data of foreign direct investment from developed countries flow to 69 developing countries over the past twenty years. The study found that foreign direct investment is an important tool for the transfer of technology, and contribute to economic growth, greater domestic investment. In addition to the direct relationship between foreign direct investment and human capital, are higher proportions of foreign investment contribution to economic growth when this investment interacts with the human capital in host countries.

Milo (1999) analyzed the fact that foreign direct investment can be a catalyst for economic growth and capital accumulation and technological progress and appears to be assuming less doubtful on the theoretical side than on the practical side. On the macroeconomic front, economists are interested in the relations between the global foreign direct investment flows and growth in a relatively large sample of countries. Blomstrom and et al (1994) found that there is a need for the role of basic education, and added that FDI inflows will have a positive impact on growth if the country is rich host.

In a study of Shah (1999) the role of foreign investment in the improvement of the economic growth rates in both India and Bangladesh during the period from 1985 to 1995 is studied. The study also makes a comparison between the level of investment and its impact on economic growth of the two rates, the study found that the economic growth of the two countries is progressing very unsatisfactory, and that foreign direct investment flows are minimal effect on economic development, because of the suffering of the two-state of extreme poverty, and a large increase in rehabilitation labor, with the incompetence of the leadership in the two activities.

Tun Wai and et al (1982) studied the impact of foreign direct investment on the economies of developing nations that there are positive effects of foreign investment on the private investments if such investments employ the relevant links of local industries which contribute effectively to the improvement of the quality of local industries rival in the global market, and the increasing domestic exports, improve the balance of payments of the host country. In addition to the increase in foreign investment leading to increased output thereby stimulating domestic investment, as well as the increase in imports of goods, necessary for investment and equipment, consumer goods resulting from increased income, the study has also found that there is a negative impact of foreign investment if headed for the industries competitive domestic industries.

 Salts (1992) in his study reveals the reverse link between foreign direct investment and economic growth in the Third World, where the study was based on an analysis of the impact of FDI on GDP growth rate level of 75 developing countries in the period between 1975-1980. And it has concluded that there is a reverse correlation between foreign direct investment and GDP growth rate. The study has concluded that the empirical results do not confirm to a particular theory.

 Rubio and et al (1994) analyze in their study that in Spain in the period 1964-1984, there is a strong influence of foreign direct investment on growth in the Spanish economy for the past thirty years. The study aimed at the relationship between macroeconomic variables, such as testing the level of GDP and the level of inflation and the influx of foreign direct investment. The study concluded that the surge in foreign direct investment flows after 1986 can be attributed to the expansion of the domestic market and the Spanish to the presence of skilled labor at low wages.

Bleaney (1996) added in his study a sample of developing countries during the period 1980-1990, macroeconomic stability, association with a particular rate higher than the growth of investment (domestic and foreign). This result is explained that good governance macroeconomic (including a limited rate of inflation) generally creates a safer environment for investors, thereby enhancing growth and macroeconomic stability, such as political stability, it is the main determinant of the country's attractiveness to foreign investors.

Garibaldi (2001) study based on panel data model for the 25 transition countries during the period 1990-1999 to analyze the functions of foreign direct investment in terms of macro-economic characteristics of the countries, structural reforms and institutional and legal frameworks and country risks. He pointed out that variables such as the fiscal deficit, and the rate of inflation and the exchange rate, economic reform, and bureaucracy have unexpected and moral references.

As mentioned by Campos and Kinoshita (2002) in the theoretical side, foreign direct investment has a positive effect on economic growth that of the international economy. The author has demonstrated this truth in several experimental studies, and has relied heavily on the idea that foreign direct investment is the engine of growth for the country on the one hand, and to contribute to the adoption of technology and foreign expertise, and improving human capital and increase productivity on the other. This positive external factors are the main means by which the transmission of the positive effects of investment flows come into a wide range of local companies (not just those that receive direct investments).

And in the same area of European Economic Cooperation, the Bevan and Estrin (2002) by using Panel data show that the most important factors for foreign direct investment are a unit of labor per unit of output costs, the distance and the size of the market does not have a significant impact on foreign direct investment.

For the Arab states, Sadek Bulbul (2001) improve that the investment policy of the host country and the business climate are the main determinants of foreign direct investment on the idea that the Arab states are not effective enough to attract foreign direct investment and that these countries do not constitute in fact a free trade area Greater Arab. The researcher concluded that all the dimensions of risk (political and macroeconomic) had a significant negative impact on foreign direct investment flows.Sadni and Sandritto (2008), in the particular case of countries in North Africa and the Middle East, exhibit the fact that foreign direct investment boosts growth, provided inflation rates at a low enough level.

Met with the relationship between foreign direct investment inflows and economic growth in developing countries, much attention in the literature is needed, where most of the researchers have proved that foreign direct investment is one of the most essential elements for growth even though the percentage varies from one country to another depending on the circumstances.

**METHODOLOGY**

This study uses a quantitative method to identify trends or discover explanations for relationships among variables. Study used the tools of the time series data Panel analysis of the relationship between the variables of the study analysis rather than traditional methods, which leads used to spurious regression. The study analyzed the impact of economic instability on FDI flows in 15 countries belonging to the MENA region (Algeria, Bahrain, Egypt, Iran, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia and United Arab Emirates. The data required for the phenomenon in question collected during the study period 1980-2014

The study variables are selected in line with economic theory and previous studies, the study model is as follows:

FDI = β0 + β1 GW + β2 INF

1. Foreign direct investment (FDI).
2. Economic growth rate (GW) as one of the most important indicators of economic stability.
3. Inflation rate (INF) as one of the most important indicators of economic stability.

***Data description***

The study used an annual time series data covering the period from 1980 to 2018. The data were retrieved from the World Bank, International Financial Statistics database and OECD (Organisation for Economic Cooperation and Development)

***Foreign direct investment (net inflows percentage of GDP):***

Foreign Direct Investment net inflows (% of GDP). The IMF defined foreign direct investment as "investment, which is to gain a sustained interest in projects that are managed in a nation other than the state, which belongs to the foreign investor, as well as the acquisition of a foreign investor an effective voice in the management of the project by owning 10% or more of the ownership of the project..

***The annual GDP growth rate:***

GDP is defined as the sum of value added raw goods and services within the country (by local companies or foreign) during a specific period of time, plus taxes on goods minus subsidies. It is the main indicator to measure economic growth, as it covers all sectors of the economy. Also it reflects a clear picture of the economic situation of the country and its suitability for investment. The data included in the study are the terms of dollar fixed for the year 2005 prices.

Contributing to foreign direct investment in the process of economic growth through some channels, including:

* Foreign direct investment is an important element of the composition of the national income for its contribution to fixed capital formation.
* Providing the required technical knowledge that will help to increase the production efficiency of the industries in which foreign investor operates.
* Foreign direct investment on the economic growth of the host country influences through its impact on economic elements (private investment, balance of payments, and the labor market.

***The rate of inflation (CPI):***

The Consumer Price Index, one of the best indicators of inflation measurement, which measures the average price of the basket of goods and services purchased from the consumer side. The content of the basket can be fixed or changed every year at regular intervals. The Laspeyre’s index formula is used in general.

***A) Unit root test:***

The ﬁrst step of the analysis focuses on the stochastic properties of the series by testing for the presence of unit roots. This allows for the identiﬁcation of stationary and non-stationary time series, which in turn permits the speciﬁcation of a model that should not produce spurious results.

Broadly speaking, a stochastic process is said to best sationary if its mean and variance are constant over time and the value of the covariance between two time periods depends only on the distance or lag between the two time periods and not on the actual time at which the covariance is computed. Symbolically, letting Y represent a stochastic time series, that it is stationary if the following conditions are satisﬁed  (Gujarati & Porter, 2009):

1. Mean : E (Yt) = μ
2. Variance : Var (Yt)= E (Yt -μ)2 = σ2
3. Covariance : γk =E[ (Yt -μ) (Yt+k -μ)]

Where γk, the covariance (or auto-covariance) at lag k, is the covariance between the values of Yt and Yt+k, that is, between two values of Y, k periods apart. If k= 0, we obtain γ0, which is simply the variance of Y (=σ2); if k = 1, γ1is the covariance between two adjacent values of Y.

Typically use of traditional tests for stability of time series along the lines of Dickey- Fuller and Phillips- Perron test to test the existence of unit root hypothesis (the ADF and PP test have the non-stationarity of a time series as the null hypothesis), as known for this kind of testing that has a weak possibility to reject the null hypothesis.

We performed in this study the panel unit root tests proposed by the test of HADRI. This test, which takes the stability of variable as a null hypothesis.

**Table 1**: Results of Hadri Stationary test

|  |  |  |
| --- | --- | --- |
| Variable | LEVEL | FIRST DIFFERENCE |
| t-statistic | Prob | Decision | t-statistic | prob | Decision |
| FDIGWINF | 7.3783.7494.203 | 0.00000.00010.0000 | Non stationaryNon stationaryNon stationary | -0.1660.289-0.759 | 0.5660.5570.299 | Stationary\*Stationary\*Stationary\* |

**Source**: Author’s Calculation Data processed by means of Eviews 9.0.

Given the results of panel unit root tests, we concluded that the variables (foreign direct investment, economic growth and inflation) are not stationary at level, suggest that our model series are integrated of order one I(1). So, there is a possibility of the existence of a relationship between the variables of the study should be tested.

***Cointegration Test:***

Afterward, study checked a long-term equilibrium between variables. Firstly, apply the cointegration tests. These tests include the test of Pedroni[[1]](#footnote-1) (1999, 2004) The results are given in the following table.

The existence of a common integration relationship between variables mean from a statistical point of a long-term equilibrium relationship between these variables under study (Gujarati & Porter, 2009).

**Table 2:** Cointegration test of Pedroni

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Test | t-Statistic | Prob | Judgment to H0 | Decision |
| RHOADF | -0.461.506 | 0.6800.934 | Accept H0\*Accept H0\* | No cointegrationNo cointegration |

**Source** : Author’s Calculation Data processed by means of Eviews 9.0

According to Pedroni's cointegration test, it was found that the results are accepting the null hypothesis at level of significance 5%, and thus the lack of relashionship between FDI and indicators of economic stability represented in economic growth and the rate of inflation in the MENA region . Therefore thereis no relationship in the long-term concerns.

As for lag selection, we considered the "VAR Lag Order Selection Criteria" test, which in Table 3 illustrates that for five theoretical lags, all the five criteria (Akaike AIC, Schwarz SC, Hannan–Quinn HQ, Final Prediction Error FPE and Likelihood Ratio LR) recommend a lag equal to 6 for the VAR model.

**Table 3 :** VAR Lag order selection criteria

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Lag | LR | FPE | AIC | SC | HQ |
| 0 | - |  249231.6 |  20.93977 |  20.97045 |  20.95194 |
| 1 |  688.9561 |  43209.29 |  19.18744 |  19.31018 |  19.23611 |
| 2 |  66.16011 |  38033.65 |  19.05985 |  19.27464 |  19.14502 |
| 3 |  68.85993 |  33193.47 |  18.92371 |  19.23056 |  19.04538 |
| 4 |  50.81213 |  30357.54 |  18.83436 |  19.23327 |  18.99253 |
| 5 |  107.3990 |  23810.74 |  18.59138 |   19.08235\* |  18.78606 |
| 6 | 49**.**88280**\*** | 21784.38**\*** | 18.50234**\*** |  19.08537 |   18.73353\* |
| 7 |  8.275485 |  22312.86 |  18.52618 |  19.20126 |  18.79387 |
| 8 |  3.379421 |  23161.97 |  18.56336 |  19.33049 |  18.86755 |

**Source:** Aouthers Calculation Data processed by means of Eviews.

**Note that**: \* indicates the order of the selected lag according to the criterion.

 LR: sequential modified LR test statistic (each test at 5% level)

 FPE: Final prediction error AIC: Akaike information criterion

 SC: Schwarz information criterion

 HQ: Hannan-Quinn information criterion.

***Vector regression model (VAR)***

Relying on self-vector regression model (VAR) is the need of the study since the previous studies have shown the relationship of these variables with each other, and as a result provide statistical terms which will be explained later. The study offers a model in its matrix, as shown in the following formula :

Yt = A0 + Ai Y t-i + Ut

′[FDI,GW,Inf] = Yt

′[e1t e2t e3t] = Ut

Yt : Matrix model variables.

Ut : Matrix model errors.

Ai : a matrix model parameters.

E1t,e2t,e3t: is the random errors of the equations of foreign direct investment (FDI), economic growth (GW) and the rate of inflation (INF).

 p : the number of Lags time.

Study used in the analysis two basic tools analysis (Variance Decomposition) as well as the response to the reaction function (Impulse Response Function), regarded as estimated for each regression error that affects the error terms of other regressions through the dependent variable, in this equation on the grounds that it becomes a variable explaining in the other equation, for example, the random error (e1t) affects the variable (FDI), which in turn affects the random error (e2t) variable in the regression (GW). These simultaneous errors make it difficult to interpret the model parameters, prompting users auto regressive vector model correlation (VAR) to resort to analysis of variance components for (Cholesky Decomposition).

***Analysis of variance components (Variance Decomposition)***

Using analysis of variance components tool to identify the amount of variation in the prediction of each variable of the model, which is due to an error in the prediction of other variables at the same variables.

The results of analysis of variance components of the conclusions of the analysis are shown in Table 4, It was found that the rate of inflation explains the prediction in FDI error more than explained by economic growth, and therefore the rate of inflation has predictive power of the highest economic growth rate in the interpretation of the prediction error FDI ten times the length, as the interpretation of the inflation rate to an error in the prediction of foreign investment is gradually increasing over time, but it remains marginal as it does not exceed 1.24%.

**Table 4:** Analyze of contrast components of foreign direct investment

|  |  |  |  |
| --- | --- | --- | --- |
| FDI (%) | GW (%) | INF (%) | Period |
| 100.0000 | 0.000000 | 0.000000 | 1 |
| 99.95259 | 0.047109 | 0.000299 | 2 |
| 99.93826 | 0.042852 | 0.018886 | 3 |
| 99.83923 | 0.043425 | 0.117344 | 4 |
| 99.54166 | 0.059752 | 0.398585 | 5 |
| 99.42286 | 0.121333 | 0.455809 | 6 |
| 99.26726 | 0.131804 | 0.600939 | 7 |
| 99.08756 | 0.132523 | 0.779921 | 8 |
| 98.85461 | 0.137479 | 1.007915 | 9 |
| 98.62614 | 0.136047 | 1.237811 | 10 |

**Source :** Author’s Calculation Data processed by means of Eviews

The rate of economic growth, remaining the explanatory force almost stable at very low ratios over time which proves that economic stability indicators have a marginal impact in attracting foreign direct investment in the Middle East and North Africa MENA.

***Responding to the reaction function (Impulse Response Function)***

Responding to the reaction function (IRF) is the second tool to analyze the dynamic relationship between the self-regression vector model variables after analysis of variance for Cholesky components. It shows how a function responds to the backlash over the response of each variable of internal model to unexpected shocks in the wrong variables limits of variables, the amount of one standard deviation. This means that the response to the reaction formula calculates the differential matrix model variables function (Y) for the random error term (ut), no (dYt + s / dujt) (Malawi, 2006).

We focus on response of foreign direct investment (FDI) for shock in both the rate of economic growth (GW) and the rate of inflation (INF).

As a conclusion, the VAR model can be considered representative to describe autoregressive connections between economic growth and FDI of MENA region. Based on the model, we can identify nine impulse responses (illustrated in Figure 1) function to respond to the confidence of the reaction period the amount of two standard deviations. :

***Based on the chart analysis we can state the following estimations :***

The results show a positive impact statistically acceptable for decelerations time, foreign direct investment and foreign direct investment for the current period. The results also show a marginal negative impact of inflation on foreign direct investment; this effect is unexplained statistically in most of the studies. The economic growth rate does not affect on foreign direct investment.

**Figure 1 :** Impulse Response Function



Thus confirmed from the results of the response function of the reaction to the results of analysis of variance components agenda, no impact of economic instability on foreign direct investment in the short term is depicted.

***Economic explanation***

Economies have seen the Middle East and North Africa, a sharp decline in FDI inflows due to the global crisis. Where the Arab Company for investments and loans export-oriented "guarantee" in Algeria ranked tenth receipt of FDI flows in 2013 were classified as fell in 2012 despite the increase in 2011.

According to the document, the United Arab Emirates is leading contributing to 10.5 billion, and Saudi Arabia in second place with 9.3 billion, and alone constitute 40% of the inflows to the Arab world in terms of investments. In Saudi Arabia and Qatar continued inflows of FDI depict a downward trend , while other countries are recovering a bit, but still much lower than the levels recorded in the past. It is expected that the Iraqi economy is witnessing a sharp contraction in 2017 (-2.7%), before gradually recovering in 2018 (1.5%). It was expected in 2017 similar growth to that achieved in 2013, or 2.6% oil-importing countries. This is due to the uncertainty related to the political and social stability in some of these countries, in addition to the structural obstacles that affect economic activity. However, it was expected to strengthen the recovery in 2018 to 3.7%, in line with the promotion of exports, especially to Europe.

We find the Republic of Egypt, which is among the Arab Spring countries, in third place in terms of attracting investment to 5.6 billion, or 11.5% of the investment flows to the Arab world, and has been the growth weak 2.2% in 2017, becoming in 2018 (3.5% ). This is related to the weak climate of uncertainty which continues to weigh on economic activity performance.

We find the economic transition in Tunisia due to the political and social tensions which occupies Tunisia thirteenth place with only 1.096 billion, or 2.3% of the investment flows to the region. It is expected the economic activity growth to be 2.8% in 2017 to become 3.7% in 2018, with renewed investor confidence in the wake of the new constitution and a commitment to a series of reforms before the election and withdrawal from social and political tensions. It should be noted that the most important key countries that have invested in the Arab countries and the French investment, which provides many of the partnerships.

There are still many downside risks, which included most notably the political changes in many countries in the region and persistent tensions that led to the aggravation of the decline in tourism, which constitute a large share of foreign exchange earnings in some countries as revenues (Egypt, Tunisia and Morocco).

And still unemployment is too high in the region, especially among young people, where unemployment in Tunisia (15.3% in 2014 and 15.0% in 2018), and Sudan (13.6% and 13.3%) and Egypt (13.4% and 13%) and Jordan (9% and 12.2%).

In addition to political instability, an increase in capital leads to low investment cost, and therefore a decline in foreign direct investment flows and an increase in capital flows in the short term. As well as the budget deficit of oil-importing countries in North Africa in recent years, affected by the European crisis and the increase in social spending. And continuing inflationary pressures in many countries of the Middle East, high oil and food prices and increased public spending as the region depends heavily on imports (cereals, oils and sugar) and some countries are also dependent on oil imports. Where inflation rates in the region amounted to a remarkable increase, especially in Iran (19.8% in 2017 and 20% in 2018), and Sudan (38% and 20.6%) and Egypt (10.1% and 13.5%), Tunisia (5.7% and 5.0%), Iraq (4.7% and 6.2%), Algeria (3.2% and 4.0%). It is anticipated budget deficits gradually in 2017 and 2018, in the wake of falling oil and food bill and the gradual recovery of external capital flows, tourism revenues and remittances from migrant workers.

It is expected to accelerate growth in the Middle East in 2017 and 2018 respectively to 2.6% and 3.8%, compared with 2.3% in 2016. The reason for this increase in activity is renewed economic instability in some countries, increased capital flows, and the recovery of external demand. It should support growth in both oil-exporting countries (2.5% in 2017 and 3.9% in 2018) than it was in the importing countries (2.6% and 3.7%, respectively). It is also expected to boost economic activity for the oil exporters in 2014, compared with 2016, with a recovery in global demand and to maintain consumption and investment levels. It is expected to be 2.5% and 3.9% in 2017 and 2018, respectively, compared with 2.2% in 2016.

**CONCLUSION**

In the study we examined the impact of foreign direct investment on the economies over 1980-2018 in the Middle East and North Africa (MENA) region. We applied the recent techniques in panel. Our results show that the FDI depends on the dynamic interaction of a set of economic, political, regulatory, legislative, and political factors and the reasons behind the investment in the host country, and the way of the entry of foreign investment and the policies of the host countries direction and its investment environment.

For example, some of the Applied Economic Studies found that foreign direct investment on the economic growth of the host country depends on the impact of human capital, which is owned by the state quality. While some studies have found that this effect depends on the degree of development and growth of the financial and banking sector in the host country. Some applicable in the host country's economic policies may have a role in determining the impact of FDI on the economy of that country.

Despite the controversy among researchers on the effects of FDI on the host countries economy, we cannot ignore the role played by these investments in promoting economic development in developing countries, especially Southeast Asia and South East Europe.

***Applied results of the study***

• The study found that the variables of the study are foreign direct investment (FDI), economic growth (GW) and inflation rate (INF) are integrated.

• There is no relationship between the long-term economic stability and foreign direct investment in the Middle East and North Africa (MENA) indicators during the period between 1980 and 2018.

• In the short term, the inflation rate has predictive power greater than the rate of economic growth on foreign direct investment in the Middle East and North Africa MENA.

• A rate of inflation marginally has a negative impact in the short term on foreign direct investment.

• Economic growth has no impact in the short term on foreign direct investment.

***The proposed recommendations***

 Need to encourage foreign direct investment flow through the following:

- Benefit from the experiences of the successful countries in the field of providing the appropriate investment climate to attract foreign investment, such as East and South Asia.

-Need to achieve stability in the macro-economic variables.

- Accelerate structural reforms and the creation of the necessary conditions of the enactment of laws and legislation in order to attract foreign capital by providing facilities and exemptions, incentives and increase confidence in the investment climate, as well as to reform the banking system.

- More efficient investment in the social sectors.

- Building and developing institutional and informational base. This requires an increase in fixed capital formation by increasing the contribution of local and foreign private sector as this has a direct and indirect impact on stimulating economic growth.

- Work to increase domestic savings and achieve complementarities in financing investment depending on foreign direct investment as well as its role in the transfer of advanced technology to these countries.

- Provision of government data and information for sound investment opportunities in the state and assess the economic feasibility.

- Focus on the big projects, which dominate the investment trends in the investment plan, in addition, it also focuses on small and medium industries projects as nutritious industries and the basis for the consolidation of the industrial production base.

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1. The nullhypothesis of Pedroni (1999, 2004) tests is no cointegration [↑](#footnote-ref-1)