



**BINGOL UNIVERSITY
SOCIAL SCIENCE INSTITUTION
BUSINESS ADMINISTRATION DEPARTMENT**

**THE IMPACT OF FOREIGN DIRECT INVESTMENT ON
ECONOMIC GROWTH BY CONSTRUCTION SECTOR IN
KRG-IRAQ**

**Prepared By
AYAD HUSSEIN MOHAMMED**

MASTER THESIS

**Supervisor
Asst.Prof. Dr. Yavuz TURKAN
Co-Supervisor. Dr. Asaad Ali KARAM**

Bingol-2018



BİNGÖL ÜNİVERSİTESİ
SOSYAL BİLİMLER ENSTİTÜSÜ
İŞLETME ANABİLİM DALI

**KRG-IRAK'TA İNŞAAT SEKTÖRÜNDEKİ DOĞRUDAN
YABANCI SERMAYE YATIRIMLARININ EKONOMİK
BÜYÜMEYE ETKİSİ**

Hazırlayan
Ayad Hussein MOHAMMED

YÜKSEK LİSANS TEZİ

Danışman
Asst.Prof. Dr. Yavuz TURKAN
Co-Supervisor. Dr. Asaad Ali KARAM

Bingöl-2018

BINGOL UNIVERSITY
SOCIAL SCIENCE INSTITUTION
BUSINESS ADMINISTRATION DEPARTMENT

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON
ECONOMIC GROWTH BY CONSTRUCTION SECTOR IN KRG-
IRAQ

PREPARED BY
AYAD HUSSEIN MOHAMMED
162203138

MASTER THESIS

SUPERVISOR
ASST.PROF. DR. YAVUZ TURKAN
CO-SUPERVISOR: DR. ASAAD ALI KARAM

Bingol-2018

TABLE OF CONTENTS

SCIENTIFIC ETHICAL NOTICE.....	VII
CONFIRMATION.....	VIII
PREFACE.....	IX
ABSTRACT.....	X
ÖZET.....	XI
ABBREVIATIONS.....	XII
LIST OF TABLES.....	XIII
LIST OF FIGURES.....	XIV
INTRODUCTION.....	1

CHAPTER ONE THE ROLE FOREIGN DIRECT INVESTMENT DUHOK

1.1 STRUCTURAL CHARACTERISTICS OF GLOBALIZATION.....	4
1.2 FOREIGN DIRECT INVESTMENT.....	5
1.3 INTERNATIONAL DIVISION OF LABOR.....	5
1.4 INTERNATIONAL CONTEXT.....	6
1.5 THE STRUCTURE AND COMPETITIVENESS OF FOREIGN TRADE.....	7
1.6 QUALITY OF TRADE STRUCTURE.....	8
1.7 INTERNATIONALIZATION OF RESEARCH AND DEVELOPMENT.....	9
1.8 FRAGMENTATION OF MULTINATIONAL VALUE CHAIN.....	9

CHAPTER TWO CONSTRUCTION SECTOR IN DUHOK CITY-KRG

2. BACKGROUND.....	11
2.1 CHANGING DEMOGRAPHICS.....	12
2.2 DEVELOPING THE SECTOR.....	12
2.3 PRICE INCREASES.....	13
2.4 LIMITED FINANCING OPTIONS.....	14
2.5 COMPETITIVE BIDDING.....	14
2.6 CONSTRUCTION MATERIALS.....	15
2.7 STANDARDS OF SUCCESS.....	16
2.7.1 Real Estate – Limited Income Housing Demands.....	17
2.7.2 Construction in Numbers.....	17

CHAPTER THREE THE ROLE OF FDI ON CONSTRUCTION SECTOR IN DUHOK CITY

3.1 STATEMENT OF THE PROBLEM.....	20
3.1.1 The Research Objectives.....	20
3.1.2 Significance of The Research.....	21
3.1.3 Questions of Research.....	21
3.2 LITERATURE REVIEW.....	22

3.2.1 Introduction	22
3.2.3 Factors Influencing the Inward FDI.....	22
3.2.4 The Impact of KRG Policies to Attract FDI Inflow.....	27
3.2.5 Economic Development and Foreign Direct Investment	30
3.2.6 The Impact of FDI on Employment	34
3.2.7 FDI and Human Capital	36
3.2.8 The Human Capital.....	39
3.2.9 Market Size and Income Distribution	42
3.2.10 Product Cycle	45
3.2.11 Tax Burden	46
3.2.12 Cost of Labor.....	49
3.2.13 KRG Economy	52
3.3 METHODOLOGY	53
3.3.1 Introduction	53
3.3.2 Design of Study	54
3.3.3 Population and Sampling	55
3.3.4 Data Collection.....	55
3.3.5 Primary and Secondary Data.....	56
3.3.6 Interviewing	57
3.3.7 Data Analysis	57
3.3.8 Survey Questions	58
3.3.9 Interpretation of the Responses	59
3.3.10 Research Strategy	60
3.3.11 Sample Size	61
3.3.12 Chapter Summary	62
3.3.13 Research Hypothesis	62
3.3.14 Definition of Terms	63
3.3.15 Variables Table.....	64
3.3.16 Research Structural Model	65
3.3.17 Limitations	65
3.4 DATA ANALYSIS AND RESULTS FINDING.....	66
3.4.1 Descriptive Analysis	66
3.4.2 Reliability Statistics Analysis.....	69
3.4.3 Validity Statistics Analysis	69
3.4.4 Regression Analysis.....	70
3.4.5 ANOVA ^b	71
3.4.6 Coefficients ^a	72
3.4.7 Hypothesis Testing by T-Test	72
4. CONCLUSION	73
REFERENCES.....	76
APPENDIX I QUESTIONNAIRE.....	85
APPENDIX II RESUME	90

SCIENTIFIC ETHICAL NOTICE

This work I have prepared in accordance with the thesis writing rules, which I have achieved in the framework of scientific ethics and tradition within the scope of all the information in the thesis, which I have met with the scientific ethics and academic rules carefully until the conclusion of the proposal phase of the master thesis [The Impact of Foreign Direct Investment on Economic Growth by Construction Sector in KRG] I declare that the works I have shown and utilized for each quotation consist of those shown at the source.

... / ... / 2018

Signature

Ayad Hussein Mohammed

BİNGÖL UNIVERSITY

SOCIAL SCIENCES INSTITUTE DIRECTORATE

[Ayad Hussein Mohammed] This work titled [The Impact of Foreign Direct Investment on Economic Growth by Construction Sector in KRG] [2018/ / Defense Examination History] Thesis defense exam held on the date of [unanimity / majority of votes:] was found to be successful by our jury [Master's Degree Name] Master's Degree in Department of Business Administration has been accepted as a thesis.

THESIS JURY MEMBERS (Title, Name and Surname)

Chairman: Signature:

Advisor: Signature:

Member: Signature:

Member: Signature:

Member: Signature:

CONFIRMATION

This thesis has been accepted by the jury determined in the / / 2018 .. Session of the Board of Directors of the Institute of Social Sciences of Bingöl University.

Title Name Surname

Director of the Institute

PREFACE

[The Impact of Foreign Direct Investment on Economic Growth by Construction Sector in KRG] has been highlighted in the context of "consumer-focused" approaches that are increasingly important to use suitable leadership styles in public and private organizations to reach the best economic development practices of nowadays.

The supervisor who does not spare his help in the preparation of this work [ASST.PROF. DR. YAVUZ TURKAN]; I would like to thank all the contributors who contributed to the [Co-supervisor. Dr. Asaad Ali Karam] who did not spare their contribution in the writing and correction of the thesis and who contributed to my education throughout my life.

I offer my relief gratitude to help keep my morale and motivation at a high level in completing my work.

... / ... / 2018

Ayad Hussein Mohammed

ABSTRACT

Title of the Thesis: The Impact of Foreign Direct Investment on Economic Growth by Construction Sector in KRG-Iraq	
Author	: Ayad Hussein MOHAMMED
Supervisor	: Asst. Prof. Dr. Yavuz TURKAN
Department	: Business Administration
Date	: // 2018
<p>The aim of this study is to analyze the influence of Foreign Direct Investment (FDI) on constructions sector in KRG. The main objective of this study is to analyze the FDI conditions of host country KRG in order to attract FDI from various sources to invest in region. Among the largest investors are Turkey, the Gulf States and the USA. USA has been the largest investor in oil and gas exploration while, Turkey and the Gulf States are the largest investors in non-oil sectors. This research use quantitative approaches. Primary data was generated from officials and companies interviews and secondary was collected from various sources of government publications.</p> <p>These are very important ingredients for future economic development in KRG. The study will face some difficulties from the host country perspective with regard to promotion of FDI in region. The study examinant Policy and conditions recommendations are given in this study in order to improve the government policies regarding incentives, maximization of positive impacts of FDI to constructions sector and long term sustainability of economic growth.</p>	
Keywords: KRG, FDI, Constructions Sector, Economic Development	

TÜRKÇE TEZ ÖZETİ

Tezin Başlığı : Krg-Irak'ta İnşaat Sektöründe Ki Doğruan Yabancı Sermaye Yatırımlarının Ekonomik Büyümeye Etkisi
Tezin Yazarı : Ayad Hussein MOHAMMED
Danışman : Yrd. Doç. Dr. Yavuz TURKAN
Anabilim Dalı: İşletme Anabilim Dal.
Kabul Tarihi :
Sayfa Sayısı : (19) + (91) + (5)
<p>Bu çalışmanın amacı KRG'de doğrudan yabancı yatırımın (DYY) inşaat sektörüne etkisini incelemektir. Bu çalışmanın temel amacı, çeşitli kaynaklardan doğrudan yabancı yatırım çekmek amacıyla bölge ülkesinde KRY koşullarını analiz etmektir. En büyük yatırımcılar arasında Türkiye, Körfez Devletleri ve ABD'dir. ABD, petrol ve gaz arama alanında en büyük yatırımcı, Türkiye ve Körfez Devletleri ise petrol dışı sektörlerdeki en büyük yatırımcı konumundadır. Bu araştırma niceliksel yaklaşımlar kullanmaktadır. Birincil veriler, resmi makamlardan ve şirketlerin mülakatlarından ve ikincil çeşitli hükümet yayınlarından elde edilmiştir.</p> <p>Bunlar KRG'nin gelecekteki ekonomik kalkınması için çok önemli maddelerdir. Çalışma, evsahipliği yapan ülke perspektifinden, bölgedeki DYY'nin teşvikine ilişkin bazı güçlüklerle karşılaşacaktır. Bu çalışmada, teşviklerle ilgili hükümet politikalarının iyileştirilmesi, doğrudan inşaat sektöründeki doğrudan yabancı yatırımların olumlu etkilerinin en üst düzeye çıkarılması ve ekonomik büyümenin uzun vadeli sürdürülebilirliği için çalışma incelemesi politikası ve koşulları önerileri verilmiştir.</p>
Anahtar Kelimeler: KRG, DYY, İnşaat Sektörü, Ekonomik Kalkınma

ABBREVIATIONS

GNI	Gross National Income
SPSS	Statistical Package For Social Sciences
EGC	Economic Growth Construction
IQD	Iraqi Dinar
KMO	Kaiser-Meyer-Olkin
Erbil	The Capital Of Kurdistan
Duhok	Kurdish City
Sulaimaniya	Kurdish City
KRG	Kurdistan Regional Government
BOI	Board of Investment
MOP	Ministry of Planning
GDP	Gross Domestic Product
FDI	Foreign Direct Investment
ASIAN	Association of Southeast Asian Nations
MNE	Multinational Nature Enhance

LIST OF TABLES

Table 2.1 Real Estate.....	17
Table 2.2 KRG Construction in Numbers.....	17
Table 3.3 Definition of Terms.....	63
Table 3.4 Variables of Study.....	64
Table 3.5 Statistics	66
Table 3.6 Gender.....	66
Table 3.7 Age.....	67
Table 3.8 Marital Status	67
Table 3.9 Monthly Income.....	68
Table 3.10 Manpower.....	68
Table 3.11 Reliability Statistics.....	69
Table 3.12 KMO and Bartlett's Test.....	69
Table 3.13 Model Summary.....	70
Table 3.14 ANOVA ^b	71
Table 3.15 Coefficients ^a	72
Table 3.16 One-Sample Test.....	72

LIST OF FIGURES

Figure 2.1 Total Projects in the Kurdistan Region.....	18
Figure 3.2 Research Structural Model	65



INTRODUCTION

The demand for constructions are increasing worldwide at a tremendous rate, and as the global population increases there is an expanding potential for countries to constructions for local use and for international. Despite its recent reforms made in its constructions sector, KRG constructions remain an unstable and underdeveloped part of the economy. This is because KRG lacks infrastructure and governmental programs focused on construction. After the collapse of the saddam al hussein system, the KRG economy has had major difficulties in expanding sales of KRG products in nearly every sector of its economy including construction. Given its good reputation but recent underperformance, this thesis focuses on the constructions sector of industry under the assumption that it could grow substantially if more investment in the sector was made. Specifically, this thesis focuses on the potential for revitalizing and growing the building sector of KRG through foreign direct investments (FDI).

According to the ministry Statistical Service of the KRG, 60 % of constructions sector KRG is well-known in the region for their high-quality. From examples set by other countries, it is clear that a flow of international capital into certain sectors of an economy can create the necessary conditions for economic growth in that sector.¹ The present thesis investigates the characteristics of companies with FDI in KRG including their perceptions of the environment in KRG. It also analyzes the determinants that would entice companies to increase their FDI in KRG while applying the findings to implications about attracting FDI to the constructions industry. An effort is made to address other issues related to financial interventions in constructions as well as how specialization may aid in the recovery of KRG constructions sector.

Some problems that the constructions industry in KRG faces are systematic and likely would need to be solved through government intervention. For example, liquidities could potentially be solved at the government level. Another problem is that the industry does not take advantage of scale economies but is rather driven by the output of mostly small business which creates economic inefficiencies. Old technique creates enormous production inefficiencies for nearly every construction. This is where

¹ Zarsky, Lyuba. *International investment for sustainable development: Balancing rights and rewards*. Earthscan, 2005: p, 225.

international investment may potentially play a significant role in improving the situation. Literature on the experience of other countries with regards to improved technology in workplace after FDI will be discussed.

The experience of firms and individuals who have invested in various industries of KRG is used in this thesis to identify the main challenges and difficulties that could create barriers to investment in Region for the future. The methodology selected to obtain data and complete an analysis to address these issues was to conduct a survey of businesses in KRG that already have major investment from foreign sources. A questionnaire was developed to study the experience of foreign investors in Region. The aim for present thesis was to obtain a perspective from foreign firms and foreign individuals who have invested. The interviews with foreign business owners and managers in KRG provide information about doing business in Region and inform other potential investors about what they should consider before they invest in a KRG industry such as building apartment.

In the course of the research, the researchers visited Erbil twice which is capital of region, to conduct the survey with foreign investors. A questionnaire had 20 questions and arrangements were made to meet and administer the questionnaire with business managers primarily in Erbil, the capital of KRG. The questions ascertained the attitude of foreign investors about the economic situation in KRG including their perceptions about the level of corruption, economic freedom, the political and economic stability in KRG, and potential for operating profitably in Region. An econometric software package called SPSS was used to determine the influence of FDI on constructions sector. The software is based on regression models so the results of the survey are based on the statistical significance of individual coefficients for variables in an econometric model of FDI. The survey questions about whether or not the investors were willing to increase their investments during the next two to five years in region were the primary dependent variable in the econometric analysis. Expected future investments essentially encapsulate other factors that the firms consider to be crucial regarding their future investments in KRG.

The other issue that needs attention is the presence of monopolies in many of the areas of the economy, including agriculture. Some businessmen have gained excessive

power and control of the imports and exports of some goods. This creates uncompetitive markets for startup as well as existing firms. These firms also have power to ban certain business ideas and initiatives. The monopoly of certain goods like sugar or cotton also affects the prices of other goods and makes it more difficult to do business in KRG. However, most of the crops are freely traded within the country and can also be exported to other countries. The survey attempts to analyze the openness of the economy in KRG as viewed by foreign investors.



CHAPTER ONE

THE ROLE FOREIGN DIRECT INVESTMENT DUHOK

There are many important questions concerning the role of FDI in shaping the innovation performance of a host country. To what extent does FDI serve as a source of innovative ideas and concepts? What are the factors that encourage transnational corporations to perform research and development activity in the host country? Does FDI represent a significant channel for the transfer of technology to host economies? Is knowledge flow reflected in patenting activity on the local market? This paper attempts to answer these questions using some empirical evidence based on FDI in KRG. The main objective of the paper is to assess the role of FDI in the creation and on Construction Sector in Duhok City-KRG. In particular, the involvement of FDI firms in research and development activity on the KRG market is examined. Empirical studies have shown that the innovation performance of various countries is largely determined by the capacity of firms to exploit the benefits of local basic research and to imitate technological applications originally developed elsewhere.² Therefore, it is interesting to find out to what extent FDI serves as a way of technology transfer in the case of KRG as well as an inspiration for creating new ideas and introducing innovation.

1.1 STRUCTURAL CHARACTERISTICS OF GLOBALIZATION

The nature of global economic activity has a significant impact on the increasing mobility and range of migrating production factors that increasingly include, besides industrial production and physical capital, the flows of services, R&D and human capital that result in flows of skilled workforce and investment in technology and expertise. Together with the changing technology, production, investment and trade flows, the share of emerging markets in the global output has been increasing. By 2015, China will have become the second strongest world economy, with India increasing its economic power as well. Production factors will always be directed into the countries with the highest economic or social return that is dependent on their structural characteristics, i.e. the quality of physical and human capital, market size, growth potential, transport costs and barriers preventing the entry. The current emerging economies show high

² Patel, Parimal, and Keith Pavitt. "The continuing, widespread (and neglected) importance of improvements in mechanical technologies." *Research policy* 23, no. 5 1994:pp, 533-545.

production in skilled human capital and R&D expenditure (although from a significantly lower base when compared to developed countries). Therefore, in the not so distant future, these countries will be, due to their strengthening domestic knowledge base, able to compete with more developed countries in a wide range of products, i.e. not only in low value added segments of products and services where their production costs are markedly lower.

1.2 FOREIGN DIRECT INVESTMENT

Since the 1990s, the development of the global economy has been characterized by foreign direct investment flows growing faster than world trade. Even though the position of developed countries, i.e. the United States and the EU, remains the most important, the share of emerging markets has quickly become more significant (China's share went up from 2% in 1990 to 10% in 2004). Unlike in the past, they are not used just as locations for cheap production but they also attract an ever increasing share of investment in high-quality activities, i.e. research, development and innovation activities. Together with the growing importance of trade and services, the importance of FDIs has also been growing in this sector. Foreign companies play a bigger role in R&D performance in the host economies. FDIs are important for the parent company since they provide for more efficient production, access to new markets and adoption of new technology. From a macroeconomic perspective, FDIs help restructure economies according to the changing comparative advantage. The majority of FDIs from EU countries go to OECD countries, but the share of emerging economies is increasing as well. Differences in FDI development are also apparent within the EU, with the old EU countries losing FDIs in favor of the new members.

1.3 INTERNATIONAL DIVISION OF LABOR

The growth of trade flows as a result of globalization has initiated a discussion on the impact of the international division of labor and production. An increasingly important role of emerging markets (especially India and China) in EU trade stresses the differences in relative factor endowment among trade partners. These differences subsequently influence industry specialization, thus affecting the labor and investment

demand in individual member states.³ Special attention is paid to the influence of globalization on individual industries within the EU and on the demand for groups of (differently skilled) employees and to the ability of the qualification supply to react to changes in the qualification demand structure.

1.4 INTERNATIONAL CONTEXT

Developed countries have steadily shown long-term growth in trade openness (the share of trade in GDP). A new trend is the growth of inter-industry trade within the EU since the beginning of the new millennium (and since 1996 in the United States) that significantly decreased in the previous period.⁴ This is in part due to the increased importance of trade in raw materials (especially oil imports), but this trend also significantly impacts manufacturing. The change is especially attributed to the increased importance of trade among countries with different factor endowments, i.e. with different levels of economic development and, subsequently, trade specialization. Available empirical studies have shown so far that the fears of globalization negatively impacting the labor market are groundless; the impact on total employment seems to have the opposite effect. However, the impact on particular industries or skills should be examined, particularly in combination with their regional concentration. In comparison to intra-industry trade, the development of inter-industry trade may be connected to higher adjustment costs incurred as a result of the affected industries within the EU losing their comparative advantage. The increased trade importance of China and India and the related change in the industry specialization of their comparative advantage provokes fears in developed countries of decreased demand for less skilled labor force, followed by an increase in the unemployment rate of this particular group and a decrease in relative wages (increased income inequality). These fears may be substantiated in companies that relocate their activities to cheaper locations, using to a large extent unskilled labor force (outsourcing), e.g. assembly of parts, and, on the other hand, increase the extent of activities performed by skilled employees (technology development and design). Nevertheless, from a long-term perspective, it may be expected that the Chinese technology level will improve and this may result in a

³ Kaderabkova, A. "Quality-Intensity of the Czech Economy in International Comparison." 2005 p, 209.

⁴ Hollanders, Hugo, and Anthony Arundel. "European sector innovation scoreboards." 2005, p 547.

repeated change in the nature of trade with EU countries, shifting from traditional (labor-intensive) products toward more technology sophisticated segments (in EU imports, the share of these segments has already increased significantly over the past five years).⁵

However, the impact of globalization on the labor market need to be examined in a more comprehensive way, taking into account both static and dynamic effects of the specialization development in the EU and its current less developed trade partners (including the linkages among these effects). The decrease in the demand for less skilled labor in manufacturing in the EU may be softened by its growth in the non-tradable sector (i.e. services). An important improvement in educational attainment in developing countries may change the focus of their specialization (the sources of a comparative advantage) in favor of more quality intensive activities. On the other hand, higher external openness increases competition, supporting innovation performance. New technology requires higher skills, thus lowering the demand for less skilled labor. It also needs to be considered that among the various EU countries, there are significant (structural) differences in labor market characteristics that may make the identification of the globalization impact on unemployment and wages (groups with different qualification levels) more difficult. Nevertheless, this identification is necessary for a corresponding adjustment of the related policies that condition their effectiveness.

1.5 THE STRUCTURE AND COMPETITIVENESS OF FOREIGN TRADE

After EU accession, the foreign exchange of goods in all the new member countries in Central and Eastern Europe became more intensive. However, the Czech Republic was the only country that had a positive trade balance in 2005. Also significant was a shift in competitiveness reflected by an increased share of Czech exports in EU-25 imports-reaching 2.6%, compared with 1.5% in 1999. Rather than EU accession itself, international trade in the Czech Republic was more influenced by long-term structural changes related to former FDI inflows with a significant export-enhancing focus. FDIs also negatively affect the trade balance by importing investment goods and production components. In general, in the first stage of FDI, the pro-import influence is predominant, with exports growing gradually afterwards. In many cases, local

⁵ Sturgeon, Timothy J. "Global Value Chains and Economic Globalization." *Towards a New* 2013, p. 5.

manufacturers replace foreign component imports, which further softens the influence of FDI on imports. Currently, the main investment importing stage has ended and the pro-export effect is beginning to become apparent.

1.6 QUALITY OF TRADE STRUCTURE

In terms of competitiveness within the global market, the position of a given country in international trade needs to be considered, i.e. the quality intensity of the value chain. The comparative advantages and specializations of national economies have been traditionally perceived in terms of trade in final products or the industry focus of exports. However, territorial fragmentation makes it possible to locate production according to the factor intensities of individual stages of the production chain rather than the average factor intensities of the final products. Due to their comparative advantage in the production of labor- or material-intensive components or the assembly of final products, less developed countries may therefore become more intensively involved in the international division of labor even when it comes to producing high tech products. From 1995 the export structure of new (more developed) EU members shifted strongly in favor of medium-high-tech industries. This mostly applies to engineering, electric technologies and the production of transport vehicles. These industries are able to compete in quality, as documented by the current growth of export prices and the EU-15 market share.⁶ The characteristics of the specialization and geographic focus of trade linked to the intensity of integration into the multinational value chain have an important effect on the development of intra-industry trade. Within the multinational chain, products in different production stages are exchanged within the same industry. An increase in intra-industry trade in manufacturing between 1995 and 2002 is evident in most EU countries. In the Czech Republic, a major increase was recorded in high-tech industries, especially in the production of office equipment. On the other hand, intra-industry trade in medium-high-tech industries was already high in 1995, and subsequently tended to decrease gradually.

⁶ Landesmann, Michael, and Julia Wörz. *CEEC's Competitiveness in the Global Context*. No. 327. The Vienna Institute for International Economic Studies, wiiw, 2006, p.75.

1.7 Internationalization of Research And Development

The benefits of FDI for the host economy and its role in economic and technology catch-ups can be differentiated into exogenous (short-term) and exogenous (medium to long-term). Exogenous benefits include transfers (improved and redirected production processes, new equipment and machinery, new products, capital imports, new production methods, new corporate functionalities) related to localized effects for foreign affiliates (an improved linkage between the costs and quality of products, increased production factor efficiency, accelerated upgrading and restructuring). The subsequent development stage brings about endogenous impacts in terms of the adoption of knowledge transferred from the parent company to the foreign affiliates (technology, know-how, and best practices) and the diffusion of new processes and knowledge spillovers into local companies. There are also indirect effects in the host economy (development of more complex activities with higher value added) as well as direct effects (vertical links to local suppliers and other producers, increased level of spillovers and diffusion of new processes). The extent and intensity of spillovers are decisively influenced by the prevailing type of innovation strategies in the foreign affiliates especially distinctive in terms of motivation and intensity of internal research activities.

1.8 Fragmentation of Multinational Value Chain

The importance attributed to the (multinational) value chain structure reflects the position of EU members with a less developed knowledge base combined with a strong presence of the FDI business sector. While assessing the competitive advantage of these countries, the geographic fragmentation of the value chain must be considered, when different (qualitatively distinctive) segments are located in different countries. Less developed countries mostly host segments exploiting the advantages of low cost inputs. A decision to invest in a country at a similar or higher level of knowledge development is usually motivated by access to specific assets, such as new technology.⁷ The quality of factor endowment (factor intensity) and the level of technology capacities affect the depth of trade specialization as well as the motivation for FDI inflows as a potentially important source of technology transfer. As to the value chain structure differentiated in

⁷ Gaulier, Guillaume, Françoise Lemoine, and Deniz Ünal-Kesenci. "China's integration in East Asia: Production sharing, FDI & high-tech trade." *Economic Change and Restructuring* 40, no. 1-2, 2007: pp. 27-63.

terms of input quality intensity, the production segment is usually the least developed. It can be based on imported technology, employing staff trained for simple operational tasks, for example to work on automated assembly lines. On the other hand, the complete chain includes not just production itself but also R&D activities and other knowledge-intensive segments. However, these usually remain located in the foreign investors' home country where the knowledge base has already been appropriately developed.



CHAPTER TWO CONSTRUCTION SECTOR IN DUHOK CITY-KRG

2. BACKGROUND

Although the Board of Investment (BOI) suspended the issuance of housing licenses in 2012, the real estate sector remains an attractive industry for both local and foreign investment. As a result of demographic shifts and increased urbanization, a variety of different developments are required to meet the growing need for both residential and commercial real estate. As indicated by the Ministry of Planning (MOP) Regional Development Strategy, the large demand necessitates engaging a variety of influential entities in housing production to ensure that the diverse needs of the local population are met. Residents of urban areas require multi-story buildings capable of accommodating significant numbers of people. These facilities are more likely to be completed by construction companies with significant investment capital. At the same time, there is still need for single-family units that can be implemented by a wider range of construction companies. Thus, opportunities in the real estate sector are numerous. The reforms and new practices that have been implemented have made the industry more competitive than ever.

According to BMI: The Iraqi semi-autonomous Kurdistan region will outshine the rest of the country in terms of investment potential over the next few years. The construction sector will outperform the energy industry, as the ongoing dispute over oil revenues with Baghdad increases risks for oil companies.

The Iraqi semi-autonomous Kurdistan region will continue to attract significant investment over the coming years, outperforming the rest of the country. There are currently approximately USD46bn worth of projects planned or under way, particularly in the energy, construction, tourism and infrastructure sectors, making the region one of the most dynamic projects markets in the Middle east and North Africa.

A host of factors make Iraqi Kurdistan attractive to investment. For one, the legal framework is friendlier to foreign companies compared to the rest of Iraq. Under the Kurdistan Regional Government's (KRG) 2006 investment law, foreigners are allowed to own land for the purpose of housing projects, which is not permitted in the area

administered by the federal government. Legislation also ensures equal treatment of foreign and local investors, and no restrictions on capital movement. Finally, the KRG guarantees a 10-year tax break for new investors. Although we expect Baghdad to attempt to improve the business environment in areas it directly administers over the next few years, bureaucratic bottlenecks and the slow political process will in our view impede a catch up with the KRG.⁸

2.1 Changing Demographics

Since 2003, the housing sector has developed significantly in Kurdistan. Housing prices have risen anywhere from 400% to 1,000% in the last decade. The vast majority of the population of the Kurdistan Region lives in their own homes: in total, 79% of the Region's residents live in houses. From a demographic standpoint, this number is higher (89%) in rural areas than it is in urban areas (77%).

Despite these indicators, the housing sector remained strong through 2011. A major reason for this was the shift in local preference towards single-family homes. As indicated by KRSO reports, household sizes in the Kurdistan Region at that time were fairly large. 29% of all households surveyed reported having four or more children, but 61% of respondents indicated that they lived in households of six or more total residents. Moreover, high birth rates and the large-scale return of the Kurdish diaspora fueled a dramatic population increase. As such, expansion in the housing market was necessary.

2.2 Developing the Sector

From the creation of the BOI in 2006 until housing licenses were suspended in 2012, nearly \$30.5 billion of investment flowed into the Kurdistan Region, with a significant majority of that total destined for the real estate sector. In that six-year period, 166 housing projects were licensed for a total investment expenditure of \$13.7 billion (approximately 65% of all investment capital at that time). Since the suspension of housing licensing, that percentage has dipped considerably. Currently, a total of 594 projects have been authorized by the BOI. The total land allocated for those projects totals 11,489 acres. By comparison, 6,057 acres were allocated for housing projects.

⁸ BMI research. "Iraqi Kurdistan: Construction Over Energy" <http://www.bmiresearch.com/articles/iraqi-kurdistan-construction-over-energy> Sunday, May 14, 2017.

Thus, nearly 53% of all land authorized for investment projects was intended for housing projects alone. On a governorate level, Erbil was clearly the epicenter of housing construction, with 81 projects totaling \$8.89 billion. In contrast, Slemani implemented 45 projects totaling \$2.25 billion in investment and Duhok executed 40 projects totaling \$2.55 billion. In addition, the amount of land allocated for housing projects in Erbil (3,804 acres) was more than that of Slemani (1,353 acres) and Duhok (899 acres) combined. This rapid expansion of the sector across the entire Region energized the market, provided job opportunities, and allowed for further development of the commercial sector.

2.3 Price Increases

The vast majority of the licensed housing projects were designed as luxury villas or expensive apartment complexes. These projects satisfied the expanding demand for such facilities, but did not assist in the problem of low- and middle-income families. Thus, effective solutions were needed to insure that limited income families were provided with the opportunity to attain modern living facilities. In July 2012, the MOP established a new, affordable housing strategy for the Region. The strategy was predicated on an earlier housing program implemented in Erbil which met with success. The new strategy included measures relating to land allocation, financing, housing provisions, building materials, and social infrastructure. In addition, the Ministry of Housing and Reconstruction (MOHR) sought to find an effective solution to this issue. After 2011, the MOHR began to set aside approximately \$250 million to finance the construction of 5,000 housing units for underserved income levels. In addition, construction standards were implemented to ensure that such facilities would be completed to a high level of quality. However, a housing shortage for limited income families remains. According to MOHR sources, the Kurdistan Region must invest a minimum of \$172 million per year and construct at least 50,000 housing units annually if it hopes to resolve the current housing crunch within the next decade.⁹

⁹ Investinggroup. "Numerous large-scale construction and real-estate projects of the Kurdistan Region." <http://investinggroup.org/review/241/heads-up-construction-kurdistan/>. Sunday, May 14, 2017.

2.4 Limited Financing Options

If the banking sector were further established, the burden of this housing shortage might be reduced and additional projects could be financed. However, the absence of a strong financial institution, and subsequent lack of a credit system, has hampered further development in the real estate sector. In countries with more established banking systems, financial institutions are able to offer competitive loans to both individual homebuyers as well as companies seeking to fund development projects. However, with no such market in existence, locals are generally forced to make up-front payments in cash. In addition, large-scale companies are required to look outside the Region for financing, a process that can slow or even cancel potential projects. In an effort to improve this deficiency, the MOP has prioritized establishing a modern housing finance system. As indicated by MOP reports, “The KRG will review and improve the laws and regulations related to our financial system to make possible the widespread provision of long-term housing finance, such as mortgages, by NGOs or private financial institutions.”

2.5 Competitive Bidding

Early on in the development process, the KRG was eager for foreign companies to increase their involvement in the Region. International expertise and overall knowhow were needed, and foreign technical knowhow was prioritized in order to help modernize an outdated infrastructure system. However, this system did not allow for the creation of a structured bidding process that weeded out companies that were unsuitable for the larger, more strategically significant projects. As a result, multiple investment or infrastructure development projects were delayed or canceled altogether.

In an effort to improve the system, the MOP promoted the implementation of select standards to ensure a more efficient, regulated system: “The KRG will make sure to select qualified companies based on competition to ensure that we get the highest quality for the best price. We will also make sure that this involvement is transparent, with precise data being collected and shared, and that the results of government involvement are monitored and evaluated.” This shift in policy has also impacted the tendering process. For example, the MOHR implemented a pre-qualification stage for

any project with a budget in excess of \$5 million, which automatically qualifies it as “strategically significant”. Companies now wishing to pursue such projects are graded according to their technical and financial capabilities, as well as by the similarity of the projects they have completed in the past five years. “We have been able to eliminate some companies that were not capable of completing these projects successfully,” notes Minister Kamaran Abdullah. “We recently began the tendering process for a new tunnel project. 91 companies expressed an interest the project. In the second stage, after the pre-qualification process, only 19 companies remained, and we sent invitations to bid to those 19 companies. So, the process has been improved,” Minister Abdullah adds. Steps such as these have helped to streamline both the licensing and bidding processes, and have ensured that all companies entering the Region are both qualified and capable.¹⁰

2.6 Construction Materials

Generally speaking, a burgeoning construction sector allows for the development of additional fields, thereby fueling further economic growth; a key area that is often positively impacted by development is the production of construction materials. Although local production of construction materials is ideal, in the Kurdistan Region this is not the case. “Most of the construction materials utilized in the Kurdistan Region are imported from abroad,” explains Minister Herish Muharam, the Chairman of the BOI. This reliance on imported products has weakened the economy of the Region, as it prevents a potentially lucrative sector from properly developing. Moreover, because construction companies have been forced to import the majority of their products from abroad, their schedules can be impacted and numerous delays can occur as a result.

To combat this issue, the KRG prioritized local production of the materials that were below the required levels, including cement, bricks, concrete blocks, gypsum, ceramic, and cobble, as well as manufactured goods such as windows, plumbing supplies, and electrical appliances. As stated in an MOP report on the subject, “...It is necessary to stimulate the manufacture of these materials, develop their quality, reduce the cost of production and make them more environment-friendly in order to back the

¹⁰ Investinggroup. " Numerous large-scale construction and real-estate projects of the Kurdistan Region." <http://investinggroup.org/review/241/heads-up-construction-kurdistan/>. Sunday, May 14, 2017.

housing program and contribute to its success through supporting the private sector factories, encouraging them to increase production and productivity and improving product quality, privatizing the public enterprises producing construction materials, and completing their rehabilitation.” There have since been signs that the necessary development is occurring.

Local plants are now producing approximately 3,000 tons of steel per day, with plans in place to increase that number to 1.5 million tons by 2016. Local production of concrete has seen similar advances, with the Region now having a capacity of 35,000 tons per day. Officials at the Ministry of Trade and Industry have targeted an increase in that number to 150,000 tons per day, which would allow for export to neighboring countries that are also in need of high-quality construction materials. “So, in contrast with the socialist system of the past, today 99% of these facilities are owned by the private sector,” points out Sinan Çelebi, the KRG Minister of Trade and Industry. Nearly 90% of the buildings currently under construction in the Region are primarily being completed with local materials produced by the private sector.

2.7 Standards of Success

Despite these obstacles, the housing and construction market in the Kurdistan Region remains highly attractive and in need of further investment. The signs that the sector is on the right track are evident, with numerous large-scale, highly successful projects either under construction or already completed. Empire World, one of the Region’s largest real estate project, boasts a budget of \$2.3 billion and is perhaps the best model of this growth. Slated to be completed in 2017, the project includes 88 high-rise towers, 300 luxury villas, a five-star Marriott Hotel, and numerous commercial structures. By utilizing a local workforce and, whenever possible, local materials, the development has charted consistent growth since construction first began in 2007, and is expected to become one of the most eye-catching areas in all of Kurdistan.

2.7.1 Real Estate – Limited Income Housing Demands

Table 2.1 Real Estate

	Kurdistan	Erbil	Slemani	Duhok
Total Existing Housing Units	1,131,700	478,600	473,800	179,300
Total Existing Limited-Income Housing Units	113,170	47,860	47,380	17,930
Existing Houses To Be Replaced Annually	2,829	1,197	1,185	448
New Housing Required Annually	3,039	1,285	1,272	481
Annual Provision for Gov. Supported Housing	5,869	2,386	2,393	1,091

Similar models of development can be seen in the Park View project, which consists of 12 multi-story luxury apartment buildings situated above a shopping facility and numerous restaurant options, and The Atlantic, a combination apartment and luxury villa complex that has already been met with praise from the local community.

Moreover, in Slemani, Faruk Group Holding has partnered with Dubai's Emaar Properties, the largest real estate developer in the Gulf, to create a \$2 billion resort that will feature hotels, restaurants, and shopping centers. Projects such as these support the idea that the future of the construction sector is bright in the Kurdistan Region. Indeed, at present, there are 78 major projects active in the sector, which register a combined total of \$5.8 billion in investment.

2.7.2 Construction in Numbers

Table 2. 2 KRG Construction in Numbers

Annual Housing Demand	58,690 units
Total Investment (2006-2012)	\$13.7 billion
Total Projects (2006-2012)	166
Investment needed (2013-2020)	\$1.3 billion
Houses in Need of Rehabilitation	283,000 units
Land Allocated	6,057 acres

\$13.7 billion in total, Investment capital: Duhok Governorate: \$2.55 billion, Erbil Governorate: \$8.89 billion, and Slemani Governorate: \$2.25 billion, 166 total projects in the Kurdistan Region

LICENSED PROJECTS
166 total projects in the
Kurdistan Region



LAND ALLOCATED FOR
HOUSING PROJECTS

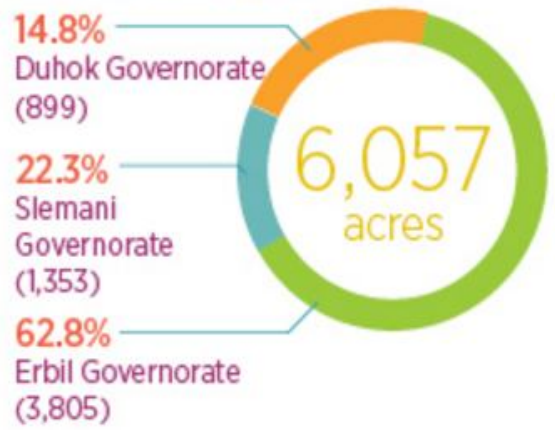


Figure 2. 1 Total Projects in the Kurdistan Region

CHAPTER THREE

THE ROLE OF FDI ON CONSTRUCTION SECTOR IN DUHOK CITY

A host of factors make Iraqi Kurdistan attractive to investment. For one, the legal framework is friendlier to foreign companies compared to the rest of Iraq. Under the Kurdistan Regional Government's (KRG) 2006 investment law, foreigners are allowed to own land for the purpose of housing projects, which is not permitted in the area administered by the federal government. Legislation also ensures equal treatment of foreign and local investors, and no restrictions on capital movement. Finally, the KRG guarantees a 10-year tax break for new investors. Although we expect Baghdad to attempt to improve the business environment in areas it directly administers over the next few years, bureaucratic bottlenecks and the slow political process will in our view impede a catch up with the KRG.

The security situation in the semi-autonomous Kurdistan is also significantly more stable compared to the rest of the country, largely because sectarian divisions are much less pronounced. Close to 4,500 US soldiers were killed in non-Kurdish areas of Iraq between 2003 and 2011, while no Western coalition soldier died in the KRG. The Kurdish security forces' headquarters in the regional capital Erbil was the target of a successful suicide attack in September 2013. However, this was the first major attack in the region since 2007, which stands in contrast with near-daily violence in Baghdad, Mosul, Kirkuk and the Anbar province.

In terms of the economy, real GDP growth reportedly expanded by 12.0% in 2012, compared to growth of 8.4% in the entire country. The KRG's Ministry of Planning is targeting 8% annual GDP growth through 2016, a target which we believe to be realistic (and largely in line with our forecasts for Iraq). Importantly, Iraqi Kurdistan has a population of approximately 6.5mn people, much smaller compared to a Kurdish Diaspora estimated at approximately 35mn people. Since the KRG is the political entity with the highest degree of stability and independence among those populated in majority by Kurds in the world, the diaspora will remain a key source of investment and tourism over the next decade. This will provide a significant cushion against the potential for increasing political risks in Iraq over the next few years.

3.1 STATEMENT OF THE PROBLEM

The main problem for this study is misunderstanding and misinterpretation of the Kurdistan security since FDI requires economic and political security. Many investors especially those are foreigners afraid of the security situation of Kurdistan. Hence, such misunderstanding is due to the mass media that sometimes generalize Iraqi security, while according to Lenarz Kurdistan is among the safest place in the region and the Middle East especially for doing business. As one of the foreign businessman recaps in the interview with BBC in Erbil, the capital of Kurdistan “You have zero worry.¹¹ As businessman, you don’t have to be preoccupied with the security hassle in other cities like Baghdad. To tackle the problem government had to provide more information for outside world regarding the differences between Iraq and Kurdistan in regards to the political and economic security and stabilization.¹²

The second problem of this study is imbalanced distribution of investment projects according to the sectors for example constructions. Some sectors like agriculture and education is not well defined by the government investment policy, while most of the investment projects are in the housing and energy sector. Therefore, constructions directly relates to the daily lives of the people and education creates human capital in which contributes to the economic development of any country and labeled as one of the characteristics of development in any country. Up to now, the KRG couldn’t diversify investment based on the needs of the people and current condition of Kurdistan. So, The more investment needed in other sectors in order to achieve sustainability and development goals in particular to the sectors that have direct links to the social needs and social well-beings.

3.1.1 The Research Objectives

1. To explain the policies used by the KRG to attract FDI on construction sector.
2. To determine how FDI allocated on construction sector in Kurdistan.

¹¹ Abdullah, Nabaz Nawzad. "The Role of Foreign Direct Investment in Developing Kurdistan's Economy." *Browser Download This Paper*, 2016, p. 127.

¹² Oraiby, Jinan Soaad, Haider Talib Hussain, Asaad Abdullah Abbas, and Maher Mohammed Hassan. "Growth Assessment in Asthmatic Patients." *IRAQI POSTGRADUATE MEDICAL JOURNAL* 12, no. 3. 2013, pp.372-382.

3. To investigate the impact of FDI on constructions sector in KRG.
4. To suggest ways of improving FDI on constructions sector in KRG

3.1.2 Significance of The Research

This research is very important to be conducted for several reasons. The most significant objective to conduct this study is to find out whether the government has been successful in using FDI to promote economic development through constructions sector and rapid growth. Besides, it would be an important literature for the economists and the Region to conduct further research on this topic since the main focus of the government for now is investment in order to build strong infrastructure and economic base for the future social, political and economic development. The other significance of this study could be evaluated in terms of the recommendations and findings of this research. Investment project should have long term benefits for the host country; therefore there are many critics on the quality and the mechanism of implementing the projects. Some sectors are much more important than other sectors, but the government concentrated mainly on some other sectors. So, this study will come up with some suggestions and recommendation that KRG could use it to maintain its efficiency and effectiveness. Since Kurdistan is newly economic powerhouse in the Middle East, few researches and studies conducted about its development and many people doesn't have a hint about the rapid development that happens in Kurdistan. So, this study could be a fundamental tool for those who wants to know about the integration of investment and economic growth in Kurdistan and attracts academics to give more attention in the KRG policies that aims to develop its economy.

3.1.3 Questions of Research

- What are the conditions used by the KRG to attract FDI on construction sector?
- How FDI has been allocated in KRG on construction sector?
- What are the barriers to FDI on construction sector KRG?
- What are the effects of FDI on the construction sector in KRG?

3.2 LITERATURE REVIEW

3.2.1 Introduction

Literature review is a very crucial part of the research that helps you to understand and become familiar with the work of other scholars. Also, it will try to engage some of the scholarly articles and writings about the role of Domestic and foreign direct investment in developing economy. In other word, the literature mainly focuses the side effects of investment over the economic growth in different parts of the world which somehow relates to Kurdistan. Nowadays, economic development to some extent linked to the development of the human capital and investment or the flow of the capital and goods. Countries are trying to attract foreign direct investment. In fact, foreign direct investments become a major determination of the economic growth. Economic development is characterized as the improvement in the quality of life, the economic well-being of the nation, targeting economic objectives, low unemployment rate, more job opportunities, technology transfer, infrastructure development and many other factors. So, the objective of the literature is to highlight the linkage between economic development and FDI.

3.2.3 Factors Influencing the Inward FDI

As Te Velde listed several factors and policies that largely effects on the flow of foreign direct investment. The factors are classified into industrial policies, macroeconomic policies and other policies and factors. The main factor that effects on the intensity of FDI is “financial and fiscal incentives and bargaining, efficient administrative procedure and rules ownership, promotion, targeting and image building, developing key sectors, develop export platform, availability of infrastructure and a skilled workforce and good labor relations, sound macro-economic performance and prospects”. Apart from that, there are other factors that influence inward foreign direct investment such as the country’s regional and global integration and the availability of cheap transportation since the costly transportation of raw materials may restrains the activity of the foreign companies.¹³

¹³ Te Velde, Dirk Willem. *Foreign direct investment and income inequality in Latin America: experiences and policy implications*. No. 04/03. Documento de Trabajo, Instituto de Investigaciones Socio-Económicas, Universidad Católica Boliviana, 2003, p.16.

The international treaties and agreements largely impacts on the flow of capital and investment to other countries. The availability of natural resource, labor, market, political stability, transparency and financial policies are among the main factors that impacts on the level of investment done by the transnational companies. Te Velde also explains that the improvement of the research institution and their interaction to the firms could largely effects on the flow of capital and foreign direct investment. This point also approved by the former secretary general of the Association of Southeast Asian Nations (ASIAN) in the first International Conference on Innovation and Sustainability. He claimed that the integration of the countries is so important to improve economic development and attract outsiders. He also mentioned that the development of Singapore economy is mainly relates to its policies since it's provides a budget of 2.5% of its GDP to research and design. So, through this claim it could be argued that foreign companies desire to invest in the country that have research institution, availability of data, education and skill generation plus its integration to the global market.

Gastanaga, Victor M., Jeffrey B. Nugent, and Bistra Pashamova lists several factors that influence FDI inflow. He consents that foreign companies should have the ownership advantages, locational advantages and TNCs should reasons to internalize their operations. The first one refers to the superior technology and the second one reference to the availability of skills and natural resources in which helps to TNCs to sustain their interest for the longer time.¹⁴ Apart from Dunning OLI paradigm, the government policies must concentrate on institutionalization and liberalize their economic system. Besides, the governments should provide locational advantages such as human capital skills, infrastructure and local supply services in order to catch TNCs attention. In case of failure, the government should not give up, but to adapt further policies and “make FDI work for development” as its quotes. DW te Velde explain that this policy has been successfully adapted by the Republic of Ireland and Singapore and the massive FDI inflow and outflow have worked toward the economic and social development.

¹⁴ Gastanaga, Victor M., Jeffrey B. Nugent, and Bistra Pashamova. "Host country reforms and FDI inflows: How much difference do they make?." *World development* 26, no. 7, 1998: pp, 1299-1314.

Kaufmann et al. (2004) collected six indicators that influences FDI inflow includes “voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, control of corruption”.¹⁵ Checchi et al. analyze some of the above indicators and their analyzes indicates that countries with political stability, can attract more FDI, while they found negative relationship between economic stability and FDI because that would fosters inflation and fluctuation of the market economy.¹⁶ Then, they come to the infrastructure and the services which they found out minor relationship between the two variables. Khan clarified this point more accurately and claimed to attract foreign investment countries should have infrastructure facilities such as road, ports, telecommunication and empowers its economic sectors through competitive market. Back to the Checchi indicators, population seems to be significant determinant of FDI inflow to any country. In the other words, countries with large population attract larger FDI plus the level of the development host country reached. Controversy, achieving sustainable economic growth has nothing to do with population size, but it’s more likely relates to amount of human capital people in recipient country possess.¹⁷

Finally, the authors analyze the differences between developed and developing countries and they seems to conclude that developed countries have better security and stabilization in terms of politics and economy, the government is more effective, the law enforcement is largely practiced, the country is more transparent and the level of corruption is lower, the quality of regulation is more valuable, and the GDP per capita is higher Checchi et al. All these factors created better environment for investors to outflow their capital and happily invest in developed countries.

While, Checchi et al., and Kofele-Kale, Ndiva corruption could be one of the top factors that effects on foreign companies to invest in certain countries. For instance, Eroding corruption in Singapore was the main characteristic of developing Singapore to the level that we see now and must be taken into the consideration for any government

¹⁵ Lehnert, Kevin, Mamoun Benmamoun, and Hongxin Zhao. "FDI Inflow and Human Development: Analysis of FDI's Impact on Host Countries' Social Welfare and Infrastructure." *Thunderbird International Business Review* 55, no. 3 2013:pp, 285-298.

¹⁶ Checchi, Daniele, Gianfranco De Simone, and Riccardo Faini. "Skilled migration, FDI and human capital investment." 2007, p.2795.

¹⁷ Amondi, Everlyne. "Effect of Foreign Direct Investment on the Performance of the Real Estate Sector in Kenya." PhD diss., University of Nairobi, 2016, pp.1-32.

which desires to move up.¹⁸ The existence of corruption is admitted by some governments and they promised to endorse serious anti-corruption actions. For example, in the International Conference in 2001 held by ADB and OECD officials in East Asia regarded corruption as “the most serious obstacle to democracy and sustainable development of societies” and they estimated the rate of corruption takes 17% of the GDP in East Asian countries includes China, Indonesia, and Malaysia.¹⁹ So, based on that argument, the government role in eroding corruption would be a key factor of the development and the rule of law must be implemented for everybody so nobody dare to play with national revenue or disrupt commerce and investment. This can be considered as the main way for Asian Tigers economic booming which serves the entire population and everybody get the share of the benefits which they earn through trading export, technological advancement and investment project both inside and abroad.

Certainly, literatures on Chinese economic development emphasizes on the role of transparency and institutionalization in which created favorable environment for FDI. So, it does not come randomly or as a miracle without any changes or reform, but the government started to emerge with a new shape and unique economic model that attracted world later and greatly achieved its objectives. Peter Perdeu from Massachusetts Institute of Technology discusses that Chinese economic development is the consequences of the economic reform of 1979 that “response to profit incentives, encouragement of FDI, promotion of infrastructural investment, alleviation of poverty, and sustainability; by endorsing these policies, the PRC leadership promotes China’s active presence in international institutions”.²⁰

Gillis, Malcolm, and Donald R. Snodgrass. stated that improving infrastructure, financial resources in terms of revenue and foreign exchange, entrepreneurship and technical skills expands FDI opportunities. Furthermore, Morisset, Jacques, and Neda Pirnia, believes that friendly tax policies and subsidies, lower level of corruption, political stabilization, friendly business environment, and better institution and

¹⁸ Kofele-Kale, Ndiva. "The political economy of foreign direct investment: A framework for analyzing investment laws and regulations in developing countries." *Law & Pol'y Int'l Bus.* 23,1992:p. 619.

¹⁹ Kendall, Jake. "Local financial development and growth." 2009,pp.1-40

²⁰ Clarke, Donald, Peter Murrell, and Susan Whiting. "The role of law in China’s economic development." *China’s great economic transformation* 11, 2008,pp.375-428.

administrative policy encourages FDI.²¹ Therefore, in the Macro level, skilled labor force, openness, market fluctuation, population and market size significantly influences world countries to attract FDI.²² It's also been suggested by Gillis, Malcolm and her Co-workers that countries wish to continually attract more FDI flow should improve political environment, reduce internal imbalances and external debts, provides more incentives to investors and implement openness program and integrate to the global market and finally promote local investment. Moreover, Marwah, Kanta, and Akbar Tavakoli had five years observation and collected data on the economic freedom and transaction of goods and services between the countries. Their research found out that countries with high level of trade openness and economic freedom received profound impacts from FDI. For that reason, Marwah and Tavakoli analyzed four ASIAN countries separately includes Malaysia, Indonesia, Thailand and Philippines and their result indicates that FDI has positive correlation with GDP growth and its due to the financial and trade openness in regard to economic liberalization.²³

Dunning listed different types of FDI in the world includes resource seeking, market seeking, efficiency seeking, and strategic asset seeking investment in which attracted by different policies and different factors. The first two kinds is mainly relates to the initial foreign direct investment while the last two types relates to the sequential FDI. The first two kinds of investment are more common in developing countries. For example, the foreign companies interested in investment in Kurdistan region due to its natural resources that the country possess which may have substantial advantages to the foreign corporation and its market since its newly open toward the global market and easy to find consumers to purchase foreign goods and services. So, as Dunning argues, investor decisions is to invest in specific country is generally relates to the possibility of finding new market economy and finding cheaper and better quality of resource supply.

²¹ Morisset, Jacques, and Neda Pirnia. *How tax policy and incentives affect foreign direct investment: a review*. Vol. 2509. World Bank Publications, 2000, p.29.

²² Gillis, Malcolm, Dwight H. Perkins, Michael Roemer, and Donald R. Snodgrass. *Economics of development*. No. Ed. 3. WW Norton & Company, Inc., 1992,p.761.

²³ Marwah, Kanta, and Akbar Tavakoli. "The effect of foreign capital and imports on economic growth: Further evidence from four Asian countries (1970–1998)." *Journal of Asian Economics* 15, no. 2, 2004:pp. 399-413.

For that reason FDI in developing countries is mainly rely on the resource seeking kind of investment.²⁴

Lastly, for some researchers income and GDP per capita could be another determinant that may influences the flow of capital. According to same author cooperation on income groups, countries with higher income comparatively receives higher FDI than the countries with lower income since the later have less level of GDP, local investment and financial imbalances.²⁵ However, countries with higher income have better economic environment, less account deficit and lower external debt.²⁶

3.2.4 The Impact of KRG Policies to Attract FDI Inflow

In fact, FDI has both costs and benefits that should be analyzed carefully in order the benefit exceed the coasts. In this case the role of the government is so important and there should be policies to deal with investment. MAMUTÍ, A., & GANIĆ, M. Claims that “investment involves a long-term exposure to the economic and political conditions in the host country, and firms therefore look for some commitment from the government”. So, the government should guarantee their safety and assure that profits are transferable, and abide by the contracts with multinational firms to resolve any dispute that may rises during the investment process, provides better political and social stability.²⁷The authors maintain their argument and argue that public sector should play its role in order to strengthen the country location advantages by taking some important steps like educating labor force, minimizing tax, supplying public goods. Hence, such activities as they stated “may increase the profitability of an investment project, whether domestic or foreign in contrary, “inefficient public policies may discourage investments” MAMUTÍ, A., & GANIĆ, M. This can obviously be seen in case of Iraq and Kurdistan, in which investors more likely to invest in Kurdistan rather than Iraq since the security

²⁴ Dunning, John H. "Determinants of foreign direct investment: globalization-induced changes and the role of policies." In *Annual World Bank Conference on Development Economics, Europe, "Toward Pro-Poor Policies Aid, Institutions, and Globalization. Edited by Bertil Tungodden, Nicholas Stern, and Ivar Kolstad*, pp. 279-290. 2003.

²⁵ Maddison, Angus. "A comparison of levels of GDP per capita in developed and developing countries, 1700–1980." *Journal of Economic History* 43, no. 01, 1983:pp. 27-41.

²⁶ Borensztein, Eduardo, Jose De Gregorio, and Jong-Wha Lee. "How does foreign direct investment affect economic growth?." *Journal of international Economics* 45, no. 1, 1998:pp. 115-135.

²⁷ MAMUTÍ, Agim, and Mehmed GANIĆ. "THE EFFECT OF FDI ON THE GDP OF MACEDONIA." *Uluslararası Yönetim İktisat ve İşletme Dergisi* 30, 2016:pp. 109-119.

of the region is much better than the rest of Iraq. Furthermore, the United Nations Conference on Trade and Development suggests that to obtain growth, the policy makers more carefully act and considered the trade-offs to maximize the benefits of the FDI, Otherwise the costs exceed the benefits, United Nations. Organization for Economic Cooperation and Development emphasizes that FDI has a major impacts on human capital development which is the tire of the development. So, it's suggested that government to "attract FDI via enhanced human capital".²⁸ Obviously, when firms employ local employers, through job training and learning soon enrich their human capital and capable of running business without the need to the foreign expertise. Therefore its required that FDI helps to obtain human capital and skills

Some scholars like Mencinger, Jože highlighted the balance of FDI, the stands of domestic firms and the role of government in this respect. He has demonstrated that fluctuation in exchange rate, inflation and political instability may probably hinder Direct Inward Investment, so the government should overcome these problems and restrain massive FDI in order to avoid uncertainty and monopoly of the foreign companies. Massive employment will stimulates many other economic and social problem includes unequal distribution of income and disequilibrium between economic sectors in which government should be cautious for the massive FDI inward to avoid the problems that emerged from 1993-2000 in Chile because of massive FDI in which created inequality in wages and sectors.²⁹

The government policies should be formulated in the way that consider all the side effects of FDI and encourages further development. It also has to create a positive condition in which maintains long term foreign direct investment on different sectors. For this reason, John Dunning asserts that the government should apply the smart macroeconomic strategies to well effect the foreign investor decisions since the government is accountable to encourage and cultivate more investment.³⁰ To do this the government should have to upgrade their values added activities, privatization, liberalizing its macroeconomic strategies, removing state imposed market imperfection,

²⁸ Caminada, Koen, and Kees Goudswaard. "Social expenditure and poverty reduction in the EU15 and other OECD countries." 2009:p.1-33.

²⁹ Mencinger, Jože. *Addiction to FDI and current account balance*. na, 2008:p.34.

³⁰ Dunning, John H. *Global Capitalism, FDI and competitiveness*. Vol. 2. Edward Elgar Publishing, 2002:p.458.

raising the dynamic comparative advantages of domestic resources. Dunning also maintains his analysis by discussing the quality or the type of the government policies and the level of the government intervention in the market economy. The Author argues that nowadays, it's not an issue if the government intervene to the market economy or not, but the issue is for what purpose the government intervenes and to what extent? Minor government intervention into the market economy and investment projects is sometimes positive if it's to maximize the efficiency of the project and its impacts on the wider society. Therefore, if the government and state owned companies require more government insights over the foreign firms and control economic activities, it would discourage the investment and interpreted as negative intervention of the state. Simultaneously, the authors suggests that the policy makers should not be a slave of their economic strategies toward inbound FDI, policies could be successes or fail, but the government should be autonomous in possessing its solitary policy and change the policy when required to persuade social and economic goals of FDI.³¹

Te Velde believes that governments want to attract more investment because FDI close them to their objectives and help them to target them. In the other words, the governments needs FDI to justify their intervention to the market economy and use it as an instrument of growth to alleviate poverty, upgrade skills and human capital with regard to the human capital development and technological transformation. These tools could be used by the government to justify its market failure. Thus might be addressed by the government in order to attract further foreign investment to gear economic growth and solve the issue of market failure which could be solved through human skills and technologies. Hence, it will increase the demand of the domestic market to the Transnational Companies to expand different economic sector in order to achieve policy objectives. Te Velde insists that government should conduct those policies effectively and build institutions and provide adequate information in order to address market failure relates to FDI and growth.

³¹ Yamin, Mo, and Rudolf R. Sinkovics. "Infrastructure or foreign direct investment?: An examination of the implications of MNE strategy for economic development." *Journal of World Business* 44, no. 2, 2009:pp. 144-157.

3.2.5 Economic Development and Foreign Direct Investment

Many authors wrote on the role of investment in the economic development especially in the countries that are not highly developed and doesn't have technology and experience. An author demonstrates that FDI has positive role in capital flows and positively impacts on imports and export of the host country and quoted:

“On the import side, FDI allows for importing foreign firms specific technologies into the host country. These technologies may be in the form of capital embodied technologies in the proper sense, and may also be in the form of managerial and marketing technologies.³² While these technologies are not transferable through the trade of goods, they can be transferred side, the MNEs may provide an opportunity for domestic firms to gain access to new market and thus enhance more indirect mechanisms for export growth in the host country. The most likely indirect increase in export of domestic firms can occur through their output, which is embodied in the final product of the MNEs. Since the latter are likely to have an easier access to international markets due to their multinational nature, this immediately enhances the export performance of the host economy”.³³

In contrary to Dabour, it's been discussed that imperfect and underdeveloped financial market and low level of education, lack of technology infrastructure could minimize the importance of investment and that may” hits domestic enterprises much harder than it does multinational enterprises”.³⁴ But, developing country cannot deny the role of FDI and local investment even though they don't have strong base to deal with financial market and economic issues. Therefore, the role of FDI is still significant since it influences growth through improving technology and it “assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development, Also helps improve social and environmental conditions by transferring “cleaner” technologies and leading to more

³² Shahbaz, Muhammad, and Mohammad Mafizur Rahman. "The dynamic of financial development, imports, foreign direct investment and economic growth: cointegration and causality analysis in Pakistan." *Global Business Review* 13, no. 2, 2012:pp. 201-219.

³³ Lipsey, Robert E., Robert C. Feenstra, Carl H. Hahn, and George N. Hatsopoulos. "The role of foreign direct investment in international capital flows." In *International capital flows*, pp. 307-362. University of Chicago Press, 1999.

³⁴ Dabour, N. "The role of foreign direct investment (FDI) in development and growth in OIC member countries." *Journal of economic cooperation* 21, no. 3, 2000:pp. 27-55.

socially responsible corporate policies”. These factors lead to poverty reduction, better wages, unemployment, and maximizes individual per capita and living standard. However, countries with low rates of investment especially the third world countries are now suffering from economic bankruptcy and poverty issue.

Investment in the public goods and services whether from domestic or the foreign investors, is one an important determination of the economic development. Felsenstein, D., describes public investment to the “public allocations to physical and capital stock such as building, equipment and especially public infrastructure such as roads and transportation networks.” However, he argues based on the Conventional wisdom theory that investment fosters the mobilization of the production factors more efficiently and recognizing the overall potential of the investment.³⁵ On the other hand, he suggests that investment in the country infrastructure is the pre-request to the economic development and it’s considered as endogenous growth. When arguing the role of investment, FDI become a dominant subject of the argument. According to Dabour most literature on the foreign direct investment concentrates on the three main issues which are: “(i) the reasons that push firms to internationalize; (ii) how to explain the inter country allocation of FDI. Finally, research takes the perspective of the country’s general welfare, or simply its general economic, social and technological development, and examines whether FDI contribute to it or not. The focus of the literature here is on the third issue which is argued by many scholars.

Takatoshi Ito and Anne Krueger demonstrate the significance of FDI in economic development and address that FDI enhance the productivity of the host country since the resources could easily be allocated and also expand competition, and maintain the capabilities of the local people and local firms through the transfer of technology and knowledge. However, they believe that the amount of such the spillovers rely on the specified innovative capabilities of the given firms and the level of the transfer to the foreign firms, and the integration of the host country economy to the foreign companies.³⁶ In addition, Adeniyi and Omisakin pointed out three major role of FDI in

³⁵ Felsenstein, Daniel, Ronald McQuaid, Philip McCann, and Daniel Shefer, eds. *Public investment and regional economic development*. Edward Elgar Publishing, 2001:p.230.

³⁶ Ito, Takatoshi, and Anne O. Krueger, eds. *The role of foreign direct investment in East Asian economic development*. Vol. 9. University of Chicago Press, 2007:p.389.

economic development. First, FDI helps the countries with limited capabilities and access to the new technology and machines, and provides skilled labor force to expand the availability of the technology and machines in the host countries. Second, as it's quoted by Adeniyi and Omisakin, "domestic financial sector development eases the credit constraint faced by foreign firms and thus aids in the extension of innovative activities to the domestic economy." Lastly, FDI creates an efficient financial system in which creates "backward linkages with the rest of the economy particularly domestic suppliers of production inputs. Thus, domestic financial system sophistication potentially plays a key role in the host economy's ability to absorb the benefits of FDI."³⁷ Here, many commentators integrate the foreign direct investment to the local investment and believe that through FDI, the local firms will be more competitive and they will be more efficient and finally both bring the economic growth for the country.

The consequence of FDI on the country is largely measured. According to the Kariuki, Caroline Wanjiru the investment encourages the less effective and corrupted sectors to be more productive and more innovative and alters the firms from least efficient to more efficient through the relocation of capital and labor. They also indicate that through FDI, the host country might eliminate corrupt bureaucracies, corrupted educational system, uncertain regulations and poor infrastructure.³⁸

Foreign Direct investment in some cases creates disequilibrium and imbalance between domestic and foreign goods. This could happen even in the imported raw materials that sometimes foreign firms import their entire materials outside of the host country. This is one of the negative impacts of FDI on economic and GDP growth of the host country that policy makers should be aware of it. Besides, these multinational companies have used their own raw material in which imported from outside of the recipient countries. On this behave, Alfero et al suggests the government restrictions should be implemented such as imposing tariff and high taxes on the imported goods and materials in order to reduce imports and preserve local industries and maintain their

³⁷ Adeniyi, Oluwatosin, Olusegun Omisakin, Festus O. Egwaikhide, and Abimbola Oyinlola. "Foreign direct investment, economic growth and financial sector development in small open developing economies." *Economic Analysis and Policy* 42, no. 1, 2012:pp. 105-127.

³⁸ Kariuki, Caroline Wanjiru. "The determinants of foreign direct investment in African countries." 2014:p.305.

survival in the highly competitive market.³⁹ Furthermore, Durham concentrates on the role of market economy of the recipient country and his finding stressed that only countries with strong financial system and high quality of government with investment friendly environment can benefit from FDI. Some other researchers like Hsiao and Shen present their findings in different way in which they believe high level of urbanization and strong institutional development are pre-conditions to positive FDI effects over economic progression.⁴⁰

As per Farla, Kristine on the other hand supports Moss findings and insists that FDI has positive correlation with GDP growth and it will surge productivity and competitiveness as well as encouraging trade and exports.⁴¹ FDI also increases manufactured production and boost GDP growth as well as further employment opportunities will be created. Farla, Kristine also revealed the effects of FDI from the macro perspective which significantly impacts on the employment, high productivity, competitiveness, and the use of technology to facilitate further development. Akinlo, A. Enisan studied the impact of foreign capital inflows on Nigerian GDP growth. They found out that there is positive relationship between FDI and Gross Domestic Product and the greater capital inflow leads to greater GDP growth. So, they suggest that developing countries should provide favorable and conducive environment for FDI to operate.⁴²

After all, Khan assumes that in all international summits and global summits on sustainable development, everyone agreed that foreign and private investment is a major catalyst for financial development, employment, economic growth, capacity building, technology transfer, skills, management, integration and access to the global market.

³⁹ Alfaro, Laura. "Foreign direct investment and growth: Does the sector matter." *Harvard Business School* 2003, 2003:pp. 1-31.

⁴⁰ Hsiao, Cheng, and Yan Shen. "Foreign direct investment and economic growth: the importance of institutions and urbanization." *Economic development and Cultural change* 51, no. 4, 2003:pp. 883-896.

⁴¹ Farla, Kristine. *Empirical studies on institutions, policies and economic development*. Boekenplan, 2013:p.199.

⁴² Akinlo, A. Enisan. "Foreign direct investment and growth in Nigeria: An empirical investigation." *Journal of policy modeling* 26, no. 5, 2004:pp. 627-639.

3.2.6 The Impact of FDI on Employment

The analyses and scholarly arguments demonstrate the influence inward FDI inflow and its interdependency to the labor market. Li, Yue in the answer of the question of on the impacts of FDI on Development response that foreign direct investment is significant for the lives of millions if not billions of families, communities and workers in developing countries.⁴³ There are several more studied conducted to analyze the influence of FDI on labor market. Most of these studies indicated positive relationship between the patterns of FDI and employment relationship. Athukorala, P., & Menon, J. Conducted in this regard from Malaysia in which they have indicated that FDI increased employment rate and created thousands of job opportunities in poor Malaysia. On the other hands Li, Yue researches found out positive relationship between the two variables and stated the inflow of FDI creates new job opportunities and facilitate the use of modern technology through the transferee if knowledge and technologies plus its likely impacts on the balance of payment.⁴⁴

Similarly, Jenkins, R., presents serious findings concerning the influence of FDI on employment. They believe that FDI could provide new job opportunities and that would increases employment rate.⁴⁵ They explain that higher employment rate will raise higher productivity level and higher production would causes higher GDP growth.⁴⁶ Driffield and Brander, J. A., & Spencer, B. J. believe that inward FDI results in reducing structural unemployment as it occurred in case of United Kingdom in which benefited the country in several ways.⁴⁷

Further, the friendly investment environment and openness toward the global market and maximize opportunities, undermine unemployment and finally results in high level of living standards. To prove this point, scholars like Miraskari, Seyed Reza, Mahyar Shabaninejad Masouleh, and Seyed Abolfazl Alavi, admit that local investment

⁴³ Li, Yue. *Essays on foreign direct investment and globalization*. Rutgers The State University of New Jersey-New Brunswick, 2008:p.181.

⁴⁴ Athukorala, Premachandra, and Jayant Menon. "Foreign investment and industrialization in Malaysia: exports, employment and spillovers." *Asian Economic Journal* 10, no. 1, 1996:pp. 29-44.

⁴⁵ Jenkins, Rhys. "Globalization, FDI and employment in Viet Nam." *Transnational Corporations* 15, no. 1 (2006):p. 115.

⁴⁶ MAMUTÍ, Agim, and Mehmed GANIĆ. "THE EFFECT OF FDI ON THE GDP OF MACEDONIA." *Uluslararası Yönetim İktisat ve İşletme Dergisi* 30, 2016:pp. 109-119.

⁴⁷ Brander, James A., and Barbara J. Spencer. "Foreign direct investment with unemployment and endogenous taxes and tariffs." *Journal of International Economics* 22, no. 3-4, 1987:pp. 257-279.

poses greater impacts on the nation's economy especially when the rate of unemployment is high. Therefore, this is more likely relates to the integration with foreign firms. They believe that establishment of the foreign companies has direct effects on the labor market in the host country in which creates many job opportunities for the local citizens. More importantly, foreign companies could have indirect effects on the local economy as they indicated its through "demanding intermediate goods and producer services from local suppliers and this also adds to labor demand, and should lead to reduced unemployment or increased wages or a combination of the two"⁴⁸

According to Blomström, M., Fors, G., & Lipsey, R., approves the positive correlation between employment and FDI, but he is concern that in some cases the firms bring large number of the input abroad includes labor. Moreover, he claims that the large corporations destroy local industries and concern local investors since the infant industry cannot compete such large multinational corporations, many of them stop investment.⁴⁹ Besides, the government and the people willing to accept multinational companies since they have better services and better experience, so local companies cannot continue their industry and that would increase the rate of unemployment and local firms deals with less opportunity. In such cases unemployment become an issue for development.

However, some other commentators argue that FDI inward may terminate the rate of employment in the host country for some reasons. Khan, S. F., & Chhapra, I. U. argue that the monopoly of the foreign companies may dramatically increase the rate of unemployment since the local firms cannot compete the foreign enterprises. In such unfavorable situation, the domestic companies may shut down their business and that would directly leave many people out of business. Zeb, N., & Sharif, M., examined the interrelationship between inward FDI and unemployment.⁵⁰ The finding illustrates negative relationship between the two variables and indicated that FDI was unable to alleviate decrease unemployment and trends of economic development in turkey could

⁴⁸ Miraskari, Seyed Reza, Mahyar Shabaninejad Masouleh, and Seyed Abolfazl Alavi. "Analyzing Impacts of Foreign Direct Investment on Private Sector in Economic Growth of Iran." *International Journal of Academic Research in Business and Social Sciences* 4, no. 11, 2014:pp. 223-237.

⁴⁹ Blomström, Magnus, Gunnar Fors, and Robert E. Lipsey. "Foreign direct investment and employment: home country experience in the United States and Sweden." *The Economic Journal* 107, no. 445, 1997:pp. 1787-1797.

⁵⁰ Zeb, Nayyara, F. Qiang, and Muhammad Suhail Sharif. "Foreign direct investment and unemployment reduction in Pakistan." *International Journal of Economics and Research* 5, no. 02, 2014:pp. 10-17.

not solve employment issue in this country. The mentioned authors used different models to explain this relationship in order to explain the impacts of FDI inflow on Turkey labor market,⁵¹ but all shows the failure of FDI inflow in minimizing unemployment level.⁵²

3.2.7 FDI and Human Capital

Foreign direct investment could contribute in the formation of human capital which is the key criteria to measure economic development in any country. Therefore, the level of contribution relies on the government policies toward the TNCs. Foreign companies can formulate human capital in terms of education, on job training and the transformation of knowledge and experience to the host country. Noorbakhsh, F., Paloni, A., & Youssef, A.; Blomstrom, M., & Kokko, A., provides a clear view on the advantages of FDI over human capital and growth. They stress that TNCs transfers their production capacity and their advanced technologies with human skills to the developing and underdeveloped countries. So, FDI extensively peaks knowledge, experience and skills of host countries labor force. So, the interaction is bilateral and each of them affects the other. Human capital is a key determinant of FDI inflow, as well as FDI is a key requirement to invest in human capital and to use recent technologies. Human capital and educated workforce could effects on the decision of investors to select their locations of investment.^{53 54}

It's believed the large flow of capital and direct investment in South East Asia is because of large investment in human capital development and capacity building as the major determinant of development.⁵⁵ The clear example is Singapore which used education as important instrument to develop human resource development and sustain foreign direct investment shift the low value added FDI to high value added FDI. So, Singapore has rapidly promoted education and spent substantial amount of money to

⁵¹ Erdal, Fuat, and Ekrem Tatoglu. "Locational determinants of foreign direct investment in an emerging market economy: Evidence from Turkey." *Multinational business review* 10, no. 1, 2002:p. 21.

⁵² Khan, Saira Faheem, and Imran Umer Chhapra. "Analysis of GDP and Macroeconomic Variables on Economic Growth of Pakistan." *Market Forces* 11, no. 1, 2016:pp. 223-234.

⁵³ Noorbakhsh, Farhad, Alberto Paloni, and Ali Youssef. "Human capital and FDI inflows to developing countries: New empirical evidence." *World development* 29, no. 9, 2001:pp. 1593-1610.

⁵⁴ Blomstrom, Magnus, and Ari Kokko. "Human capital and inward FDI." 2003:p.24.

⁵⁵ Agrawal, Gaurav, and Mohd Aamir Khan. "Impact of FDI on GDP: A comparative study of China and India." *International Journal of Business and Management* 6, no. 10, 2011:pp. 71.

vocational training course to empower human skills in the workplace. Such countries as Khan quoted in the work of Nelson and Phelps (1960) through the use of knowledge and human capital accumulation were capable to attract foreign companies to assimilate new technology in a very consistent and efficient way. So, as he asserted high level of human capital is a precondition to the economic development and sustainability.

Versen, and Stephens emphasizes that human capital formation requires indirect linkages between foreign and domestic firms and the government policies should urge direct spillover to ensure information and skills owned by TNCs are transferable and general. Versen, and Stephens lists eight types of backward linkages include “informational, technical, financial, procurement locational, managerial, pricing and other”.⁵⁶ Such policies cause more productivity by domestic firms even after the operations of foreign firms and also increases labor mobility. Techakanont, and Terdudomtham, defines the term of spillover as the situation in which technologies and knowledge production gives more opportunities to the domestic firms to improve through the activities of foreign Multinational Corporation. He also describes the potential of technology spillover to establish affiliates in foreign markets and it’s the main instrument for the recipient country to get advantage from foreign investment.⁵⁷ Weidenfeld,et., al., on the other hands believes that through the transfers of technology and knowledge, domestic firms would become more efficient and they may become global exporter. He also indicates that foreign firms may probably contribute in promoting formal education and opening up education and training centers as part of their corporate social responsibility. For instance, in 2000 ExxonMobil as the global giant company spent \$60 million on education and vocational training.⁵⁸

It has been documented by scholars that countries with favorable human capital attract more FDI due to the transaction costs of their operations to host countries. Besides, the costs of training for using latest technologies are less and that would advantages TNCs to flow their capital. Therefore, Goux, and Maurin consider unskilled

⁵⁶ Iversen, Torben, and John D. Stephens. "Partisan politics, the welfare state, and three worlds of human capital formation." *Comparative political studies* 41, no. 4-5, 2008:pp. 600-637.

⁵⁷ Techakanont, Kriengkrai, and Thamavit Terdudomtham. "Evolution of inter-firm technology transfer and technological capability formation of local parts firms in the Thai Automobile Industry." *Asian Journal of Technology Innovation* 12, no. 2, 2004:pp. 151-183.

⁵⁸ Weidenfeld, Adi, Allan M. Williams, and Richard W. Butler. "Knowledge transfer and innovation among attractions." *Annals of tourism research* 37, no. 3, 2010:pp. 604-626.

labor force and inadequate training downturns the return of FDI which constantly deters capital flows. Some other literature done by scholars that indicates FDI may not directly effects on growth, but the interaction is more probably indirect. Li, X., and Liu, X. believes that Foreign Direct Investment may not always impacts on economic growth, but though its interaction to human capital, it may indirectly effects on development.⁵⁹

Arguments on the relationship between human capital development and FDI have deepened the arguments between scholars. Not strikingly, some imperial studies rebutted the arguments in which insist that human capital drive FDI.⁶⁰ For instance, In Oman the literacy was increased from 36% to 74% from 1980 to 2003 whereas FDI inflow declined from 1.64 to 0.12 as a ration of GDP. Literatures relate this contradiction to the government institutions and human capital investment. Nevertheless they relate FDI and capital flows to the political environment and democracy in the recipient country. They believe that good political condition and democracy increase FDI inflow more efficiently and vice versa not the value of human capital in which people of the host country possess or the skills they hold.

An author argues that unskilled human capital is required to attract FDI and thus could be higher if the civil rights and political environment is stable. They also argue that skilled human capital may have positive or negative association with FDI inflows and that's mainly depending on the level of democracy in the host country. However, they are certain that in any case FDI could enhance human capital accumulation and skills.⁶¹ However, Fumagalli explains the intensity of foreign investment in some respects, one of their points emphasize FDI introduces know-how, on-job training and technology skills in which gives better chances to domestic employers to take advantages.⁶² Also FDI supports the transformation of techniques of quality control, standardization and innovation. Khan expects new technology could be introduced by the firms who wish to investment in less or underdeveloped countries which maybe

⁵⁹ Goux, Dominique, and Eric Maurin. "The decline in demand for unskilled labor: an empirical analysis method and its application to France." *Review of Economics and Statistics* 82, no. 4, 2000:pp. 596-607.

⁶⁰ Li, Xiaoying, and Xiaming Liu. "Foreign direct investment and economic growth: an increasingly endogenous relationship." *World development* 33, no. 3, 2005:pp 393-407.

⁶¹ Dutta, Nabamita, and Kwasi Osei-Yeboah. "Foreign direct investment and human capital: The role of political and civil rights."2010:pp. 159-161.

⁶² Fumagalli, Chiara. "On the welfare effects of competition for foreign direct investments." *European Economic Review* 47, no. 6, 2003:pp. 963-983.

better than the existing one and that would leads to better production and more human capital intensives. On the other hands are certain on the positive impacts of HC on FDI and vice versa. They also provides literature on the possible complementary effects of FDI over human capital and emphasize that human capital accumulation could be vary according to the incentives provided by FDI to invest in education because each types of investment requires different kind of skills. They claim that the extraction of mineral resources require different human skills that provision of services of manufacturing goods and other services. That means FDI not only promotes human skills in one way, but it can contribute in creating different kind of skills that could be used in different kind production and innovation.

Finally, Te Velde believes that government should be supportive and improve innovation structure to upgrade skills within foreign firms. Besides, the government should encourage more training programs by the foreign investors and use the local inputs and staffs in order to possess knowledge and capable of improving their works and also the TNCs should be linked to the research institutions. Moran differentiates between foreign companies and believes that FDI contribution in human capital formation is more likely to be high in firms that are emerged in the global competitive market. To maintain their competitiveness they provide better incentives to invest in education and training in order to get the attraction of the countries in one hand and employ more skilled workers and introduce modern technologies and skills to maintain their business. So, it's believed that foreign giant investors can better serve human capital development in host countries.⁶³

3.2.8 The Human Capital

Multinational are distinguished from national firms in terms of four characteristics: high level of R&D, professional and technical workers, new and complex products and advertising (Markusen, 1995). From this perspective, we believe that human capital as well as physical infrastructure in a country is relevant to draw FDI to the country. The

⁶³ Moran, Theodore H. *Foreign direct investment and development: The new policy agenda for developing countries and economies in transition*. Peterson Institute, 1998:p. 216.

theoretical relationship between human capital and FDI is demonstrated.⁶⁴ Multinational firms are able to exploit factor-price differences in the world economy, locating skilled labor intensive phases of operation in skilled-labor abundant locations and unskilled-labor-intensive in respective locations. The authors show that FDI flows to skilled-labor abundant countries.

The purpose of this part is to discuss the theoretical framework that was used for the current study; the section will begin with a historical overview of the theoretical framework, its early development, and the major contributors to the theory. A discussion of current issues and perspectives will follow the overview. This section will conclude with a brief review of the relevant literature. A more comprehensive literature review will be provided in chapter 2. The human capital theoretical model developed.⁶⁵ While, in the same study provides an appropriate theoretical framework with which to study educational attainment. In the early 1960s, Becker and Chiswick began to relate human capital investments to income growth and other economic issues, such as poverty and unemployment. The two economists proposed that people make decisions about their education and training by comparing the benefits and costs.⁶⁶ The benefits of investing in human capital include monetary gains, such as better earnings and occupations, along with non-monetary gains, such as improved health, personal fulfillment and appreciation for culture. The costs of investing in human capital include the income that individuals forego while they spend time investing in their education.

A main tenet of human capital theory is that the optimal level of educational attainment occurs at the point where the demand for funds to invest in education intersects the supply of such funds.⁶⁷

The origin of the concept of human capital dates back to the late 18th century, when British economist and philosopher, Adam Smith, published his landmark *Wealth of*

⁶⁴ Zhang, Kevin Honglin. "Why does so much FDI from Hong Kong and Taiwan go to Mainland China?." *China Economic Review* 16, no. 3, 2005:pp. 293-307.

⁶⁵ Chiswick, Barry R. "Interpreting the coefficient of schooling in the human capital earnings function." 1997:p.20.

⁶⁶ Becker, Gary S., and Kevin M. Murphy. "The division of labor, coordination costs, and knowledge." *The Quarterly Journal of Economics* 107, no. 4, 1992:pp. 1137-1160.

⁶⁷ Galor, Oded, Omer Moav, and Dietrich Vollrath. "Inequality in landownership, the emergence of human-capital promoting institutions, and the great divergence." *The Review of economic studies* 76, no. 1, 2009:pp. 143-179.

Nations.⁶⁸ In his publication Smith suggested that humans are productive capital and, as such, are an important input to economic growth and development. Similar to the way that physical capital contributes to the productivity of a business, humans could also improve their productivity through education and training. And just as a business owner considers the long-term benefits and costs of a machine, business owners and workers alike should consider the long-term benefits and costs of education and training.⁶⁹

The University of Chicago, which John D. Rockefeller established in 1892, also espoused the theory of human productivity as capital. However, the concept of human capital did not become widely accepted right away. In fact, the notion that people were capital, like machines, was deemed offensive by some academics and practitioners.⁷⁰ A worker's skills and productivity were considered to be a given, and therefore, not able to be improved. British economist Alfred Marshall and British philosopher John Stuart Mills led the backlash against human capital theory. They believed that humans should be dignified by being considered in a separate category than other types of productive capital and that human beings themselves were not marketable.

Human capital became widely accepted in the 1960s, when more University of Chicago researchers, such as Nobel laureates Milton Friedman and Theodore Schultz, analyzed and strengthened the concept of human capital. Schultz and Friedman, among others, began studying the relationship between human capital and economic growth.⁷¹

Schultz's main theoretical development was his expansion of the meaning of investment to include all activity that improved a worker's skills and productivity. Schultz included direct costs of education, improvements in health, and migration, as well as indirect costs such as foregone earnings and lost leisure time while obtaining the human capital.

Every study in the literature review cited some form of human capital as the main determinant of income and poverty levels, economic growth and development, and

⁶⁸ Siqueira, Ana Cristina O. "Entrepreneurship and ethnicity: the role of human capital and family social capital." *Journal of developmental entrepreneurship* 12, no. 01, 2007:pp. 31-46.

⁶⁹ Kochung, Edwards J. "Role of higher education in promoting inclusive education: Kenyan perspective." *Journal of Emerging Trends in Educational Research and Policy Studies* 2, no. 3, 2011:pp. 144-149.

⁷⁰ Jiménez, Martha, Jaime Arturo Matus, and Miguel Angel Martínez. "Economic growth as a function of human capital, internet and work." *Applied Economics* 46, no. 26, 2014:pp. 3202-3210.

⁷¹ Becker, Gary S. "Human capital and the economy." *Proceedings of the American philosophical society* 136, no. 1, 1992:pp. 85-92.

general well-being of individuals, communities, and national economies alike. Although human capital includes other investments in earning potential, such as training and emotional well-being, information about these variables is difficult to measure. Therefore, researchers commonly use investments in education as a proxy for investments in human capital. Measured this way, human capital has consistently been shown to be an important determinant of economic status.⁷² Researchers have also examined other variables that affect income.⁷³ These variables included classroom size, population, single-parent families, education of one's parents, interstate access, percentage of the population that is of working age, parents who are involved in children's schools, health and nutrition, labor force participation rate, and percentage of county residents who recently immigrated to the United States.⁷⁴

However, the majority of the research points to a handful of variables as the main components of a county's economic status. Human capital is one of these variables.⁷⁵ The main difference between the two groups is the level of human capital that each group invests in. The income earning potential of the highly educated group continues to grow, while the earning potential of the uneducated remains virtually stagnant.⁷⁶ The income division will not improve without improving the human capital levels of the lowest earners.

3.2.9 Market Size and Income Distribution

General distribution of the means of procuring the more substantial conveniences of life, impart to the productions of American industry a character distinct from that of many other countries. The expenditure of months or years of labor upon a single article, not to increase its intrinsic value, but solely to augment its cost and its estimation as the object of virtue, is not common in the United States. On the contrary, both manual and

⁷² Ibid

⁷³ Dinda, Soumyananda. "Social capital in the creation of human capital and economic growth: A productive consumption approach." *The Journal of Socio-Economics* 37, no. 5, 2008:pp. 2020-2033.

⁷⁴ Casey, Terrence, and Kevin Christ. "Social capital and economic performance in the American states." *Social Science Quarterly* 86, no. 4, 2005:pp. 826-845.

⁷⁵ Beaulieu, Lionel J., and Robert Gibbs. "The Role of Education: Promoting the Economic & Social Vitality of Rural America." *Southern Rural Development Center, Mississippi State University* 2005:p72.

⁷⁶ Jones, Garrett, and W. Joel Schneider. "Intelligence, human capital, and economic growth: A Bayesian averaging of classical estimates (BACE) approach." *Journal of economic growth* 11, no. 1, 2006:pp. 71-93.

mechanical labor are applied with direct reference to increasing the number or the quantity of articles suited for the wants of a whole people, and adapted to promote the enjoyment of that moderate competency that prevails upon them.

Technology and Market Structure in manufacturing each good q is assumed to be produced in a separate sector that is small relative to the economy. Two technologies are assumed to be available for producing each good q . First, a > 1 units of labor can be applied to produce one unit of output of any good q using the constant returns to scale (CRS), or "backstop," technology. In addition, good q can be produced with a fixed investment of C units of labor and a variable labor requirement of one per unit of output. The idea of two alternative technologies has been used by Shleifer and Vishny to illustrate the importance of market size in promoting the switch to IRS technology.⁷⁷ Here, since the size of the market for q is equal to the number of consumers whose menu includes q (customer base), income distribution will determine the profitability of producing q with increasing returns. Industrialization in this paper is taken to be substitution of increasing returns technologies for constant returns technologies in production of some goods.

Realization, such as mass production, escape from the traction of labor in the same location, etc. Our focus of industrialization as substitution of increasing returns technologies for constant returns technologies ignores the expansion of the menu of available goods in the process of industrialization. Judd's presents one such model of labor-absorbing rather than of labor-saving technological change. Industrialization of a sector will in part be determined by its market structure. We assume that the CRS technology for each q is at the disposal of a competitive fringe.⁷⁸ If the manufacturing wage is taken to be W_M , any good demanded will be readily produced and sold for $A W_M$ by the fringe, which earns zero profit. In addition, we assume that the sector producing each Q has a unique firm with access to IRS technology. This firm can decide whether to enter with IRS production or to leave its sector to the fringe. We assume that, after entry, monopolists in different sectors set prices simultaneously.

⁷⁷ Shleifer, Andrei, Robert W. Vishny, and Kevin M. Murphy. "Income distribution, market size, and industrialization." *Quarterly Journal of Economics*. August, 1989:pp. 537-64.

⁷⁸ Judd, Kenneth L. "Redistributive taxation in a simple perfect foresight model." *Journal of public Economics* 28, no. 1, 1985:pp. 59-83.

The Distribution of Shares Since the levels of income and profits are determined endogenously in the model, the distribution we take as given is that of shares of manufacturing profits and agricultural rents. We make two further assumptions. First, to the extent that there is many rather than only one manufacturing sector, all shareholders are assumed to hold the market, i.e., identical shares in the profits of all firms. Second, and more importantly, we assume that each property owner owns the same fraction of profits as of rents. We do not consider the income distribution between capitalists and landowners, since they are assumed to be the same people. This assumption gives us a unique ordering of people by wealth independent of the exact sizes of agriculture and industry, and in this way greatly simplifies the accounting. As discuss in previous section, however, the distribution of shares of profits and the distribution of shares of rents play very different roles in the model.

Labor Market Equilibrium So far, we have spoken about the agricultural wage and the manufacturing wage separately. We now discuss how they are related to each other in our model. Suppose that each person is endowed with one unit of labor which he supplies completely in elastically. Labor is assumed to flow between agriculture and manufacturing in response to wage differentials, but the total quantity of labor supplied is fixed. We assume that these flows occur until the rewards are equalized; i.e., $W_M = W_A = w$ in equilibrium. This wage arbitrage condition has the important implication that the size of agriculture determines not only the agricultural wage, but also the manufacturing wage. Knowing LF suffices to know. We lean on this fact heavily in the exposition below. The market size advantage of regionalism is particularly important for KRG because countries in the region are small, both in terms of population and income.

To explore the possibility of higher efficiency of FDI, we test whether FDI has effects over and above those of aggregate investment in the growth equations. Moreover, the growth rate regressions that control for total fixed investment in addition to the other determinants of growth. The results do not differ qualitatively from those obtained without the inclusion of total fixed investment. The contribution of FDI to growth is evident only when the interaction between human capital and FDI is included. Include income, since concepts such as total GDP, GDP per capita and growth are considered as

proxies of the abundance of the market size. We are able to compare the population argument with the standard proxies.⁷⁹

Asiedu argues that FDI flows with non-market seeking activities in developing countries. Even though GDP per capita and GDP growth are negatively correlated (not significant) in all models, GDP or population size is positively correlated with FDI and significant. This may indicate that FDI is taken into account the size of market in developing countries not in per capita basis but rather in aggregate size. More precisely, FDI will more likely focus on regional areas with relatively higher purchasing power rather than on an expansion throughout the country.⁸⁰

3.2.10 Product Cycle

This hypothesis postulates that most products follow a life cycle, in which they first appear as innovations and ultimately become completely standardized. Foreign direct investment results when firms react to the threat of losing markets as the product matures, by expanding overseas and capturing the remaining rents from the product development. This hypothesis, developed by Vernon, which was mainly intended to explain the expansion of U.S. multinational firms after World War II.⁸¹

Innovation can be stimulated by the need to respond to more intense competition or to the perception of a new profit opportunity. The new product is developed and produced locally (in the U.S.) both because it will be designed to satisfy local demand and because this will facilitate the efficient coordination between research, development, and production units. Once the first production unit is established in the home market, any demand that may develop in a foreign market (Europe) would ordinarily be satisfied by exports. However, rival producers will eventually emerge in foreign markets since they can produce more cheaply (due to lower distribution costs) than the original innovator. At this stage, the innovator is compelled to examine the possibility of setting up a production unit in the foreign location. If the conditions are considered favorable, the innovator engages in foreign direct investment. Finally, when the product is

⁷⁹ Cheung, Kui-yin, and Lin Ping. "Spillover effects of FDI on innovation in China: Evidence from the provincial data." *China economic review* 15, no. 1, 2004:pp. 25-44.

⁸⁰ Asiedu, Elizabeth. "Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions and political instability." *The World Economy* 29, no. 1, 2006:pp. 63-77.

⁸¹ Vernon, Raymond. "The product cycle hypothesis in a new international environment." *Oxford bulletin of economics and statistics* 41, no. 4, 1979:pp. 255-267.

standardized and its production technique is no longer an exclusive possession of the innovator, he may decide to invest in developing countries in order to obtain some cost advantages, such as labor.

3.2.11 Tax Burden

Tax-rate elasticity's are defined as the percentage change in FDI caused by a one percentage point change in the tax burden. Most studies dealing with taxation and FDI to CEECs use STRs as the measure of corporate tax burden. Following the approach of DeMooij and Ederveen who deduced tax-rate elasticity's from a meta analysis of 25 (30, respectively) studies dealing with FDI mainly to industrialized countries of (-1.2 and -2.05), they derive a median tax-rate elasticity of (-1.45), which implies an inelastic response of FDI with respect to the tax burden in the CEECs.⁸² Despite this value is in line with the tax-rate elasticities of DeMooij and Ederveen they question their own result both from a conceptual and from an empirical point of view.

The measurement of company tax burden as a determinant of the location choice of MNCs which measures of tax burden should be used in empirical analysis as a determinant of location decisions of MNCs? In order to answer this question, it is split into one sub-question:

Which measures of tax burden are available in general? Apart from the statutory tax rates, the measures of tax burden may be split into backward-looking and forward-looking tax rates. While both have advantages and disadvantages, clearly the choice of the measure of tax burden should be guided by the underlying research question, in our case the choice of a foreign location by an MNC.⁸³ On the one hand, backward looking tax rates are inappropriate, since profits from national and international activities cannot be disentangled and backward-looking rates can be seriously flawed due to data problems. Notably, National Accounts Data do not provide reliable data these data typically do not allow a separation of FDI into new FDI and expansionary FDI.

⁸² De Mooij, Ruud A., and Sjeff Ederveen. "Taxation and foreign direct investment: a synthesis of empirical research." *International tax and public finance* 10, no. 6, 2003:pp. 673-693.

⁸³ Plesko, George A. "An evaluation of alternative measures of corporate tax rates." *Journal of Accounting and Economics* 35, no. 2, 2003:pp. 201-226.

Therefore, aggregate FDI measures should be related to both, average and marginal tax rates, the former explaining new FDI (where to locate) and the latter explaining expansionary FDI (the scaling of the investment).⁸⁴ Yet, virtually all studies reviewed above, use only one single measure of tax burden, despite the fact that almost all of these studies use aggregate FDI data. Most studies do not even comment on the suitability of the Statutory tax rate or argue that Statutory tax rates and average tax rates behave similar empirically (e.g. Smarzynska).⁸⁵ FDI tax incentives may introduce complexity and uncertainty in the tax system, because, according to Holland and Vann, the rules themselves are complex and because tax authorities react to the tax planning that inevitably results from their introduction by putting into place anti-abuse measures.⁸⁶ The likely result is that tax incentives impose costs on tax administrations and on taxpayers, increasing the uncertainty of tax results and deterring investments that those incentives are intended to attract.⁸⁷

FDI tax incentives might encourage a greater level of risk-taking by management than would be desirable. FDI tax incentives may contribute to a misallocation of resources. Granting FDI tax incentives, as opposed to general tax incentives, represents government intervention in the market. That intervention distorts the efficient allocation of resources through price and market mechanisms. Efficiency in that context may be viewed from two different perspectives. The first considers efficiency from the state's point of view. The other perspective is universal and examines whether a tax regime brings about an efficient worldwide allocation of resources, thereby increasing universal welfare.⁸⁸

Finally, the danger arising from tax incentives is that targeting a single enterprise for subsidization may inhibit true economic growth if the government subsidizes the

⁸⁴ Devereux, Michael P., Rachel Griffith, and Alexander Klemm. "Corporate income tax reforms and international tax competition." *Economic policy* 17, no. 35, 2002:pp. 449-495.

⁸⁵ Smarzynska Javorcik, Beata. "Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages." *The American Economic Review* 94, no. 3, 2004:pp. 605-627.

⁸⁶ Holland, David, and Richard J. Vann. "Income tax incentives for investment." *Tax Law Design and Drafting* 2, 1998:pp. 2-9.

⁸⁷ Chai, Jingqing, and Rishi Goyal. *Tax concessions and foreign direct investment in the Eastern Caribbean Currency Union*. No. 08/257. International Monetary Fund, 2008:p257.

⁸⁸ Ramb, Fred, and Alfons J. Weichenrieder. "Taxes and the financial structure of German inward FDI." *Review of World Economics* 141, no. 4, 2005:pp. 670-692.

wrong entity.⁸⁹ As explained by Taylor, "if the government subsidizes a firm that is not succeeding in the competitive market, the result will be an over allocation of resources to the industry. The subsidy may allow the producer to stay in business despite the fact that the demand is not adequate to justify continued production. Alternatively, the subsidy could allow the subsidized producer to stay in business while a more efficient enterprise is placed at a disadvantage."⁹⁰ The final argument means there is an opportunity cost. Grants that are devoted to the targeted corporations must come from somewhere and will penalize all non-supported activities. Another danger is that once hooked on industrial policy funds, sectors tend to grow beyond their market-determined size, making it very difficult to reduce the subsidies when necessary.

Assuming FDI is important for development and growth; countries must do their best to attract foreign investment. What kinds of policies should they use? I believe the aim of government policies for attracting FDI should be to provide investors with a sound environment in which they can conduct business profitably without incurring unnecessary risks. I also believe the best choice for governments to attract FDI is to improve the country's "fundamentals" - the first-best policy and refrain from providing targeted tax incentives.⁹¹

According to a Foreign Investment Advisory Service report, fiscal incentives (tax holidays or subsidies) have been mentioned by only a few firms polled as a factor that can enhance a country's attractiveness. It appears from the firms' responses to the survey that tax incentives cannot be a substitute for a country's lack of attractiveness due to discouraging fundamentals. The first- best policy is better for governments and can make a country attractive to the global investor.⁹²

Therefore, correspondingly, there are two types of tax effects on FDI. First, taxes may reduce the average return of a project and thus influence the internationalization

⁸⁹ Zagaris, Bruce. "Application of OECD Tax Haven Criteria to Member States Shows Potential Danger to US Sovereignty." *Worldwide Tax daily* p. 83, 2001.

⁹⁰ Mayshar, Joram. "Should Government Subsidize Risky Private Projects?." *The American Economic Review*, 1977:pp. 20-28.

⁹¹ Yao, Shujie. "On economic growth, FDI and exports in China." *Applied Economics* 38, no. 3, 2006:pp. 339-351.

⁹² Tallontire, Anne, and Peter Greenhalgh. "Establishing CSR drivers in agribusiness: Final report for foreign investment advisory service international finance corporation & World Bank." *National Resources Institute, University of Greenwich, Kent* 2005.

and location decisions by firms. Second, taxes may change the user cost of capital and thus have an impact on the investment decision. Our dataset does not analyze the internationalization or the location decision of MNEs. We just observe existing capital stocks and their variation over time. Therefore, our main focus is on the choice of the optimal capital stock, i.e. the investment decision. However, discrete jumps in the balance sheet capital stock suggest that we can observe quasi location decisions where firms decide to locate the production of new goods in one country or another. As explained further below, our analysis will therefore take into account both the marginal and the average tax burden on investment.

3.2.12 Cost of Labor

If conditions conform to the above assumptions, it is easy to see that there is some opportunity cost of labor in the capital goods industries - for more labor there implies the diversion of capital to the consumption goods industries to provide the extra consumption resulting from the extra employment. In passing, it may be noted that the case is dissimilar to that of a developed economy in a slump: for, in the latter case, machines are unemployed in the consumption goods industries; it is because of this situation that the opportunity cost of employing men to make capital, or dig holes and refill them, is zero. These divergences work in opposite directions. But only if consumption has no direct social value, and if $a = 1$, do they offset each other exactly so that the wage paid becomes equal to the social cost of labor.⁹³

The cost of labor is the sum of all wages paid to employees, as well as the cost of employee benefits and payroll taxes paid by an employer. The cost of labor is broken into direct and indirect (overhead) costs.

The Cost of Creating a Firm-Worker Match Consider a firm facing the decision of creating a productive match in the current period versus postponing the creation until the next. The firm's decision involves comparing the marginal benefits and the costs. The costs of such a decision are summarized by the user cost of labor: all the expenses associated with creating a match in the current period that can be avoided if the creation is postponed. Therefore, the user cost does not include the total payments associated

⁹³ Little, I. M. D. "The Real Cost of Labor, and the Choice Between Consumption and Investment." *The Quarterly Journal of Economics*, 1961:pp 1-15.

with creation of a productive match, but only the part that is expected to be in excess of what a firm will need to pay the next period. If changes in economic conditions from t to $t + 1$ do not have any impact on the hiring cost and future wage payments, then the user cost consists of the wage at the time of hiring and the required return to cover the real interest rate and turnover. The real interest rate is associated with paying the vacancy creation costs at t instead of delaying until $t + 1$. The turnover cost is associated with the possibility of separation in period t , which decreases the number of matches surviving until period $t + 1$.

However, in general, economic conditions may have an impact on future wage payments due to long term employment contracts. Hence, the user cost of labor is calculated as the difference between the expected present discounted values of the costs of hiring and wage payments to the worker in a productive match that starts in period t and the expected present discounted value of the costs of replacing the worker in period $t + 1$.⁹⁴

The concept of the user cost of labor is analogous to the implicit rental price of capital: the full costs incurred during the utilization take into account the price at which the factor was acquired at the beginning of the utilization period, expenses on utilization, and the price at which the remaining, un-depreciated part of the factor can be sold. By analogy, the expected reselling price of the employment relationship is the expected discounted value that another firm would be willing to pay in $t + 1$ to take over the productive relationship that started in t , which in equilibrium is equal to the cost this firm would have pay to create a match tomorrow. In the search and matching model the user cost of labor can be decomposed into its two components: The vacancy cost component and the wage cost component. The vacancy cost component is related to the costs of opening vacancies. The expenses of opening a vacancy will be unavoidable even if job creation is postponed until the next period. Hence, the vacancy cost component is the difference between the expected cost of opening enough vacancies to create one productive match in the current period and the discounted expected cost of doing this next period. The wage cost component includes the current period wage as

⁹⁴ Kudlyak, Marianna. "The cyclicalities of the user cost of labor." *Journal of Monetary Economics* 68, 2014:pp. 53-67.

well any possible future costs associated with the effect of the economic conditions at the time of hiring on wage payments.⁹⁵

Firms create jobs in period t as long as the marginal benefit from adding a worker exceeds the user cost of labor. Due to free entry, the firms will enter the labor market until the net benefit is driven to 0. At that point the decision to add a worker exactly balances the current value of the benefit with both the current cost and the current value of the expected future cost resulting from the current decision. If the user cost exceeds the marginal benefit and firms decides to create a match, then this decision is executed at the expense of the future expected uses of resources.

Muhammad, Lawal, and Victor Ushahemba conducted an investigation to determine whether foreign capital inflows, oil revenues and foreign borrowing had any positive impact on the economic growth of Nigeria. They found that Nigeria's revenue from oil export increased between 1970 and 1982 and that there was a substantial growth in Nigeria total foreign debts and FDI. The study also showed that there was a positive relationship between FDI and Gross Domestic Product (GDP). The study concluded that the economy would perform better with greater inflow of FDI; and recommended that less developed countries (LDCs) should create more conducive environments for FDI.⁹⁶

Edozien (1968) stresses the linkages generated by foreign investment and its impact on the economic growth of Nigeria. He contends that FDI induces the inflow of capital, technical know-how and managerial capacity which accelerate the pace of economic growth. He also observed the pains and uncertainties that come with FDI. Specifically, he noted that foreign investment could be counterproductive if the linkages it spurs are neither needed nor affordable by the host country; and concluded that a good test of the impact of FDI on Nigeria's economic growth is how rapidly and effectively it

⁹⁵ Liljas, Bengt. "How to calculate indirect costs in economic evaluations." *Pharmacoeconomics* 13, no. 1, 1998:pp 1-7.

⁹⁶ Muhammad, Lawal, and Victor Ushahemba Ijirshar. "Empirical Analysis of the Relationship between Foreign Direct Investment and Economic Growth in Developing Countries-Evidence from Nigeria." *International Journal of Business Administration and Management Research (ISSN Online: 2412-4346)* 1, no. 1, 2015:pp. 15-25.

fosters, innovates or modernizes local enterprises.⁹⁷ In contrast to this, were some South East Asian countries which had the policy of attracting FDI, for example, Indonesia? Nigeria retarded the contribution of FDI to gross capital formation during this period using infant industry protection, local content rules, FDI restrictions and other restrictive policies.

Many studies, however, indicate that the impact of FDI is limited or even negative sometimes. In a study of KRG, Unegbu, A. O., & Okanlawon, has found that where FDI was directed at import substituting firms, the value of imports was observed to be greater than the value added produced. This type of FDI would give rise to outflows of investment income and high cost of imported inputs which adversely affect growth.⁹⁸

3.2.13 KRG Economy

Kurdistan as a state with a booming economy was born after Saddam's collapse and eliminating the international and UN's economical sanctions which had restricted the commerce inside the region. After collapse of the former regime, having lots of resources of crude oil, natural gas and minerals, Kurdistan started utilizing its potentiality to accelerate growing and develop in economical and commercial field. As Heshmati in his article *The Economy of Southern Kurdistan* states that there are some important factors influencing Kurdistan's economy. These factors include: labor market economy of Kurdistan Regional Government (KRG) regarding various private and public employment programs; disparity of skill produced in educational system and skill demanded in the market; the policy adopted by KRG towards economic development; capacity building of the KRG regarding development and reconstruction; foreign direct investment; taking on an industrial model and policy for the region.⁹⁹

USAID in its *Economical development Assessment of Kurdistan region*, reported that beside all the opportunities to grow and all the economical potentialities of Kurdistan, there are some ambiguities in the bright future of economy of the region: lack of information and transparency; lack of an effective banking sector which needs to

⁹⁷ Edozien, E. G. "Linkages, direct foreign investment and Nigeria's economic development." *The Nigerian journal of economic and social studies* 10, no. 2, 1968:pp. 191-204.

⁹⁸ Unegbu, Angus O., and Augustine Okanlawon. "Direct Foreign Investment in Kurdistan Region of Middle-East: Non-Oil Sector Analysis." *arXiv preprint arXiv:1502.00218*, 2015.

⁹⁹ Heshmati, Almas. *The economy of southern Kurdistan*. Nova Science Publishers, Inc., 2012:p. 309.

connect to international banking institutions; strive of KRG in educational field to train skilled people who can meet the needs of market demands; last but not the least is the Kurdistan's basic infrastructures that needs to be invested in.¹⁰⁰

Although, there is some vagueness about the ongoing economical growth of Kurdistan, we can see prominent development and growth in GDP (Gross Domestic Product) by comparing the GDP of recent years with a decade ago. For instance, the GDP of the region grew by 7 percent in 2011 alone which was \$4500.00 compared to the rest of Iraq (\$ 3600.00), and it is predicted to grow by 8 percent annually until 2016. Based on Meed website, Kurdistan with more than 45 billion barrels of proven oil reserves has attracted international oil companies from 17 countries, and has attracted almost 22 billion dollars in just private sector during a six years period.

Tourism is another growing industry in Kurdistan which is going to become one of the big income resources for the region and has developed the related business sectors like hotel and travel agency industries. Based on Salihi's report for Gulf News in his article titled Iraqi Kurdistan records %70 rise in tourism arrivals states that according to latest statistics form Kurdistan's Tourism Board number of visitors of Kurdistan has increased by %66 in first seven months of 2012 compared with 2011.¹⁰¹

3.3 METHODOLOGY

3.3.1 Introduction

This chapter describes the research methods that have been used in this study. It also includes research design, populations, sampling, source of data, the instrument used to collect data, analysis and interpretation, and strategy to conduct research. The present study will test the hypotheses through T-test, and Scale, KMO was administered in an effort to determine the reliability and validity, as well as multiple regression analysis to the exanimate effect of FDI on constructions sector. This study accepts that help researcher know more about the purposes behind FDI and building development. Regarding the reason for this study, data was collected by distributing questionnaire

¹⁰⁰ Aziz, Sardar. "The Economic System (s) of the Kurdistan Regional Government, Iraq." In *Between State and Non-State*, pp. 103-122. Palgrave Macmillan US, 2017.

¹⁰¹ UG II, B. M. S. "Economy of Kurdistan from conservatism perspective of political economy."2017:p.102.

among people with different gender and ages. A self-designed questionnaire has been considered for data collection, 304 sample including 41 with 5 demographic questions in the questionnaire were distributing based on a random sample and quantitative approach.¹⁰² Participants have needed to answer each one inquiry utilizing five-point Likert scale, ranging from 1= strongly disagree to 5= strongly agree.

3.3.2 Design of Study

In this research mixed approach was used. Firstly, Danzin and Lincoln defined quantitative research as: Multi method in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of or interpreted phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical martial's-case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts- that describe routine and problematic moments and meaning in individuals' lives.¹⁰³

For the qualitative methodology, structured interview had been used. Also, the secondary Data has been collected from different sources. Some of them are from the original sources because data was already published by those government agencies, but it still considered as the secondary data. Secondary data defined by many literatures. McArt, and McDougal, defined secondary data as “the study of specific problems through analysis of existing data which were originally collected for another purpose.”¹⁰⁴ Smith, Emma, and Jr Smith also defined secondary data but in different way. In his definition, he describes secondary data as “the further analysis of an existing dataset with the aim of addressing a research question distinct from that for which the dataset was originally collected and generating novel interpretations and conclusions”.¹⁰⁵

¹⁰² Lawshe, Charles H. A quantitative approach to content validity." *Personnel psychology* 28, no. 4, 1975:pp. 563-575.

¹⁰³ Denzin, Norman K., and Yvonna S. Lincoln. *Handbook of qualitative research*. Sage publications, inc, 1994:p.1232.

¹⁰⁴ McArt, Ebba W., and Louise W. McDougal. "Secondary data analysis—a new approach to nursing research." *Journal of Nursing Scholarship* 17, no. 2, 1985:pp. 54-57.

¹⁰⁵ Smith, Emma, and Jr Smith Jr. *Using secondary data in educational and social research*. McGraw-Hill Education (UK), 2008:p.249.

Since Kurdistan Board of Investment is accountable for this issue, data and information regarding foreign companies could be achieved through its reports and publications. Besides, the KRG ministries as reliable sources could be used to explain the flow of capital and development paces in Kurdistan. The data and statistics by the ministry of planning and ministry of trade are two main sources that were used to answer research questions and concerns regarding FDI in Kurdistan. Furthermore, another part of the data was collected from officials' interview and press conferences, during the past years KRG officials and foreign companies raised the issue and the importance of FDI in economic development in Kurdistan. So, their interviews and news articles could be valuable source to accomplish the objectives of this research. However, not all data collected are secondary data, but the research collected some data from KRG departments and interviews made. So, both primary and secondary data provided and analyzed accurately in chapter five.

3.3.3 Population and Sampling

Population sampling is the process in which a group of people is selected to represent the wider population in the statistical analysis. It so essential to select right individuals to represent population and errors may depredate the reliability of the research. The importance of population sampling is to study and learn about large number of population without studding or asking every single individual. The target population in this study is government officials, economists, university lecturers who are knowledgeable about Kurdistan economic development and socio-political effects of FDI and domestic investment. The study also selected two employees who are working or worked in the international companies that are currently operated in Kurdistan. However, to explain all side effects of FDI in the region and give more reliability to the research. The sample population could be systematic sampling, consecutive sampling, and quota sampling. This study used systematic sampling in which a certain group has been targeted. This method could be an accurate representative of the population.

3.3.4 Data Collection

The mixed approach used as exploratory research method to identify the impacts of foreign direct investment on the economic growth in Kurdistan. Through secondary

data and interviews with expertise and economists, the research will find out the result or the role of FDI and its side effects. The information obtained in this method would be accurate and reliable.

In social sciences, quantitative research is widely used in psychology, economics, demography, sociology, marketing, community health, health & human development, gender and political science, and less frequently in anthropology and history. Research in mathematical sciences such as physics is also 'quantitative' by definition, though this use of the term differs in context. In the social sciences, the term relates to empirical methods, originating in both philosophical positivism and the history of statistics, which contrast with qualitative research methods. Qualitative research produces information only on the particular cases studied, and any more general conclusions are only hypotheses. Quantitative methods can be used to verify which of such hypotheses are true. A comprehensive analysis of 1274 articles published in the top two American sociology journals between 1935 and 2005 found that roughly two thirds of these articles used quantitative methods.¹⁰⁶

3.3.5 Primary and Secondary Data

The primary data was collected from KRG Board of Investment, Board of Investment, Erbil office, ministry of planning through interviews. Also the researcher used some published data of the organization in question such as annual report, pamphlet etc.

Secondary Data refers to the data that has already been published and available from various sources. Secondary data is easier and so quick to obtain compare to the primary data that need to be obtained through the original source and it requires time and money. Despite the availability of secondary data on other sources, but it's normal to use them to expand new research and find new analysis and new result. So through the use of secondary data, this study intended to accomplish its objectives and solve major research questions.

¹⁰⁶ Hunter, Laura, and Erin Leahey. "Collaborative research in sociology: Trends and contributing factors." *The American Sociologist* 39, no. 4, 2008:pp. 290-306.

3.3.6 Interviewing

Interview is defined as the systematic way of talking to collect data and get knowledge and information from people. Bradburn, N., et., al., defined interview as “interchange of views between two or more people on topic of mutual interest, sees the centrality of human interaction for knowledge production, and emphasizes the social status of research data.” Interviews could be different and methods that are using in interview depend upon the type of interview which classified into four type structured interviews, semi-structured interviews, unstructured interviews, non-directive interview. Moreover, Interview can be conducted by telephone, and questions can be open-ended questions with no restrictions on the respondent’s answer or closed ended with the respondent having a limited range of responds.¹⁰⁷

Semi-structured type of interview was used in this project which is not standardized and it’s commonly used in qualitative analysis since it doesn’t need to test certain hypothesis. Moreover, the interview was conducted through the use of modern technology between Kurdistan, South Korea and Malaysia. Technologies and internet tools used were telephone, social networking websites such as Facebook and Skype, E-mails basically Yahoo Mail and Gmail, interviewees were free to answer the question or not. Regarding the techniques and ethical concerning, the purpose of the interview was explained, the terms of confidentiality also addressed. They were also asked and informed about the length of the interview. Hence, it was supportive because they knew how long they have to sit and answer interview questions. The interview was conducted in both Kurdish and English Language.

3.3.7 Data Analysis

The data obtained through this research were analyzed and examined through the use of thematic, tables, figures and Charts were used to demonstrate the fluctuation of FDI during the period of 2005 to 2012. Basically, the tables also determine the distribution of FDI based on sectors. It also includes GDP growth in Kurdistan during that period.

¹⁰⁷ Bradburn, Norman M., Seymour Sudman, Edward Blair, W. Locander, C. Miles, E. Singer, and C. Stocking. *Improving interview method and questionnaire design: Response effects to threatening questions in survey research*. University Microfilms, 1992:pp.269-275.

3.3.8 Survey Questions

The survey goals were discussed above. One of the goals of the survey was to learn about the experience of the firms in KRG with reference to political and economic factors existing there. Therefore, the questionnaire contained questions about respondents' perception on these issues. As already pointed out, the survey also pursued the goal of finding out about the future plans of the companies which reference to additional FDI planned during the next two and five years. Knowing future investment plans would indicate the expectations of the businesses about the potential for economic success in KRG in years to come.

After stating and analyzing the goals of the survey, an appropriate questionnaire was supposed to be designed. Before composing the questions, it was important to decide how those responses were going to be analyzed. In other words, it had to be determined which method of analysis was to be used to convert the responses into results that would help to reach the goals of the survey. A decision was made to use frequency analysis and log it models for analyzing the data gathered from the respondents that were to be interviewed. Frequencies would be used to examine certain trends in the economy.

This would also help to understand some general perceptions of foreign businesses with regards to the economy and the government in KRG. The log it model that would be prepared after obtaining the responses and converting them into data would show some relationship between economic and political factors that are most interesting to this study. It was determined that questions should not be threatening for the respondents and questions that would lead to confidential information must be avoided. In addition to that, an effort was made to keep the questionnaire as concise as possible by taking into account that the people that the researcher would be meeting were busy executives. The other factor that was taken into consideration was to avoid questions with open-ended answers as much as possible because these types of questions are more difficult to convert into data and then to analyze. Besides questions about the experience of the business in working in the KRG economy, the survey included some demographic questions that might also be used if relevant. Questions such as” How many people do

you employ?”, “How long have you been in business in KRG?”, and “What is the origins of the company or the individual?” were also included in the questionnaire.

Furthermore, an evaluation of different factors was asked to be performed by the respondent by asking them to rate their responses on a Likert scale. For instance, the issue of restrictions was addressed by asking the respondent to rate the riskiness he or she perceived by ranging his or her response from “no risky” to “extremely risky” on a scale of 1 to 5. A similar approach was taken for questions concerning perceptions about KRG economic stability, labor market, the openness of the economy, etc. In other words, the survey paid attention to the elements of the KRG market that suggest that it is a free market compared to more of a controlled economy. The survey also attempted to make projections about the future of the KRG economy. This was expected to help to draw conclusions about investment opportunities the respondents perceived exist in KRG. Many questions in the survey focused on evaluating the business environment in KRG. By asking specific questions about perceptions about the business environment to interviewees, the survey helped to find out how feasible it will be for foreign firms to operate in KRG. In addition, businesses were asked whether or not they plan on hiring more people or expanding their businesses in KRG in the future. The actual survey used in this study can be found in the appendix of this thesis.

3.3.9 Interpretation of the Responses

It was briefly discussed above about the methods of interpreting the responses. The first step was the conversion of the responses into data. Each question was coded and transferred into an Excel© spreadsheet. After creating the data, it was decided to obtain numerical results in terms of the trends in the market. The statistical approach taken to address this was to develop frequency tables of the responses to the survey questions. Coding was done in such a way that would allow deriving percentages for each possible answer for closed-ended questions. For open-ended questions, an attempt to search for common trends and interesting observations from the responses was done and then a general synopsis of the responses was reported. Common responses were coded into numbers and treated like closed-ended questions. Simple calculations were used to derive percentages for the frequency of each response. For instance, the question “ Are you satisfied with the size of the market in KRG?” was analyzed by looking at the

segment of respondents that chose any of the given options “satisfied,” “neutral,” or “not satisfied.” The main objective of this study is to find out the potential of growth in FDI which, as discussed above, will most likely enhance the horticultural sector in KRG. In the beginning of this chapter, the expected main determinants of FDI were discussed. Due to the lack of past studies on that topic in KRG, it was decided to observe whether there is a prospective of future growth in FDI on the part of survey respondent. The approach taken to address this subject was to have a question in the questionnaire asking about future planned investment.

The question was formed in the following way, “Does your company anticipate a growth in its investments in KRG in the next two years and after two years?” with “yes” or “no” as possible responses. It is obvious that not every company does investment every two years. Though if the majority of businesses do not plan on expanding, it will become more or less clear that the KRG economy is not expected to grow and it is not a very attractive market in which to invest. The answers to this question were then be analyzed by frequencies and the portion of firms that plan on expanding their businesses within two or five years will be clear. Nevertheless, it was necessary to expand the analysis and examine the economic factors that affect this stated planned growth in investment in KRG. It was found necessary to identify a relationship between the experiences and perception of the businesses about the economy in KRG and their plans for future expansion. For this purpose, various models were formulated to examine the influence of different economic factors on planned future FDI that could be ascertained from the questions in the survey. For instance, it was interesting to know to what extent the satisfaction with the market size in KRG is correlated with the expansion in investment. Thus, the willingness to expand the investment was the dependent variable. That means that there can only be two possible outcomes, “yes” or “no.” In addition to that, satisfaction with the market would be one of the independent variables.

3.3.10 Research Strategy

Research design helps to plan, organize and implement a research in order to obtain the best results and maximize the credibility of the research findings. Quantitative research was used for this study. Questionnaires were used to obtain appropriate and accurate views of employees or workers.

This section primarily gives the researcher a heading as to the direction and how the research would be executed. Research could be conducted either through qualitative or quantitative methods. A proper understanding will help the researcher to differentiate the two methodologies and will lead the researcher in the correct direction. As both methodologies have its own merits and setbacks the selection of an ideal methodology is crucial to the success of the research. Quantitative research is a methodology that involves deductive approach and gathering and analyzing numerical data. The data gathered from questionnaires will be analyzed by SPSS. The following methods will be used.

Descriptive statistics will be used to describe the study variables. Descriptive statistics involve Figures, tables, graphs, and various numerical measures including mean, percentage, frequency distributions, histograms, and bar charts to display data.

SPSS 21.0 is the best software package available to investigation authoring, data mining, text analytics, statistical analysis, and collaboration and deployment.

- Cronbach's alpha will be used to measure the reliability and credibility of the variables.
- Frequencies, percentage, mean and standard deviation will be used to describe and measure variables.
- Linear regression analysis will be used to analyses the considerable impact that independent variable could have.

3.3.11 Sample Size

This research was carried out to understand the impact of FDI on constructions sector. The researcher conducted a survey by issuing a questionnaire to different employees of KRG. The questionnaire gave the employees to voice their opinions and express their experiences and perceptions pertaining to training and its relevance with regards to performance. The questionnaire was designed on one of the models that were available on www.surveysystem.com. The study chose 3 different City in KRG. The reason for such a choice was to construe how employee or workers perception changes depending on the ownership. The survey was carried out of 300 employees or workers. Hence, the 320 questionnaires that were distributed 304 responded and 16 participants

did not respond. The study depended to confidence level at 95% among the sample size of 304.

3.3.12 Chapter Summary

This chapter focused and discussed topics on research examination. The target of the section was to familiarize the reader with quantitative research and the research questions that were to be addressed. Although there were limitations in the research, certain experiences, issues and problems that are faced by companies are disclosed. The data derived from the questionnaire would be discussed in detail with explanations in the following chapter.

3.3.13 Research Hypothesis

It is a group of related idea that provides guidance for a research project and understanding individual relationship or effect between variables.

Hypothesis 1:

There are two different Hypothesis and the entire variable have different impact with EGC.

H₀: There is no significant impact of FDI on EGC.

H₁: There is significant impact of FDI on EGC.

Hypothesis 2:

H₀: There is no significant impact of Human Capital on EGC.

H₁: There is significant impact of Human Capital on EGC.

Hypothesis 3:

H₀: There is no significant impact of Market Size on EGC.

H₁: There is significant impact of Market Size on EGC.

Hypothesis 4:

H₀: There is no significant impact of Tax Burden on EGC.

H₁: There is significant impact of Tax Burden on EGC.

Hypothesis 5:

H₀: There is no significant impact of Cost of Labor on EGC.

H₁: There is significant impact of Cost of Labor on EGC.

The purpose of this study is finding the impact of FDI on economic growth variables which are Political factor, Economical factor, Social factor, Technological factor,

Model:

$$FDI = \beta + \beta_1 + \beta_2 + \mu \quad \text{Where as:}$$

FDI = Foreign Direct Investment

EGP = Economic growth performance

μ = Error Term

β = Slope

3.3.14 Definition of Terms

Table 3. 3 Definition of Terms

Description of variables and data sources Variables (label)	Definition	Sources
Foreign Direct Investment (Ln FDI)	Log of annual foreign direct investment in flow, 1980-2010	UNCTAD, 2011
Economic growth (Ln Y)	Log of actual GDP in U.S. dollars obtained by deflating the nominal GDP for all countries	World Bank data, 2011
Human capital (Ln H)	Gross enrolment ratio in secondary schools. This is the ratio of the total enrolment, regardless of age, and the population of the age group that officially corresponds to the level of secondary education.	World Bank data, 2011
Private Investment (Ln K)	Log of the volume of gross fixed capital creation	World Bank data, 2011
Labour (Ln L)	Log of number of workers	World Bank data, 2011
Trade openness (Open)	Sum of imports and exports in relation to the GDP	World Bank data, 2011
Infrastructure (Infrast)	Mobile phone subscribers (per 100 people)	World Bank data, 2011

3.3.15 Variables Table

Table 3. 4 Variables of Study

Variables	Type	Source
<u>FDI</u>	<i>Independent</i>	Unegbu, A. O., & Okanlawon, A. (2015).
Human Capital		Hsiao and Shen, 2003 Nonnenberg and mendonca, 2005
Market Size		Amal and Seabra, 2007; Broadman and Sun. 1997;
Tax Burden		Cheng and Kwan. 2000; Forssbaeck and Oxelheim, 2008;
Cost of Labor		Fung et al. 2002; Nonnenberg and Mendonca. 2005; Nunnenkamp and Spatz. 2002; Sun et al.. 2002; Hsiao and Shen. 2003
<u>EGC</u>	<i>Dependent</i>	Balasubramanyam, V. N., Salisu, M., & Sapsford, D. (1996).
Political factor		
Economical factor		
Social factor		
Technological factor		
Construction sectors		

3.3.16 Research Structural Model

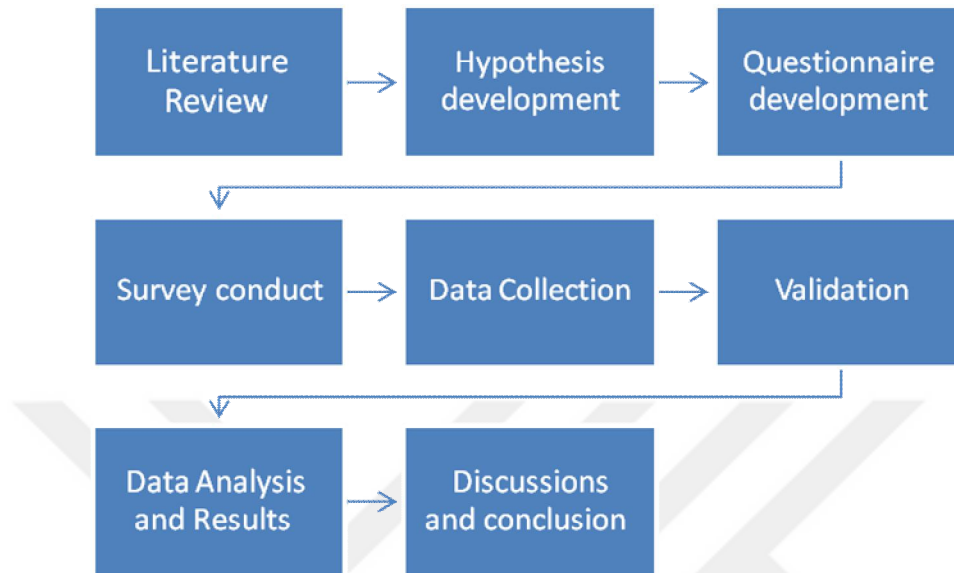


Figure 3.1 Research Structural Model

A theoretical model comprises of ideas and, together with their definitions and reference to important scholarly literature, existing hypothesis and theory that is utilized for present specific research. The theoretical structure must exhibit a comprehension of theories and ideas that are important to the theme of present examination and that identify with the more extensive territories of knowledge being considered.

Moreover, the theoretical model is frequently not something promptly found inside the literature. The researcher should survey course readings and apropos research studies for analytic and theories models that are important to the examination issue you are exploring. The determination of a hypothesis ought to rely on upon its propriety, simplicity of use, and explanatory power.

3.3.17 Limitations

This part can be done after surveying and completing the research the researcher will decide a limitation identifies potential weaknesses of the study. Think about your analysis, the nature of self-report, your instruments, and the sample. Think about threats to internal validity that may have been impossible to avoid or minimize.

3.4 DATA ANALYSIS AND RESULTS FINDING

3.4.1 Descriptive Analysis

Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data.

Table 3.1 Statistics

	Gender	Age	Marital status	Monthly income	Manpower
N Valid	304	304	304	304	304
Missing	0	0	0	0	0
Mean	1.94	2.78	1.58	2.53	1.88
Std. Deviation	.236	.777	.495	1.253	.844
Range	1	3	1	4	2

Table 3.2 Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Female	18	5.9	5.9	5.9
Male	286	94.1	94.1	100.0
Total	304	100.0	100.0	

In the total number of questionnaire 304, there are 286 Male respondents and 18 respondents Female. Therefore, after analyzed gender variable, the percentage rates were 94.1% of respondents were Male while 5.9% of respondents were Female. There was not any type of determining gender in distribution in the present research, the researcher had shared questionnaire online and the respondent's answers totally has come randomly. In this point view, that could be a possibility reason why more male is suitable in the result of the survey than female.

Table 3.3 Age

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid under 18-25	17	5.6	5.6	5.6
26-35	82	27.0	27.0	32.6
36-45	157	51.6	51.6	84.2
Above46	48	15.8	15.8	100.0
Total	304	100.0	100.0	

From the above table, it indicates that the distribution of the age in this survey that the majority of survey respondents concentrate on the extent from 36-45 years of age, which takes up to 51.6 %. This was presumably this age gathering was mostly employed, who were most dynamic on economics. The second biggest category was individuals matured from 26-35, which represented 27%, finally the rest of age respondents was 18 and Under / up to 25 with 5.6% and the matured above 46 with 15.8 percent had taken the littlest extent in this survey.

Table 3.4 Marital Status

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Married	129	42.4	42.4	42.4
Unmarried	175	57.6	57.6	100.0
Total	304	100.0	100.0	

From the table of Marital Status indicates that the people of KRG according to current survey the highest rate of responses are Unmarried with 175 which represented 57.6 percent while the proportion of Married people reported with 129 responses and that are presented 42.4 percent as total result. However, the majority of Married people in KRG as pre this survey was between 26-35 years old with 36-45, Above46, this could be due to random distribution samples.

Table 3.5 Monthly Income

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Up to IQD. 400000	81	26.6	26.6	26.6
IQD.401000 to 1000000	75	24.7	24.7	51.3
IQD.1001000 to 2000000	81	26.6	26.6	78.0
IQD. 2001000 to.3000000	41	13.5	13.5	91.4
Above 3000000 IQD	26	8.6	8.6	100.0
Total	304	100.0	100.0	

As indicated from the table above the highest proportion of employees it was 81 responses up to IQD 400000 and IQD1001000 to 2000000, respectively which return the largest range for employers with 26.6% responses. The result of monthly income has interestingly showed that the employers do not relate with highly income and also this could be the reason of random distribution. The second proportion goes for IQD 401000 to 1000000, group of income with 75 responses with 24.7%.

Table 3.6 Manpower

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Erbil	128	42.1	42.1	42.1
Sulaymaniyah	84	27.6	27.6	69.7
Duhok	92	30.3	30.3	100.0
Total	304	100.0	100.0	

From the above table, it shows that the distribution of the manpower in this survey that the majority of survey respondents concentrate on the extent from 128 Erbil city, which takes up to 42.1%. This was presumably this city gathering was mostly employed/workers, who were most dynamic on economics. The second biggest worker numbers city was Duhok matured from 92, which represented 30.3%, finally the last city was Sulaymaniyah, and with number of workers 84 with 27.6 percent had taken the littlest extent in this survey.

3.4.2 Reliability Statistics Analysis

Table 3.7 Scale and Reliability Statistics

Mean	Variance	Std. Deviation	Cronbach's Alpha	N of Items
84.5066	80.655	8.98082	.796	41

Reliability investigation was to find out the estimate the reliability and level of inside coherence among elements inside of every variable. Additionally, it was utilized to focus the nature of measurement instruments. The Cronbach's Alpha value lied between (0/1). As indicated by Raykov, Tenko, the Cronbach's t Alpha value was worthy with a minimum value of 0.6. The Alpha value extended between (0.60 / 0.80) were showing a good result. At the point when the Alpha was over all was (0.0796) with 41 items and near to 0.8, of the present study the outcome should be viewed as good.

3.4.3 Validity Statistics Analysis

Table 3.8 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.920
Bartlett's Test of Sphericity	Approx. Chi-Square	10131.063
	df	190
	Sig.	.000

A measure (e.g. a test, a questionnaire or a scale) is useful if it is reliable and valid. A measure is valid if it measures what it purports to measure. Validity can be assessed in several ways depending on the measure and its use. Content validation is employed when it seems likely that test users will want to draw references from observed test scores to performances on a larger domain of tasks similar to items on the test. Typically, it involves asking expert judges to examine test items and judge the extent to which these items sample a specified performance domain. There are two types of content validity: face validity and logical validity. A test has face validity if an examination of the items leads to the conclusion that the items are measuring what they are supposed to be measuring. Logical or sampling validity is based on a careful comparison of the items to the definition of the domain being measured.

From the table (12), that the KMO measure the adequacy of sampling which should be higher than (>0.05) for a satisfactory factor analysis to be complete. If any pair of factors has a value less than (<0.05) that means consider dropping one of them from the analysis. Moreover, the KMO measure for Economic Growth by Construction variable was (0.920) that

means bigger than (>0.05), it indicated satisfactory of the sampling adequacy in EGC variable factors. While, the Bartlett's test of sphericity showed the significance level was (0.000). Hence, it illustrated the value was smaller than (<0.05) that means small enough to reject the null hypothesis of purchase intention variable.

3.4.4 Regression Analysis

The Effect between Human Capital, Market Size, Tax Burden, Cost of Labor, and Economic Growth by Construction

Model 1 Multiple Regression. $Y = a + b_1X_1 + b_2X_2 + b_3X_3$

$a = Y$ intercept = level of Y when X is 0.

Dependent Variable: $Y =$ Economic Growth by Construction

Independent Variable: X_1 Human Capital, X_2 Market Size, X_3 Tax Burden, X_4 Cost of Labor

Regression coefficients: b_1, b_2, b_3 and b_4

Table 3.9 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Es.	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
dimension0 1	.908 ^a	.824	.822	.325	.824	349.736	4	299	.000

a. Predictors: (Constant), Human Capital, Market Size, Tax Burden, Cost of Labor

The relationship between independent variables X_1 Human Capital, X_2 Market Size, X_3 Tax Burden, X_4 Cost of Labor and Economic Growth by Construction dependent variable was reflected by coefficient of determination. The R-square showed the regression model performance. The R-Square value had indicated the HC, MS, TB, and CL independent variables were strongly impacting on EG dependent variable. As per, above table the R-Square coefficient of determination was indicated (0.824). Hence, that means 82.2% of the variation in an economic growth dependent variable, and this could be expressed by HC, MS, TB, and CL, variables.

3.4.5 ANOVA^b

Table 3.10 ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	148.043	4	37.011	349.736	.000 ^a
Residual	31.642	299	.106		
Total	179.684	303			

a. Predictors: (Constant), Human Capital, Market Size, Tax Burden, Cost of Labor

b. Dependent Variable: Economic Growth by Construction

From ANOVA table, the F-statistic value was used to estimate the inclusive linear relationship between independent variables (HC, MS, TB, and CL) and dependent variable (EGC). Hence, the P-value of F-statistic indicates the significance of produced results prediction.

H₀: The null hypothesis alleged that the independent variables Human Capital, Market Size, Tax Burden, and Cost of Labor considered together that all independent variables did not have a linear relationship versus Economic Growth by Construction dependent variable, i.e., the regression coefficients of all variables are (.000).

❖ H₀: ($b_1 = b_2 = b_3 = b_4 \dots = b_k = 0$) coefficients of regression are equal to .000

H₁: The alternative hypothesis alleged that the independent variables Human Capital, Market Size, Tax Burden, and Cost of Labor at least, one of them had a linear relationship versus Economic Growth by Construction dependent variable, i.e., at least, one regression coefficient was not 0.000.

❖ H₁: At least one of ($b_1, b_2, b_3 \dots, b_k \neq 0$) coefficient of regression does not equal to .000
According to “MINITAB REGRESS” in the linear regression to investigate the significance of the parameters included. For any of the variables X_j included in a multiple regression model, the null hypothesis states that the coefficient B_j is equal to 0. The alternative hypothesis may be one sided or two sided, stating that B_j is either less than 0, or bigger than 0, or simply not equal to 0.

Furthermore, from the table of ANOVA, that the P-value of F-statistic was .000 which means smaller than 0.05, it indicates to rejected H₀ null hypothesis therefore, all regression coefficients were smaller than (0.05) . While, the predictors Human Capital, Market Size, Tax

Burden, and Cost of Labor as the independent variables P-value for all of them were smaller than (<0.05). Hence, it indicates the significant contribution to the model.

3.4.6 Coefficients^a

Table 3.15 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.220	.146		1.503	.134
Human Capital	.096	.022	.147	4.321	.000
Market Size	.862	.061	.904	14.115	.000
Tax Burden	.522	.073	.635	7.180	.000
Cost of Labor	-.514	.060	-.594	-8.505	.000

a. Dependent Variable: Economic Growth by Construction

As the table of coefficients^a above indicated that the P-value and t-statistic investigates to all regression coefficients were Significant at .000. Hence, all independent variables were (<0.05) Human Capital, Market Size, Tax Burden, and Cost of Labor are indicated the significant linear relationship with the dependent variable Economic Growth by Construction at a significant level (0.05).

3.4.7 Hypothesis Testing by T-Test

Table 3.11 One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Human Capital	86.395	303	.000	3.816	3.73	3.90
Market Size	44.931	303	.000	3.039	2.91	3.17
Tax Burden	79.867	303	.000	3.701	3.61	3.79
Cost of Labor	68.699	303	.000	3.507	3.41	3.61
Economic Growth by Construction	68.324	303	.000	3.668	3.56	3.77

The hypotheses testing assume that there is a significant difference between the population mean and the sample mean. That means all hypotheses alleged that the independent variables at least one of them had a linear relationship versus Economic Growth by Construction dependent variable. The output of One-Sample T-test that the Human Capital, Market Size, Tax Burden, and Cost of Labor hypotheses were respectively shows 3.816,

3.039, 3.701, 3.507, and 3.668, with a mean difference, while the t-statistic respectively are 86.395, 44.931, 79.867, 68.699, 68.324, and all variable shows Sig. (2-tailed) which means P-value were 0.000. If the hypotheses of the study show significance level α at 0.05 and used the critical value approach to conducting study hypotheses test, the researcher would reject the hypothesis if the P-value were greater than (0.05). Hence, it indicates the significant contribution to the model. Since H1, H2, H3, H4, and H5 hypotheses are not bigger than 0.05, the researcher fails to reject any hypotheses. That is the One-Sample T-test has insufficient evidence. Furthermore, the One-Sample T-test result shows all hypotheses were supported and accepted. Moreover, the research has shown the sufficient sample size of 304, and it indicates to enough valid data were collected. Therefore, the researcher has put the output of model results based on models of Regression, Coefficients^a, and ANOVA Residual, the following model has investigated.

CONCLUSION

The study outcomes are likely to provide an opportunity to frame some policy implications. The regression results confirmed that an increase in FDI has positive impact on growth rate of KRG. Hence the authorities should positively concentrate on maximum utilization of resources to increase FDI in order to increase GDP growth rate. It needs effective and encouraging FDI attractive policies from the public sector to restore the confidence of the investors. Government should offer Business friendly environment as it provides pace to attract huge FDI. As KRG is a populous region and have deprived construction system therefore, fundamental attempts could be taken to attract FDI in this sector. In KRG the major setback against FDI growth is political instability, so serious measures in the following areas should be taken. KRG construction sector is highly negligible and its quality is on its last legs. Short of financial resources causes a poor quality of construction which further causes a massive talent deficiency and this forced harmful impact on the domestic as well as foreign Business. Infrastructure plays an essential role for the growth of any economy. The regions which have good physical infrastructure are considered as the best attractive hosts for the FDI.

We expect Erbil to push industrial construction projects forward over the coming years, both to limit the region's economic reliance on the troubled hydrocarbon sector and to better supply the regional construction market. We note that Kurdistan's first steel plant was opened in 2007, after being delayed by inadequate supply of electricity, and now meets 40% to 50%

of the region's steel demand. To further meet demand, Duhok, Erbil and Slemani municipalities are all readying financially attractive industrial zones for new projects in the industrial sectors, and we expect that building materials will be a key focus. The development of this local capacity should aid in the realizations of the hugely ambitious mega-projects currently under development, such as the USD2bn Dukan Lake tourist development, or the Downtown Erbil project - both being developed by UAE-based Emaar Properties.

Although we hold an optimistic view on the construction industry in the KRG, some key risks for investors remain. For one, inadequate infrastructure has meant the cost of importing materials - in terms of both delays and financial costs incurred - has been high. Imports are needed because of a fundamental lack of building materials in the region. Also, risks pertinent to the energy sector will partly influence the construction industry. Construction activity is partly based on the premise that a prosperous oil sector would boost wealth and allow the KRG to heavily invest in developing the region. However, the ongoing dispute between Erbil and Baghdad could threaten the Kurdistan region's ability to fund construction projects, as Baghdad is withholding the KRG's share of the national budget. FDI has been discovered as an engine of economic growth. Obviously, the great potentials of FDI for accelerating the pace of economic progress of KRG cannot be overemphasized. Foreign investments cater for job creation requirements, income generation, utilize national savings productively and perpetuate the process of economic growth. FDI has been traditionally found to help attract skilled labor, entrepreneurship, technological know-how and direct flow of foreign resources including foreign exchange. These factors augment the existing domestic resource base and promote growth when they flow into the economy.

The study found that there was a positive relationship between FDI and GDP during the period under review. Though its contribution to economic growth in KRG was not statistically significant, the study indicated that FDI has the potential to significantly impact upon the economy growth by construction sectors. Consequently, the paper recommends the need for maintaining a steady economic growth and low inflation, increased investment in human capital development to build the stock of capital available in the region, the need to overhaul the tax and duty mechanisms to curtail widespread tax evasion, corruption and poor quality services; and the need to increase national savings and investments. These are necessary as catalysts to enhance economic growth in KRG.

It should be evident that KRG has taxation and fiscal policies to encourage investment and growth. Taxation policies in the state are highly progressive and they favor the individual firm and individual taxpayer. The economic development policies enacted in 2003 reinforced the claim that KRG is one of the most “economically free” regions in the Iraq. However, KRG had sluggish economic growth from (2000-2003) even though the state seemed to have all the ingredients for success. It has several taxation incentive programs that are friendly to business. It attempts to attract “innovative” and entrepreneurial individuals in a manner that would make KRG (2003) proud.



REFERENCES

- ABDULLAH, Nabaz Nawzad. "The Role of Foreign Direct Investment in Developing Kurdistan's Economy." Browser Download This Paper (2016).
- ADENIYI, Oluwatosin, Olusegun Omisakin, Festus O. Egwaikhide, and Abimbola Oyinlola. "Foreign direct investment, economic growth and financial sector development in small open developing economies." *Economic Analysis and Policy* 42, no. 1 (2012): 105-127.
- AGRAWAL, Gaurav, and Mohd Aamir Khan. "Impact of FDI on GDP: A comparative study of China and India." *International Journal of Business and Management* 6, no. 10 (2011): 71.
- AKINLO, A. Enisan. "Foreign direct investment and growth in Nigeria: An empirical investigation." *Journal of policy modeling* 26, no. 5 (2004): 627-639.
- ALFARO, Laura. "Foreign direct investment and growth: Does the sector matter." *Harvard Business School* 2003 (2003): 1-31.
- AMONDI, Everlyne. "Effect of Foreign Direct Investment on the Performance of the Real Estate Sector in Kenya." PhD diss., University of Nairobi, 2016.
- ATHUKORALA, Premachandra, and Jayant Menon. "Foreign investment and industrialization in Malaysia: exports, employment and spillovers." *Asian Economic Journal* 10, no. 1 (1996): 29-44.
- AZIZ, Sardar. "The Economic System (s) of the Kurdistan Regional Government, Iraq." In *Between State and Non-State*, pp. 103-122. Palgrave Macmillan US, 2017.
- BLOMSTROM, Magnus, and Ari Kokko. "Human capital and inward FDI." (2003).
- BLOMSTRÖM, Magnus, Gunnar Fors, and Robert E. Lipsey. "Foreign direct investment and employment: home country experience in the United States and Sweden." *The Economic Journal* 107, no. 445 (1997): 1787-1797.
- BMI research. "Iraqi Kurdistan: Construction Over Energy" <http://www.bmiresearch.com/articles/iraqi-kurdistan-construction-over-energy> (Sunday, May 14, 2017).
- BORENSZTEIN, Eduardo, Jose De Gregorio, and Jong-Wha Lee. "How does foreign direct investment affect economic growth?." *Journal of international Economics* 45, no. 1 (1998): 115-135.

- BRADBURN, Norman M., Seymour Sudman, Edward Blair, W. Locander, C. Miles, E. Singer, and C. Stocking. Improving interview method and questionnaire design: Response effects to threatening questions in survey research. University Microfilms, 1992.
- BRANDER, James A., and Barbara J. Spencer. "Foreign direct investment with unemployment and endogenous taxes and tariffs." *Journal of International Economics* 22, no. 3-4 (1987): 257-279.
- CAMINADA, Koen, and Kees Goudswaard. "Social expenditure and poverty reduction in the EU15 and other OECD countries." (2009).
- CHECCHI, Daniele, Gianfranco De Simone, and Riccardo Faini. "Skilled migration, FDI and human capital investment." (2007).
- CLARKE, Donald, Peter Murrell, and Susan Whiting. "The role of law in China's economic development." *China's great economic transformation* 11 (2008).
- DABOUR, N. "The role of foreign direct investment (FDI) in development and growth in OIC member countries." *Journal of economic cooperation* 21, no. 3 (2000): 27-55.
- DENZIN, Norman K., and Yvonna S. Lincoln. *Handbook of qualitative research*. Sage publications, inc, 1994.
- DUNNING, John H. "Determinants of foreign direct investment: globalization-induced changes and the role of policies." In *Annual World Bank Conference on Development Economics, Europe, "Toward Pro-Poor Policies Aid, Institutions, and Globalization*. Edited by Bertil Tungodden, Nicholas Stern, and Ivar Kolstad, pp. 279-290. 2003.
- DUNNING, John H. *Global Capitalism, FDI and competitiveness*. Vol. 2. Edward Elgar Publishing, 2002.
- DUTTA, Nabamita, and Kwasi Osei-Yeboah. "Foreign direct investment and human capital: The role of political and civil rights." (2010).
- ERDAL, Fuat, and Ekrem Tatoglu. "Locational determinants of foreign direct investment in an emerging market economy: Evidence from Turkey." *Multinational business review* 10, no. 1 (2002): 21.
- FARLA, Kristine. *Empirical studies on institutions, policies and economic development*. Boekenplan, 2013.
- FELSENSTEIN, Daniel, Ronald McQuaid, Philip McCann, and Daniel Shefer, eds. *Public investment and regional economic development*. Edward Elgar Publishing, 2001.

- FUMAGALLI, Chiara. "On the welfare effects of competition for foreign direct investments." *European Economic Review* 47, no. 6 (2003): 963-983.
- GASTANAGA, Victor M., Jeffrey B. Nugent, and Bistra Pashamova. "Host country reforms and FDI inflows: How much difference do they make?." *World development* 26, no. 7 (1998): 1299-1314.
- GAULIER, Guillaume, Françoise Lemoine, and Deniz Ünal-Kesenci. "China's integration in East Asia: Production sharing, FDI & high-tech trade." *Economic Change and Restructuring* 40, no. 1-2 (2007): 27-63.
- GILLIS, Malcolm, Dwight H. Perkins, Michael Roemer, and Donald R. Snodgrass. *Economics of development*. No. Ed. 3. WW Norton & Company, Inc., 1992.
- GOUX, Dominique, and Eric Maurin. "The decline in demand for unskilled labor: an empirical analysis method and its application to France." *Review of Economics and Statistics* 82, no. 4 (2000): 596-607.
- HESHMATI, Almas. *The economy of southern Kurdistan*. Nova Science Publishers, Inc., 2012.
- HSIAO, Cheng, and Yan Shen. "Foreign direct investment and economic growth: the importance of institutions and urbanization." *Economic development and Cultural change* 51, no. 4 (2003): 883-896.
- HUNTER, Laura, and Erin Leahey. "Collaborative research in sociology: Trends and contributing factors." *The American Sociologist* 39, no. 4 (2008): 290-306.
- INVESTINGROUP. " Numerous large-scale construction and real-estate projects of the Kurdistan Region." <http://investinggroup.org/review/241/heads-up-construction-kurdistan/>. (Sunday, May 14, 2017).
- ITO, Takatoshi, and Anne O. Krueger, eds. *The role of foreign direct investment in East Asian economic development*. Vol. 9. University of Chicago Press, 2007.
- IVERSEN, Torben, and John D. Stephens. "Partisan politics, the welfare state, and three worlds of human capital formation." *Comparative political studies* 41, no. 4-5 (2008): 600-637.
- JENKINS, Rhys. "Globalization, FDI and employment in Viet Nam." *Transnational Corporations* 15, no. 1 (2006): 115.
- KADERABKOVA, A. (2005), *Quality-Intensity of the Czech Economy in International Comparison*, National Training Fund, Prague.

- KARIUKI, Caroline Wanjiru. "The determinants of foreign direct investment in African countries." (2014).
- KENDALL, Jake. "Local financial development and growth." (2009).
- KHAN, Saira Faheem, and Imran Umer Chhakra. "Analysis of GDP and Macroeconomic Variables on Economic Growth of Pakistan." *Market Forces* 11, no. 1 (2016).
- KOFELE-Kale, Ndiva. "The political economy of foreign direct investment: A framework for analyzing investment laws and regulations in developing countries." *Law & Pol'y Int'l Bus.* 23 (1992): 619.
- LANDESMANN, Michael, and Julia Wörz. *CEEC's Competitiveness in the Global Context*. No. 327. The Vienna Institute for International Economic Studies, wiiw, 2006.
- LAWSHE, Charles H. "A quantitative approach to content validity." *Personnel psychology* 28, no. 4 (1975): 563-575.
- LEHNERT, Kevin, Mamoun Benmamoun, and Hongxin Zhao. "FDI Inflow and Human Development: Analysis of FDI's Impact on Host Countries' Social Welfare and Infrastructure." *Thunderbird International Business Review* 55, no. 3 (2013): 285-298.
- LI, Xiaoying, and Xiaming Liu. "Foreign direct investment and economic growth: an increasingly endogenous relationship." *World development* 33, no. 3 (2005): 393-407.
- LI, Yue. *Essays on foreign direct investment and globalization*. Rutgers The State University of New Jersey-New Brunswick, 2008.
- LIPSEY, Robert E., Robert C. Feenstra, Carl H. Hahn, and George N. Hatsopoulos. "The role of foreign direct investment in international capital flows." In *International capital flows*, pp. 307-362. University of Chicago Press, 1999.
- MADDISON, Angus. "A comparison of levels of GDP per capita in developed and developing countries, 1700–1980." *Journal of Economic History* 43, no. 01 (1983): 27-41.
- MAMUTI, Agim, and Mehmed GANIĆ. "THE EFFECT OF FDI ON THE GDP OF MACEDONIA." *Uluslararası Yönetim İktisat ve İşletme Dergisi* 30 (2016): 109-119.
- MAMUTI, Agim, and Mehmed GANIĆ. "THE EFFECT OF FDI ON THE GDP OF MACEDONIA." *Uluslararası Yönetim İktisat ve İşletme Dergisi* 30 (2016): 109-119.
- MARWAH, Kanta, and Akbar Tavakoli. "The effect of foreign capital and imports on economic growth: Further evidence from four Asian countries (1970–1998)." *Journal of Asian Economics* 15, no. 2 (2004): 399-413.

- MCART, Ebba W., and Louise W. McDougal. "Secondary data analysis—a new approach to nursing research." *Journal of Nursing Scholarship* 17, no. 2 (1985): 54-57.
- MENCINGER, Jože. *Addiction to FDI and current account balance*. na, 2008.
- MIRASKARI, Seyed Reza, Mahyar Shabaninejad Masouleh, and Seyed Abolfazl Alavi. "Analyzing Impacts of Foreign Direct Investment on Private Sector in Economic Growth of Iran." *International Journal of Academic Research in Business and Social Sciences* 4, no. 11 (2014): 223-237.
- MORAN, Theodore H. *Foreign direct investment and development: The new policy agenda for developing countries and economies in transition*. Peterson Institute, 1998.
- MORISSET, Jacques, and Neda Pirnia. *How tax policy and incentives affect foreign direct investment: a review*. Vol. 2509. World Bank Publications, 2000.
- NOORBAKHS, Farhad, Alberto Paloni, and Ali Youssef. "Human capital and FDI inflows to developing countries: New empirical evidence." *World development* 29, no. 9 (2001): 1593-1610.
- ORAIBY, Jinan Soaad, Haider Talib Hussain, Asaad Abdullah Abbas, and Maher Mohammed Hassan. "Growth Assessment in Asthmatic Patients." *IRAQI POSTGRADUATE MEDICAL JOURNAL* 12, no. 3 (2013).
- PATEL, Parimal, and Keith Pavitt. "The continuing, widespread (and neglected) importance of improvements in mechanical technologies." *Research policy* 23, no. 5 (1994): 533-545.
- SHAHBAZ, Muhammad, and Mohammad Mafizur Rahman. "The dynamic of financial development, imports, foreign direct investment and economic growth: cointegration and causality analysis in Pakistan." *Global Business Review* 13, no. 2 (2012): 201-219.
- SMITH, Emma, and Jr Smith Jr. *Using secondary data in educational and social research*. McGraw-Hill Education (UK), 2008.
- TE Velde, Dirk Willem. *Foreign direct investment and income inequality in Latin America: experiences and policy implications*. No. 04/03. Documento de Trabajo, Instituto de Investigaciones Socio-Económicas, Universidad Católica Boliviana, 2003.
- TECHAKANONT, Kriengkrai, and Thamavit Terdudomtham. "Evolution of interfirm technology transfer and technological capability formation of local parts firms in the

- Thai Automobile Industry." *Asian Journal of Technology Innovation* 12, no. 2 (2004): 151-183.
- UG II, B. M. S. "Economy of Kurdistan from conservatism perspective of political economy."
- WEIDENFELD, Adi, Allan M. Williams, and Richard W. Butler. "Knowledge transfer and innovation among attractions." *Annals of tourism research* 37, no. 3 (2010): 604-626.
- YAMIN, Mo, and Rudolf R. Sinkovics. "Infrastructure or foreign direct investment?: An examination of the implications of MNE strategy for economic development." *Journal of World Business* 44, no. 2 (2009): 144-157.
- ZARSKY, Lyuba. *International investment for sustainable development: Balancing rights and rewards*. Earthscan, 2005.
- ZEB, Nayyra, F. Qiang, and Muhammad Suhail Sharif. "Foreign direct investment and unemployment reduction in Pakistan." *International Journal of Economics and Research* 5, no. 02 (2014): 10-17.
- ZHANG, Kevin Honglin. "Why does so much FDI from Hong Kong and Taiwan go to Mainland China?." *China Economic Review* 16, no. 3 (2005): 293-307.
- CHISWICK, Barry R. "Interpreting the coefficient of schooling in the human capital earnings function." (1997).
- BECKER, Gary S., and Kevin M. Murphy. "The division of labor, coordination costs, and knowledge." *The Quarterly Journal of Economics* 107, no. 4 (1992): 1137-1160.
- SIQUEIRA, Ana Cristina O. "Entrepreneurship and ethnicity: the role of human capital and family social capital." *Journal of developmental entrepreneurship* 12, no. 01 (2007): 31-46.
- GALOR, Oded, Omer Moav, and Dietrich Vollrath. "Inequality in landownership, the emergence of human-capital promoting institutions, and the great divergence." *The Review of economic studies* 76, no. 1 (2009): 143-179.
- KOCHUNG, Edwards J. "Role of higher education in promoting inclusive education: Kenyan perspective." *Journal of Emerging Trends in Educational Research and Policy Studies* 2, no. 3 (2011): 144-149.
- JIMÉNEZ, Martha, Jaime Arturo Matus, and Miguel Angel Martínez. "Economic growth as a function of human capital, internet and work." *Applied Economics* 46, no. 26 (2014): 3202-3210.

- BECKER, Gary S. "Human capital and the economy." *Proceedings of the American philosophical society* 136, no. 1 (1992): 85-92.
- CASEY, Terrence, and Kevin Christ. "Social capital and economic performance in the American states." *Social Science Quarterly* 86, no. 4 (2005): 826-845.
- DINDA, Soumyananda. "Social capital in the creation of human capital and economic growth: A productive consumption approach." *The Journal of Socio-Economics* 37, no. 5 (2008): 2020-2033.
- BEAULIEU, Lionel J., and Robert Gibbs. "The Role of Education: Promoting the Economic & Social Vitality of Rural America." Southern Rural Development Center, Mississippi State University (2005).
- JONES, Garrett, and W. Joel Schneider. "Intelligence, human capital, and economic growth: A Bayesian averaging of classical estimates (BACE) approach." *Journal of economic growth* 11, no. 1 (2006): 71-93.
- SHLEIFER, Andrei, Robert W. Vishny, and Kevin M. Murphy. "Income distribution, market size, and industrialization." *Quarterly Journal of Economics*. August (1989): 537-64.
- JUDD, Kenneth L. "Redistributive taxation in a simple perfect foresight model." *Journal of public Economics* 28, no. 1 (1985): 59-83.
- CHEUNG, Kui-yin, and Lin Ping. "Spillover effects of FDI on innovation in China: Evidence from the provincial data." *China economic review* 15, no. 1 (2004): 25-44.
- ASIEDU, Elizabeth. "Foreign direct investment in Africa: The role of natural resources, market size, government policy, institutions and political instability." *The World Economy* 29, no. 1 (2006): 63-77.
- VERNON, Raymond. "The product cycle hypothesis in a new international environment." *Oxford bulletin of economics and statistics* 41, no. 4 (1979): 255-267.
- DE MOOIJ, Ruud A., and Sjef Ederveen. "Taxation and foreign direct investment: a synthesis of empirical research." *International tax and public finance* 10, no. 6 (2003): 673-693.
- PLESKO, George A. "An evaluation of alternative measures of corporate tax rates." *Journal of Accounting and Economics* 35, no. 2 (2003): 201-226.

- DEVEREUX, Michael P., Rachel Griffith, and Alexander Klemm. "Corporate income tax reforms and international tax competition." *Economic policy* 17, no. 35 (2002): 449-495.
- SMARZYNSKA Javorcik, Beata. "Does foreign direct investment increase the productivity of domestic firms? In search of spillovers through backward linkages." *The American Economic Review* 94, no. 3 (2004): 605-627.
- CHAI, Jingqing, and Rishi Goyal. *Tax concessions and foreign direct investment in the Eastern Caribbean Currency Union*. No. 08/257. International Monetary Fund, 2008.
- HOLLAND, David, and Richard J. Vann. "Income tax incentives for investment." *Tax Law Design and Drafting* 2 (1998): 2-9.
- RAMB, Fred, and Alfons J. Weichenrieder. "Taxes and the financial structure of German inward FDI." *Review of World Economics* 141, no. 4 (2005): 670-692.
- ZAGARIS, Bruce. "Application of OECD Tax Haven Criteria to Member States Shows Potential Danger to US Sovereignty." *Worldwide Tax daily* 83 (2001).
- MAYSHAR, Joram. "Should Government Subsidize Risky Private Projects?." *The American Economic Review* (1977): 20-28.
- YAO, Shujie. "On economic growth, FDI and exports in China." *Applied Economics* 38, no. 3 (2006): 339-351.
- TALLONTIRE, Anne, and Peter Greenhalgh. "Establishing CSR drivers in agribusiness: Final report for foreign investment advisory service international finance corporation & World Bank." National Resources Institute, University of Greenwich, Kent (2005).
- LITTLE, I. M. D. "The Real Cost of Labor, and the Choice Between Consumption and Investment." *The Quarterly Journal of Economics* (1961): 1-15.
- KUDLYAK, Marianna. "The cyclicalities of the user cost of labor." *Journal of Monetary Economics* 68 (2014): 53-67.
- LILJAS, Bengt. "How to calculate indirect costs in economic evaluations." *Pharmacoeconomics* 13, no. 1 (1998): 1-7.
- MUHAMMAD, Lawal, and Victor Ushahemba Ijirshar. "Empirical Analysis of the Relationship between Foreign Direct Investment and Economic Growth in Developing Countries-Evidence from Nigeria." *International Journal of Business Administration and Management Research* (ISSN Online: 2412-4346) 1, no. 1 (2015): 15-25.

EDOZIEN, E. G. "Linkages, direct foreign investment and Nigeria's economic development." *The Nigerian journal of economic and social studies* 10, no. 2 (1968): 191-204.

UNEGBU, Angus O., and Augustine Okanlawon. "Direct Foreign Investment in Kurdistan Region of Middle-East: Non-Oil Sector Analysis." arXiv preprint arXiv:1502.00218 (2015).

RAYKOV, Tenko. "Scale reliability, Cronbach's coefficient alpha, and violations of essential tau-equivalence with fixed congeneric components." *Multivariate Behavioral Research* 32, no. 4 (1997): 329-353.



APPENDIX 1 QUESTIONNAIRE

Part One: Descriptive Analysis

1) Gender

- Female
- Male

2) Age

- Under 18-25
- 26-35
- 36-45
- Above 46

3) Marital status

- Married
- Unmarried

4) Monthly income

- Up to IQD. 400,000
- IQD.401,000 to 1,000,000
- IQD.1,001,000 to 2,000,000
- IQD. 2,001,000 to.3,000,000
- Above 3,000,000 IQD.

5) Manpower

- Erbil
- Sulaymaniyah
- Duhok

Part Two: Foreign Direct Investment and Factors

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
FDI					
Q1. Do you think, you are familiar with the term "FDI" ?					
Q2. Do you think that the FDI it's a pace economic growth?					
Q3. Do you think FDI can improve the present infrastructural levels in KRG-Iraq?					
Q4. Do you think the growth of FDI will create millions of good quality new jobs?					
Q5. Up to Which extent you agree that the desired good outcome of FDI?					
Human Capital					
Q6. Do you think that the process does your organization use to align the shared “core values” with the Human Resource initiatives and “organizational culture”?					
Q7. Does your organization feel that a person’s “compatibility” to the culture is important (i.e. board of directors, the executive team, and any number of other individuals, such as, managers, supervisors and other team members)?					
Q8. Do you think that your manager currently using any pre-employment assessment tools to help them make better hiring decisions?					
Q9. How important is it to diagnose potential sources of human capital conflicts so precisely that managers are able to intervene proactively to prevent their destructive influence?					
Q10. How important is a person’s character relative to their job skills when it comes to being a good employee in your company or work place?					
Market Size					
Q11. Do you favor or oppose creating a new tax on all stock					

market trades, that is on every stock and bond bought and sold in the KRG-Iraq?					
Q12. Do you prefer to often about a percentage of your target market is likely to purchase your product or service multiple times?					
Q13. Do you think that the percentage of your target market does your largest competitor currently "own"?					
Q14. How visible do you think the packaging should be in the market?					
Q15. Do you think its enough people are in your target market?					
Tax Burden					
Q16. Do you think in your country, there are different rules of burden of proof apply depending on the period of time in which the decision on the tax dispute is being made?					
Q17. How is the burden of proof allocated in discretionary decisions on tax assessments or for estimates in your country? Is the burden of proof different if a tax penalty within such a tax assessment is being imposed?					
Q18. Do you agree that the burden of proof allocated where a tax case contains information that is difficult or impossible for the tax administration to investigate (e.g. where a tax haven is involved)?					
Q19. Up to which extent you agree that there are different evidentiary requirements applicable in your country for different types of taxes?					
Cost of Labor					
Q20. Does your company provide a reimbursement for an employee opting out of the flexible plan? Please indicate that you agree on the HEALTH related benefits that are available.					
Q21. Do you agree that the employees in this category please report the PAID LEAVE benefits that are available, the average number of days given per year and the annual cost as a percentage of the employee's salary?					
Q22. Do you prefer that the Non-supervisory staff primarily engaged in the marketing/sales of products or services?					

Q23. Do you agree that your company or place of business pays dues to employees in the event of any breach between the parties?					
---	--	--	--	--	--

Part Three: Economic Growth by Construction Sector Factors

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
EGC					
Q24. Do you think that there are the specific contributions of cooperatives to your country's socio-economic development?					
Q25. Do you think there a need for a global effort to promote cooperatives and raise awareness on the role of cooperatives in socio-economic development in your region?					
Q26. Up to what extent you agree, to the forms of support does your Government provide to cooperatives, e.g. training and capacity building, etc.?					
Political Factor					
Q27. Do you think that the political factors support the economic growth by construction sector to help address the current construction crisis?					
Q28. Does your government provide the results of economic growth in the construction sector and recommendations you were expecting?					
Economical Factor					
Q29. Do you agree to assess institutional constraints to social exclusion and develop a country-specific framework for operationalizing social inclusion?					
Q30. Do you agree that the compensation you get from government, you are able to buy a better land with size and quality?					
Social Factor					

Q31. Do you agree that you have a large degree of influence concerning your work?					
Q32. Do you agree that you have to relate to other people's personal problems as part of your work?					
Q33. Up to what extent is there good cooperation between the colleagues at work?					
Technological Factor					
Q34. Do you will stick to using Social Media raises work chances to increase company profits?					
Q35. Do you think that using Social Media enables us to access a lot of information about your?					
Q36. Do you Provide information to manager's access to new methods and models when making decisions in functional areas?					
Construction Sectors Factor					
Q37. Do you think that your managers trying to improve working conditions (health & safety): clean & organized site?					
Q38. Do you think your managers Allows IT-based pre-project assessment, e.g. in building information modeling?					
Q39. Do you agree that your company/ work trying to improve environmental performance (so, sustainable development)?					
Q40. Do you agree that the government initiatives for use of Modern Methods of Construction (MMC) in social housing sector?					
Q41. Do you agree that the efficient construction process due to mass production of import material?					
<p>Thank you for taking our survey. Your response is very important to us.</p> <p>MSc. Candidate AYAD HUSSEIN MOHAMMED 162203138 304 samples</p>					

APPENDIX II RESUME



RESUME

PERSONAL INFORMATION

Name and Surname	Ayad Hussein MOHAMMED
Place of Birth	Duhok-IRAQ
Date of Birth	10/8/1985

UNDERGRADUATE EDUCATION INFORMATION

University	Nawroz
Department	Economic
Faculty	Administration and Economic

WORK EXPERIENCE

Institution He is Working at	Nawroz University
Duty / Position	Employees
Experience Time	3 Years

ATTENDED

Courses	Economic
Projects	The Impact Of Foreign Direct Investment On Economic Growth By Construction Sector In KRG-Iraq

CONTACT

Address	IRAQ-Duhok /K.R.O
E-mail	Ayaddoski1988@gmail.com