

Motivational Factors that Influence Foreign Direct Investment in Kurdistan Region

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ABSTRACT

This research examines the motivational factors that influence foreign direct investment in the location of Kurdistan Region. Market factors, in the past, have been a dominant motivation in choosing a location for investment. Political stability of the host location has also been a factor. Political stability refers to the characteristics of a country that provide Kurdistan Region. Firms with a sense of security, such as a consistent legal system and a stable government friendly to the Kurdistan Region. I aim to answer the above research questions and find out what Factors Have Affected the Rise of FDI in Kurdistan. I would also bring forward an overall understanding of how Kurdistan has transformed and how the different sectors have been affected due to FDI. It is not only the economy, politics and social status of Kurdistan that affects FDI, but FDI also has as big an impact of these three areas. This study selects a sample of 3 cities to investigate the location choice of FDI in Kurdistan Region. Those 3 cities cover the most major cities in the Kurdistan Region. To minimize the impact of outliers or extreme effects, this study mainly selects major cities in every province. This practice is undertaken in the following multiple regression analyses and by comparing coefficient estimates from different specifications, no clear sign of multicollinearity is found. Also it should be noted that although multicollinearity may ‘mask’ the true relationship between dependent and independent variables, it does not bias the results nor affect the fitness of the model. FDI would not be able to succeed in any nations without the attendance of necessary factors, which have been explained as determinants of FDI in the structure of the research. One of the main factors to rich the concentration of outer investors is suitable genesis means.



INTRODUCTION

, FDI has one very crucial importance which is the mutual Economically gains of the two sides of the bargain. On the one hand, the host country would find it as a rather important way to improve its sources of revenue and reduce its unemployment levels. FDI has many factors that influence its growth and how these effect FDI and we explained that in chapter two. The economy is one of these major factors that affects and is affected. Without a good enough political economy a country or an organization cannot put money into FDI in another country. Studies have found tat economic growth in an incisive for FDI inflows, the reason for this is that it is cheaper and has a more efficient size of the economy, so that production levels grow (Blonigen et al. 2007; Filippaios. Political reasons are also affected and affect FDI. Especially after 2003, we saw foreign investors take an interest in Kurdistan. As before due to security reasons there was not much of an opportunity for FDI within Kurdistan. FDI in Kurdistan is only aimed toward a specific sector, being tourism resorts such as hotels and malls to bring in more spending of the local people. This benefits the host country more than the home country; also due to the FDI in this sector we see the lack of growth due to the lack of FDI in other sectors which are just as important. Another important research area is the political and security aspects regarding the FDI in Kurdistan, therefore I have come up with another research question as how has political ties and security levels affected FDI in Kurdistan? After finding the answer of two research questions I will be able to further explore the factors that affect FDI in Kurdistan.

LITRATURE REVIEW

Concepts of FDI

As Montiel and Reinhart (2001) mentioned in their paper there were many differences in full definitions and main features related to FDI as a concept according to different researchers. The effects of the FDI had been explained from both positive and negative spillover effects in developing countries and part of researchers' ideas about their meaning and features are going to be studied. It can simply be explained as the action of a country to take the ownership of assets in another country with the different business special aims like distribution, advertisement, production, etc. As United nations 1999 World Investment Report (UNCTAD, 1999) published, FDI is defined as "an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, foreign affiliate or affiliate enterprise)". The main important parts of international capital flows known as the Foreign Direct Investment (FDI), which defined as a movement of financial and human capital from outside for investment in foreign country (Blonigen, O. 2007).

Mechanism of Foreign Direct Investment

According to Balasubramanyam (2001) a direct investment is defined by the International Monetary Fund (IMF) 2011, an investor who is a resident of another country and owns 10 percent common shares or voting right in the enterprise or the equivalent in the host country. There is an explanation of "Foreign Controlled Resident Corporation". Foreign controlled business includes subsidiaries which have more than 49 percent voting power have controlled by a foreign parent. Associates of which foreign ownership of equity is 15-50 percent. As a consequence from the vision point of the host country and for examining construction, do business, control, and employment, leftovers the ideal perception.

Criticism of Foreign Direct Investment (FDI)

Konings and Murphy (2006) mentioned that has been a main debate with no special meeting points in the researchers of the discipline about the analysis of how much bad and good can FDI offers the developing economies. Some scholars examine the failure tries of the FDI to make good the economy of the host countries as deviation on the part of the host countries to make good their main measurement of FDI basically infrastructural fluencies. Many scholars reviewed that some developing countries have not sensibly worked Foreign Direct Investment (FDI) as a source of financing of the economy as a result of a non-bearer investment and the condition of the foreign nations (Asiedu, 2002; Balasubramanyam, 2001). Some researchers viewed the negative impression of FDI to the deviation of the host countries and only considered on the diverse positive effects to host countries with discussing on the fact that decision makers in the most countries are employed in existing all kinds of motives (e.g. outside processing area and tax motives) to get FDI, because it is resulted to effect local economic development directly.

Evident of Foreign Direct Investment

The study of evident of foreign direct investment is a little difficult to understand and public because the temper of businesses varies with their kinds of requirements so it is of the great part for foreign investors to find out a more efficiency environment good for their investments. But mostly, it can be appointed from that, those kinds suitable for home investments could be of great efficiency to foreign investments such as, economic, social, political, cultural and geographical situations of the country. It is true that more decision makers may be more important at a special time than to another investor. it is kind of difficult to have decision the right quantity and quality of FDI evident that should be show in a situation for it to make pure to a level of inflows, although it is obvious that a critical minimum of these evident must be present before FDI inflows start to occur (Yasmin, B., Hussain, A., 2003).

Major Factors Effecting the Sum of Foreign Direct Investment

Asiedu (2002) said a country has varied kinds of natural features, which made the country incomparable in Africa as a continent and in the world in public. The country hollies with enough natural sources to pass on its own efficiency but yet in process of development up



till future. There are a lot of of challenges fighting against the positive development of the country, which could actually obstacle the country to pass in some other kinds like attracting outer investors to come into the country. The great benefit of FDI to the economic development of the growing countries had made it official for every country to try the best by making themselves an absorbent ground for foreign investors to come into their country, in fact some researches made it famous that ability to growth is dependent upon the nation's effective valiancy to get foreign investors. It is however, important to argue some natural factors in growing countries, which could basically effect the smooth inflow of FDI in the continent (BInev, S., 2011).

Political Instability

According to Onyeiwu and Shrestha' paper (2004) one of the main specification of middle east countries is continues changing of government, which typically comes as a result military intercession in governmental, racial crisis, and frequent happening of war. As Rogoff and Reinhart (2003) in their investigation talked about how fit the country is to the event of war within the year 1965-1998 and they had their conclusion base on the fact that the regional aptitude to the war index is 32.6% for Africa compared to 20.1% and 11.3% for Asia. The research also made it famous that there is a statistically important negative relation between FDI and raisin in Africa, which stress on the fact, intercession of outer business in the country has no connection with the causes of battle in the region. Political Instability will of course obstacle the inflow of FDI in Middle East nation (BInev, S., 2011).

Absence of Political Transparency:

The reality that political instability is one of the natural kinds of the continent, which hint to continues changing of government will also guidance to continues changing of policies because new government with the organization of new policies and this automatically make it hard to really predict what the political of government are all about in Asia nations. The policy of increase in transaction cost, tax, and methods and putting in order would not be easy to measure by outer investors and this will make the continent so risky for them to invest their businesses.

The Unstable Macro-Economic

Effective attendance of macroeconomic is one of the main factors of FDI intercession in any nations so while macroeconomic variables have been ruined or not suitable for any nations then it will affect the advantage of FDI. Being of inflation, currency falls, budget shortage, etc. in the Middle East make the continent less absorbent to outer investors. Some researches based on the Middle East data suggests that countries with high inflation pin to absorb less FDI.

Environmental problem:

Basu and Srinivasan (2002) had a study and they said it is a task of outer investors to find countries with good environmental factors and which could raising their investments.



Climatic difficulties as a consequence of many losses done to the Middle East environment makes the continent so risky for outer investments. In the past researches mentioned that, home investment policies, for instance, on income indemnity as good as on entry into some parts of the economy were not bearer to the absorbent of FDI (Yasmin, B., Hussain, A., 2003).

Corruption and Maladministration:

In Ajayi (2006) research said that there is deviation in countries of Middle East nations in general. There are no laws ordered to avoided deviation because the leaders who are to order these laws are the supporters behind of being deviation in the countries. So outer investors could find so harmful to invest in the country where their security are not good enough. According to Ogundele and Opeifa (2004), deviation is a being of several factors such as cheating, deceit, intentional trick, fraud, dishonesty and the intelligent rethought action of a person or group of persons to correct the reality of a matter or transaction for the consequence of selfish benefit. Bardhan's (1997) definition of deviation as the practice a government formal orders manure from an outer business in cancellation for the right to operate in a nation, industry or position. In Wei and Shleifer (2000) research they found that deviation affects both the volume and the combination of capital in process into occurring markets negatively because it decreases inner FDI fundamentally (Unegbu, A., 2015).

Sample Design

This section will introduce the sample selection and sample design process for this study. The sample period for this study is from 2007 to 2014. That is because Kurdistan Region applied a dual corporate system in this period in order to attract FDI. After then, the Kurdistan Government has revised the corporate rate for outer invested enterprises and set it to the same level with domestic enterprises. This is the main reason why the sampling is in 2007/2014 as the forms of major for outer investors and is the basis for the investigation of the effect of foreign investment decisions.

This study selects a sample of 3 cities to investigate the location choice of FDI in Kurdistan Region. Those 3 cities cover the most major cities in the Kurdistan Region. To minimize the impact of outliers or extreme effects, this study mainly selects major cities in every province. The sample selection is based on the following two principles:

- 1) Province capitals and municipalities (Erbil, Sulaimaniya, Duhok) directly under the administration of the Central Government: municipalities and the capital of each province are obvious selections for empirical analyses because they are usually the most important cities to be considered for outer investment;
- 2) Prefectural-level cities: they are of a lower administrative level than province capitals/municipalities but higher than county-level cities (Lewis, J., 1999).



Analytical Approach

This section discusses the research approach used in the empirical analysis to address the research objectives in this study. It also introduces the econometric package used in the empirical analyses.

Research Approach Selections

The research questions determine the requirement for the research approach. Answering the research questions in this study requires empirical analyses based on large-scale samples or observations. Therefore, this study utilizes quantitative approaches that draw on a large-scale dataset to examine hypotheses and derive conclusions. The reason for selecting quantitative methods is that this study attempts to find the links between the increasing FDI and Kurdistan Region's economic situation or government policies in a statistically robust way, which can only be achieved through numerical or quantitative methodologies. First, this research involves undertaking the statistical analyses of numerical data to investigate the quantitative relationships between variables. Second, quantitative analyses are essential in developing and employing mathematic models, theories, or hypotheses to explain market phenomena and provide evidence of possible connections between empirical observations as set up in the aims of this study.

Moreover, the strengths of the quantitative method can be summarized as follows:

Frankfort-Nachmias (1992) pointed out that quantitative methods can illustrate the research problem in very specific and set terms;

It shows the fundamental connection between empirical observations and mathematical expression of the quantitative relationships;

It gives clear and precise investigations to both independent and dependent variables;

This method is widely used to follow research aims, achieve research objectives, test hypotheses and find evidence of causality;

Quantitative methods could provide a high level of measurement precision and statistical power compared to qualitative method;

Quantitative methods are more likely to eliminate or minimize subjectivity of judgment.

Panel data analysis

This section outlines the main structure of panel data and discusses a series of econometric approaches which have been employed to estimate models with data of this type.

Panel data analysis is a method of studying a particular subject within multiple sites, periodically observed over a defined time frame. Within the social sciences, panel analysis has enabled researchers to undertake longitudinal analyses in a wide variety of fields. In economics, panel data analysis is often used to study the behavior of companies over time. With repeated observations of enough cross sections, panel analysis permits the researcher

to study the dynamics of change with (often short) time series. The combination of time series with cross sections can enhance the quality and quantity of data in ways that would be impossible using only one of these two dimensions. For this study, panel analyses provide a robust framework for exploring the performance of FDI and the displacement effects of FDI in process, as we consider both the space and time dimension of the data.

Dependent and Independent Variable

According to our subject dependent variable is Foreign Direct Investment (FDI)

Independent variables are: Political stability and Security level.

Sample and Data Descriptive

This section will introduce the data used in this study including data sources, sample selection and describes data statistics.

There may be a small amount of researches done on FDI in Kurdistan, this is one reason why I chose the area of research, because although there may be some data and research already available to the public I have chosen to specifically focus on the determents and factors affecting FDI in Kurdistan rather than specifically looking at how these factors have affected Kurdistan's economy and so on. I believe there is a gap in the academia on the factors that affect FDI in Kurdistan. My research will help other researchers to know about the Kurdistan region before and after FDI and what the FDI did to the Kurdistan region in terms of changing the way people about there every day lives due to institutional changes socially, economically and politically. This research will focus on Erbil, Suliymanya, and Duhok as these are the three main areas affected and affecting FDI in Kurdistan.

Hypotheses development

In order to encourage outer investment, the Kurdistan Region Government has implemented a series of policy benefits for outer investors include reducing taxes, giving favorable policy treatments, enhancing political stability and improving infrastructure.

This section sets out the main hypotheses under a general equilibrium theory. Many previous studies provide evidence that political stability and security levels significantly penetration the performance of outer direct investment (Hartman, 1984; Hines, 1996; Tung and Cho, 2001).

H1: Political stability has affected FDI in Kurdistan.

There exist significant regional differences within Kurdistan Region including geographic features, economic development, environment, infrastructure, etc. Therefore, it is necessary to consider the political stability factors in the estimation of FDI determinants (Tung and Cho, 2001). Some previous studies have investigated the regional differences of FDI.

H2: A Security level has affected FDI in Kurdistan.

Security level is another important variable that is believed to have an effect on FDI location decisions. Many previous studies have found significant correlations between security levels and FDI in process (Head and Ries, 1996; Coughlin et al., 1991; Kumar, 2001), although some other studies found no significant relationship (Bronzini, 2004; Shepotylo, 2006). Therefore, the strong correlation implies a security level is expected to have a positive effect on FDI in process.

Table 1
Sector distribution of FDI Investments by dollar

Agriculture	162,500,000
Banks	700,000,000
Education	126,493,737
Health	170,565,762
Housing	1,681,237,768
Industry	316,062,297
Tourism	2,521,409,752
Trading	41,862,058

Figure 1
Sector distribution of FDI Investments

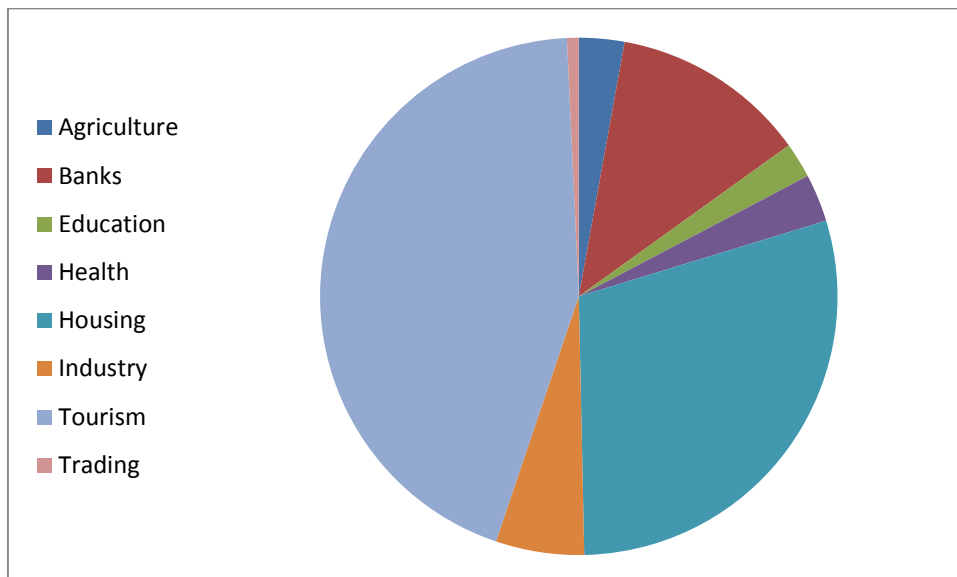


Table 2
Sector distribution of FDI Investments for countries by dollar

Egypt	350,000,000
Emirate	2,527,216,000
Georgia	600,000
Germany	81,205,712
Iran	25,440,802
Lebanon	1,002,219,078
New	139,889,850
Russia	2,805,670
sweden	13,500,000
switzerland	158,665,762
Turkey	1,088,861,600
UK	214,403,975
USA	115,822,925

Figure 2
Sector distribution of FDI Investments for countries

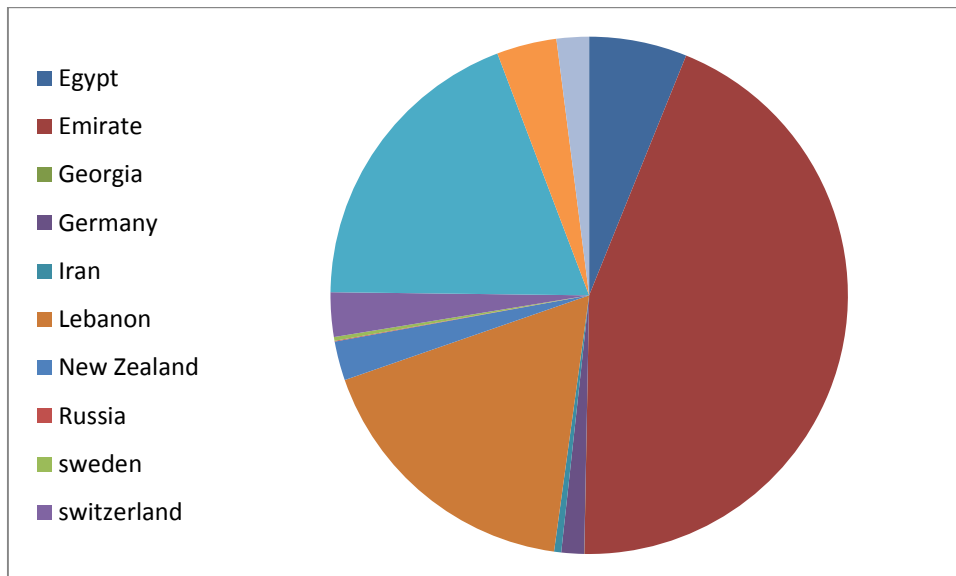


Table 3
Sector distribution of FDI Investments during 2007-2014 by dollar

2007	735,000,000
2009	128,702,542
2010	1,068,586,182
2011	223,788,658
2012	658,145,584
2013	2,432,998,950
2014	199,865,762
2008	273,043,696

Figure 3

Sector distribution of FDI Investments during 2007/2014

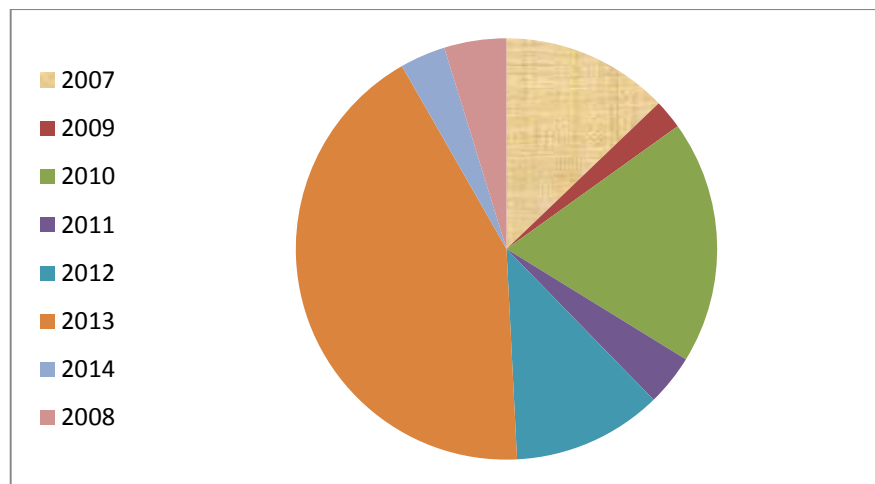


Table 4
Summary of alternative approaches

No	InvestorName	Project Capital By Dollar	country	Inflation rate (CPI)	Openess	growth rate	polstability
1	ByblosBank SAI	700,000,000	Lebanon	5.4	74.09	1.20	-2.79
2	Hotel line Company	35,000,000	Lebanon	5.4	74.09	1.20	-2.79
3	American (azku)	2,930,769	USA	2.44	81.06	1.50	-2.79
4	ImportCompany	9,423,077	Lebanon	2.44	81.06	1.50	-2.79
5	Nur Compan	150,000,000	Egypt	4.4	81.06	1.50	-2.79
6	New zealandan	98,189,850	New	1.35	81.06	1.50	-2.79
7	IK Development	12,500,000	UK	4.4	81.06	1.50	-2.79
8	Ihsan Dogramachi	40,000,000	Turkey	45.894	78.69	4.30	-2.79
9	Sweden	13,500,000	sweden	1.03	78.69	4.30	-2.79
10	Sanita company	6,000,000	Lebanon	2.33	78.69	4.30	-2.79
11	Malya Company	24,202,542	Lebanon	3.85	78.69	4.30	-2.79
12	Ozal Enegy	45,000,000	Turkey	1.03	78.69	4.30	-2.79
13	Al Adel Company	200,000,000	Egypt	1.32	74.04	5.50	-2.79
14	Ibrahim	7,082,207	Lebanon /	5.5	74.04	5.50	-2.79
15	Gurbag Company	9,600,000	Germany	7.91	74.04	5.50	-2.79
16	Polteks Company	500,000,000	Turkey	0.77	74.04	5.50	-2.79
17	Tulseglen	150,000,000	Turkey	2.49	74.04	5.50	-2.79
18	IK Development	193,220,000	UK	1.32	74.04	5.50	-2.79
19	West & East co.	8,683,975	UK	3.03	74.04	5.50	-2.79
20	Fazaler Co.	2,300,000	Turkey	13.96	72.17	7	-2.79
21	Claremont Erbil	79,411,530	Turkey	12.77	72.17	7	-2.79
22	Ahake Company	96,106,156	USA	1.61	72.17	7	-2.79
23	Ombi Company	15,905,712	Germany	3.43	72.17	7	-2.79
24	Slvar Star	7,465,260	Turkey	0.24	72.17	7	-2.79
25	Ozgovolnar	10,000,000	Turkey	0.24	72.17	7	-2.79
26	Alharere Company	12,600,000	Turkey	0.24	72.17	7	-2.79
27	(Cane Almani)	213,851,252	Lebanon	2.46	74.29	8	-2.79
28	Grantor Company	55,700,000	Germany	2.46	74.29	8	-2.79
29	West Mesopotamia	12,740,000	Turkey	2.15	74.29	8	-2.79
30	Sabre Khmo Ozal	2,000,000	USA	3.63	74.29	8	-2.79
31	Trojan Company	80,000,000	Turkey	2.46	74.29	8	-2.79
32	Claremont	142,865,250	U.A.E	3.47	74.29	8	-2.79
33	Karma Company	14,786,000	USA	3.47	74.29	8	-2.79
34	Bakery & More	115,346,610	Turkey	3.47	74.29	8	-2.79
35	Mali New Company	2,500,000	Lebanon	3.47	74.29	8	-2.79
36	Mesteba company	2,805,670	Russia	3.47	74.29	8	-2.79
37	Oriental Oil	14,950,802	Iran	3.47	74.29	8	-2.79
38	Jaba Company	600,000	Georgia	3.63	74.29	8	-2.79
39	Snat Farst	31,122,200	Turkey	5.57	66.68	8.20	-2.79
40	Alabnya Aljadida	10,490,000	Iran	3.5	66.68	8.20	-2.79
41	Almar company for	4,160,000	Libanon	3.79	66.68	8.20	-2.79
42	Eemar	2,876,000	Turkey	5.57	66.68	8.20	-2.79
43	Erbil Mid company	2,384,350,750	Emirate	5.57	66.68	8.20	-2.79
44	Actonz company	158,665,762	switzerlan	15.03	70	5	-2.79
45	Aves company for	41,200,000	New	6.47	70	5	-2.79

Table 5
Descriptive statistics

Variable	Mean	S.D.	Min	Max
Political stability	11.35	6.77	0.68	49.44
Security levels	6.9	6.39	0.31	18

Table 5 reports the estimated correlations for all the variables. The correlation coefficients review the ‘direction’ of the sensitivities of each variable on FDI. Correlations analysis allows a useful but limited view of the data (the coefficients fail to control for the effects of other variables, nor do they address the magnitude of the sensitivities of independent variables). It is shown that in most cases the relationship between variables is as expected.

Table 6
Pair-wise correlation coefficients between variables

	FDI	PS	SL
FDI	1.00		
Political stability	0.42	1.00	
Security levels	0.86	0.42	1.00

Given the large correlation between some of the variables (e.g. *Electricity* and *Output*), it is possible that two or more variables may be multicollinear. Multicollinearity refers to a situation in which two or more explanatory variables in a multiple regression model are highly linearly related. In case of perfect multicollinearity (exact linear relationship) one or more variables have to be dropped to calculate the variance-covariance matrix. In other cases, the coefficient estimates of some variables tend to be less precise. An easy way to detect multicollinearity is to add or remove explanatory variables in the regression and check if there are substantial changes in coefficient estimates or estimated coefficient standard errors. This practice is undertaken in the following multiple regression analyses and by comparing coefficient estimates from different specifications, no clear sign of multicollinearity is found. Also it should be noted that although multicollinearity may ‘mask’ the true relationship between dependent and independent variables, it does not bias the results nor affect the fitness of the model.



Conclusion

Different direct cooperation of FDI to the economy of the outer country has been studied and discussed with the relationship between FDI and economic improvement. FDI would not be able to succeed in any nations without the attendance of necessary factors, which have been explained as determinants of FDI in the structure of the research. One of the main factors to rich the concentration of outer investors is suitable genesis means. Without being of these needed means, it would be risky for investors to invest in countries. It means that, for a country to join the suitability and benefit of multinational companies. This can be explained that the success of FDI in any foreign country is dependent on the level of genesis means in the country. When a small part of a system is faulty it cannot work well. This says the fact that, there are many ingredient's part of Kurdistan Region system that is defective not even a single part of it, which means, the whole system cannot work as well as enough. The educational system, the political system, the economic system, environmental system, the military system, the security system etc. are all corrupted in the country.

Recommendation

1. The first contribution is the use of more recent data and more advanced and statistically robust empirical methodologies. Previous empirical studies on FDI especially usually use ordinary least squares as the main estimation models. However, this approach ignores nature of typical economic data sets, which consist of both spatial and temporal dimensions.
2. Second, this study adopts a comprehensive 'general equilibrium analysis' methodology for FDI in the Kurdistan Region. Many previous studies for the Kurdish market only consider some partial equilibrium specifications in FDI location choice.
3. Third, this thesis is among the first to conduct a sector-level analysis in Kurdistan Region. Whilst most studies in Kurdistan Region are concerned with the total volume of FDI, there is limited research so far on the decision making of foreign investors other than location choice. The sector choice decision is an important topic for FDI and the sectorial distribution of FDI is likely to have a direct effect on the industry structure and economy balance of the host country.
4. Last but not least, this study has innovatively investigated the possible displacement effect of FDI on domestic investment in Kurdistan Region from both regional and industrial perspectives. Presently, evidence on the displacement effect of FDI in Kurdistan Region is fairly limited especially with control for industry specific effects, and many aspects of the research question are still left unaddressed for various reasons.



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