REPUBLIC OF TURKEY
ISTANBUL GELISIM UNIVERSITY
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Department of Economics and Finance

THE RELATIONSHIP BETWEEN FOREIGN TRADE AND ECONOMIC GROWTH IN MENA COUNTRIES

Master Thesis

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Supervisor

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DECLARATION

I hereby declare that this thesis has followed ethical rules and procedures, as the sources that were approved in this thesis were mentioned in accordance with scientific and ethical standards, and nothing of this thesis was presented to any collector or party, and there is no forgery in the thesis or in its data.

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SUMMARY

Middle East and North African (MENA) countries, especially non-oil countries, follow strict trade policies as most countries have a weak gross domestic product. In addition to laws limiting the ability of these countries to trade in ways that increase economic growth, they cannot compete in industrial and commercial markets.

This study examines the relationship between foreign trade and economic growth in the Middle East and North Africa region. This study will emphasize the variables of labor, capital, oil revenues, foreign direct investment, and foreign trade and their effects on economic growth. The study will realize these effects with panel data between 2000-2020 and the help of the Westurlund Co-integration model and FMOLS estimator.

According to the study results, we concluded that there is a statistically significant and long-term positive relationship between trade, oil rents, employment, foreign direct investment, and economics. In contrast, the results showed a long-term relationship between the capital variable and GDP. However, no statistically significant relationship was found between the capital variable and economic growth. The study results indicate that foreign trade in MENA countries positively contributes to economic growth.

Keywords: Labor force, capital, oil revenues, foreign direct investment, trade, and economic growth.

ÖZET

Orta Doğu ve Kuzey Afrika'daki ülkelerin çoğu, zayıf bir GSYİH'ya sahip oldukları için ağır ticaret politikalarına sahiptir. Bu ülkelerin dış ticaret yapma kabiliyetini sınırlayan yasalara ek olarak.

Bu çalışma, işgücü, sermaye, petrol gelirleri ve doğrudan yabancı yatırım gibi değişkenleri dikkate aldığından, dış ticaret ve ekonomik büyüme arasındaki ilişkiyi incelemeyi amaçlamaktadır.

Çalışmanın amaçlarına ulaşabilmesi için panel veri analizi ve birim kök testleri temel alınacaktır.

Çalışma, ticaret, petrol kiraları, istihdam, doğrudan yabancı yatırım ve GSYİH arasında %1 istatistiksel anlamlılıkla uzun vadeli pozitif bir ilişki olduğu sonucuna varmıştır.Sonuçlar, sermaye değişkeni ile GSYİH arasında uzun vadeli bir ilişki olduğunu göstermiştir. Ayrıca sermaye değişkeni ile ekonomik büyüme arasında istatistiksel olarak anlamlı bir ilişki bulunamamıştır. Çalışma sonuçları, MENA ülkelerinde dış ticaretin ekonomik büyümeye pozitif katkı sağladığını göstermektedir.

Anahtar Kelimeler: İşgücü, Sermaye, Petrol Gelirleri, Doğrudan Yabancı Yatırım, Dış Ticaret, Ekonomik Büyüme.

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ABBREDIVATIONS

UKTI	:	The UK Commerce and Investment
HO	:	The Hicksher-Ohlin
GAFTA	:	Greater Arab Free Trade Area
GN	:	The natural growth rate
FDI	:	Foreign direct investment
LAB	:	The labor force
OIL	:	oil revenue
CAP	:	capital input
LAB	:	labor input
TRA	:	foreign trade

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PREFACE

Today, I stand before you to shed light on a subject of utmost importance that impacts the economies of the MENA countries profoundly - "The Relationship between Foreign Trade and Economic Growth in MENA Countries."

The Middle East and North Africa (MENA) region has long been a strategic hub for global trade and commerce, with its rich resources, strategic geographic location, and diverse cultural heritage. The interconnectedness of the world has made foreign trade a pivotal driver of economic growth in these countries, influencing their prosperity and development.

At the core of this discussion lies the crucial question: How does foreign trade affect economic growth in MENA countries, and what are the implications for their future? Let us explore some key facets of this relationship.

Trade Diversification: MENA countries often heavily rely on a few primary commodities for export, making their economies susceptible to commodity price fluctuations. An emphasis on diversifying their trade portfolio can mitigate risks and create sustainable economic growth.

Investment and Technology Transfer: Foreign trade opens the doors to foreign direct investment (FDI) and facilitates the transfer of advanced technologies, fostering innovation and productivity gains in the region.

Employment Opportunities: Increased foreign trade can lead to the expansion of industries, generating more job opportunities for the growing population of the MENA region, which in turn, uplifts the standard of living.

Infrastructure Development: Robust foreign trade necessitates the development of infrastructure, such as ports, transportation networks, and logistics facilities, further stimulating economic growth and enhancing connectivity with the global markets.

Global Competitiveness: Engaging in foreign trade exposes MENA countries to global competition, pushing local industries to become more competitive, efficient, and adaptive, thereby fostering economic growth.

However, we must also recognize that foreign trade can present challenges and risks, such as trade imbalances, vulnerability to external shocks, and potential dependence on foreign markets. Thus, it becomes vital for MENA countries to formulate comprehensive trade policies that strike a balance between harnessing the benefits of foreign trade and managing its associated risks.

Moreover, geopolitical dynamics and regional conflicts can significantly impact trade relationships, making it essential for MENA countries to foster stability and cooperation among themselves to maximize the benefits of foreign trade.

In conclusion, the relationship between foreign trade and economic growth in MENA countries is a complex and multifaceted one. By embracing the opportunities offered by international trade while addressing the challenges responsibly, MENA countries can pave the way for sustainable economic growth, prosperity, and greater integration into the global economy.

Let us work together to harness the potential of foreign trade as a powerful catalyst for the collective progress and prosperity of the MENA region.

INTRODUCTION

International trade is one of the many diverse strategies put out and/or followed to increase GDP (imports and exports). Thirlwall (2000) points out that industrialized nations have been fully aware of the benefits of international trade since Adam Smith (1776) and David Ricardo. Because of "absolute advantage," which happens when a country increases its national income or production levels by manufacturing items at lower input costs than its rival nations, Adam Smith (1817) claimed that international trade promotes economic advancement (Kahya, 2011). To expand and support the "absolute advantage" concept, David Ricardo stated that "comparative advantage," in which a nation produces things at a lower real cost than other nations, leads to a rise in national output (Dritsaki & Stiakakis, 2014, p. 30).

Low economic growth rates are prevalent throughout the Middle East and North Africa (MENA), particularly in the non-oil-producing nations. In the area, the trade-to-GDP ratio has averaged 19 percent but just 11 percent in the non-oil-producing nations, as opposed to a ratio of roughly 25 percent in emerging countries. International trade is thus one of the factors that might increase the rate of economic growth. Fortunately, recent initiatives have minimized public dissaving by lowering government budget deficits (Jayachandran & Seilan, 2010).

In 2020, the MENA region's merchandise exports to the rest of the globe were 943 billion USD, up from just under 250 billion USD at the beginning of this century. Only 6% of worldwide exports and 5.3% of total imports in 2020 came from the MENA area. Due to the volatility of their export profits, brought on by the high concentration of exports in primary commodities and made worse by the high concentration of export markets, MENA nations are particularly exposed to terms-of-trade shocks.

The region may achieve more significant economies of scale if each nation can better use its comparative advantage via product sharing networks and incorporation into global value chains. The conflicting findings from prior studies, including (Gries, Thomas & Redlin, Margarete; 2012, Dritsaki, & Stiakakis, 2014), make it evident that further research is needed to understand the connection between global commerce (exports and imports) and economic growth in the MENA region.

This study examines how exports and imports affect MENA's short- and long-term economic growth utilizing yearly data from 2010 through 2020. It was anticipated that exports would benefit economic growth while imports would have a negative impact.

The Middle East and North Africa area is rich in natural and human resources, has a shared cultural and linguistic heritage, and has a long history of developing skilled tradespeople. Despite having a population roughly equal to that of the European Union, the area has the lowest economic integration globally. The region has historically served as a hub for regional trade routes, and its nations have previously signed several international, regional, and bilateral trade agreements. However, they have produced mainly intangible benefits. Today, the countries in the area have a strong economic motivation to speed up measures for economic integration as they work to increase employment, draw in additional investments, foster development, and recover from the Corona pandemic.

According to Shihab, Soufan, and Abdul-Khaliq (2014), the advantages of regional integration include the indirect impacts of development, increased markets, and significant production potential.

The region's economists, traders, and farmers are fully aware of these benefits. However, the area lacks a feeling of urgency to pay priority to and advance toward integration, not justifications or capacities to do it. The provision of water and electricity and several geographical subregions within the region present opportunities for regional integration. These areas will gain from an in-depth discussion, fundamental technological progress, and the assurance of significant positive economic effects very soon.

This study investigates the relationship between international trade and economic growth in MENA countries. In contrast to other empirical research on the subject, this study demonstrates a short- and long-run equilibrium connection between trade, FDI, oil, labor, and capital with economic growth. These other studies mainly focused on examining the existence of an association between the two variables. The goal of this work is to help fill up this empirical understanding gap.

This thesis is divided into three chapters. The first chapter aims to shed light on foreign trade by studying the historical development of foreign trade and the concept of foreign trade in addition to theories of foreign trade.

The second chapter focuses on economic growth by shedding light on the concept of economic growth and economic growth theories, in addition to measuring economic growth.

The third chapter highlights the methodology and analyzes of the study as well as the interpretation of these findings.

CHAPTER ONE

FOREIGN TRADE

1.1. Foreign Trade Meaning

Foreign commerce is the exchange or trading of goods and services between different nations. This form of business strengthens and improves the world economy. Televisions, apparel, capital goods, machinery, food, and raw materials are among the commodities that are exchanged the most (Anwer, & Sampath, 2000).

Foreign trade is known to have advantages and disadvantages, just like any other concept. Comparative advantages must be considered when assessing the advantages of international trade. These advantages include scale economies, employment development, economic expansion, and competition. The use of natural resources, the loss of nation-state authority or reliance, and unfair competition are usually mentioned as problems with international trade. It is common knowledge that goods and services account for the majority of global trade. In order to exchange goods like food, spices, and weapons, humanity originally developed the bartering system around 600 BC. According to the conclusions of the United Nations Conference on Trade and Development, the services sector began to take off in the 1980s, when it was responsible for around 42% of the GDP of developing nations and 61% of that of developed nations. The services sector was later estimated by the Conference on Trade and Development to have generated over 76% of the GDP of industrialized countries in 2017 and around 55% of the GDP of developing countries. (António & Jesus ,2012, p.16).

Practically speaking, the international division of labor that arises from collaboration in the production process and specialization has an impact on every country in the world today. These economic linkages, with a focus on the states' reciprocal reliance on one another for economic cooperation, have led to this economic interdependence. Another result of the global division of labor is integration, or the combining of components into higher stages. Foreign economic integration is the process of continually modifying, integrating, and connecting different country economies into regional economic complexes. There may be an exchange of goods

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and services among the member states of a group of international economic agreements, such as the European Union or the Central European Free Trade Agreement. (António & Jesus, 2012).

Foreign commerce is the most important component of global economic linkages. From the standpoint of the national economy, the relevance is mostly apparent in the fields where international trade allows for the importation of goods, services, and capital that the country cannot produce for specific reasons. As a consequence, a country may actively engage in the global division of labor and concentrate on the sorts of manufacturing for which it has the best infrastructure. One has the opportunity to contrast their own output with that of the rest of the world by learning about products and services produced abroad (Farag, Ab-Rahim, & Mohd-Kamal, 2021, p. 182).

Thanks to international commerce in goods and services, consumers and nations may surround themselves with items that are not accessible in their own country. Global trade enables nations to make better use of their resources, enabling them to sell them for less money than other nations. In other words, if a country cannot produce the goods efficiently, it may buy them from another country through trade. The country that can generate more excellent or superior goods and services than any other country has the so-called absolute advantage. On the other hand, the countries could also benefit from their strategic advantage, which is defined as their ability to create products and services at a lower opportunity cost, but it may not always be in higher numbers. English economist David Ricardo created this concept of comparative advantage. Governments that engage in international commerce may want to promote foreign direct investment, which is money invested in foreign firms and other assets notwithstanding the benefits of higher production efficiency (António & Jesus, 2012, p. 18).

1.2. Characteristics of Foreign Trade

According to Zdzisaw and Pulecki (2013), foreign trade has a variety of features, including the following:

• Customers and producers are kept apart: In inland trade, producers and buyers come from the same country, but in international trade, they come from different nations.

• Foreign Exchange: Foreign trade involves payments made in foreign currencies. There are many distinct foreign currencies used in international trade.

• Restrictions: Different countries place a range of restrictions on imports and exports. The importing nation frequently imposes several import fees and restrictions on imports. Similar rules and procedures must be followed when shipping goods outside the country.

• intermediaries are necessary: Due to the complicated rules, procedures, and procedures involved in international trade, intermediaries are necessary. They offer their services to make sure that business runs well.

• Risk Component:

Commodities are carried over great distances and sometimes internationally. Therefore the risk involved in foreign commerce is much higher.

• The Comparative Cost Principle: Countries with a cost advantage will specialize in producing such goods. Other countries import these products. Conversely, it will import goods with a cost disadvantage or without a clear advantage.

• Government oversight: Every nation's government regulates international trade. It permits imports and exports and might affect the countries involved in the trade.

1.3. Need for Foreign Trade:

In today's world, economic life has become more complex and varied. No nation that exists in isolation can assert that it is self-sufficient. Even nations with opposed political, social, and economic institutions and philosophical perspectives continue to trade with one another. Trade ties between China and Japan and the United States and the Soviet Union are two examples. Foreign trade seeks to increase output and improve people's living standards. Foreign commerce makes it possible for citizens of one

nation to use and enjoy the possession of goods made in another nation. Foreign commerce is conducted for various reasons (Ayanda Priscilla Sikobi, 2021, p. 5).

• Increased likelihood of success

Foreign trade is a simple way to increase sales since, unless your price is off, the more items you sell, the more money you make. According to UK Trade and Investment, businesses that expand internationally have a 12% higher chance of surviving and flourishing than those that do not.

• Enhanced efficiency

Utilize any available spare capacity in your company economically by exporting your products globally. This will level the load and prevent the seasonal peaks and troughs that are the bane of the production manager's existence.

• Productivity levels have risen.

The UK Commerce and Investment (UKTI) reports that companies who engage in international commerce may increase their productivity by 34%, or more than a third, without improving their physical infrastructure.

• Innovation

You will get a broader range of feedback on your products due to exporting to a more extensive customer base, which might result in real benefits. Indeed, businesses believe that exporting stimulates innovation, increasing the production of ground-breaking products that address problems and satisfy the needs of a wider clientele.

• Growth

more international trade the holy grail for any business and something that has been missing for a very long time in our industrial sector, better growth potential equals benefits for your company and our economy.

• Unequal Natural Resource Distribution: The nations of the globe do not all have access to the same amount of natural resources. The number of natural resources and other features that differ between nations include temperature, mineral composition, and other factors. But all of these nations need wheat, cotton, and sugar.

Because of this, they are forced to rely on one another to exchange their surpluses for goods that are hard to come by in their nation, requiring international trade.

• Labor specialization and division:

Some countries can produce some goods more profitably than others due to the uneven distribution of natural resources. They face a spatial disadvantage when producing other goods, though. They specialize in generating goods like raw resources for which they have a natural advantage.

• Variations in Economic Growth Rate: Different countries have different economic expansion rates. Other countries have established economies, while others are still in the early stages of development or are extremely poor. These developing and underdeveloped economies must rely on wealthier nations for financial support, which promotes international trade.

1.4. History of Foreign Trade

One of the first studies into the relationship between trade and economic expansion dates to the classic era of the 18th century, when Adam Smith and David Ricardo contended that trade had a general influence on the advantageous expansion of the economy. In the past, overseas business was only known to happen through exports or imports. Entrepot trade is part of the contemporary three-dimensional global business environment. Bringing a good or service from country A to country B and exporting it to country C is called entrepot commerce. The rise of the manufacturing sector is often credited to this type of international trade, which is frequently conducted through materials trading and free trade zones. However, because it can be seen as duplicate counting, entrepot transactions won't be analyzed for this study (Farag et al., 2021, p. 185).

Nations trade with one another since no one nation can survive by itself. Moving industrial processes to import and export goods and services is foreign trade. Through international trade, nations can specialize in labor and production to create and export more goods at lower per-unit costs, expand their markets, and participate in mass production. Over time, global trade and investment expansion have reflected more external macroeconomic factors, such as lower transaction costs or more significant

returns from international trade. To attain the trade benefits mentioned above, a nation must consider several aspects, particularly when employing sea transport, which is the primary method of trading commodities internationally. (Changjian San, Yuhong Li, Zhongwen Chen, 2010, p. 118).

1.5. Function of Foreign Trade

Foreign commerce is historically the most significant and ancient aspect of external economic interactions. The expansion of international trade has been one of the world economic system's most dynamic drivers in recent decades, particularly following World War II, when their impact on the economic growth of individual nations expanded dramatically. Additionally, it quantitatively depicts complex international trade patterns and dynamic development from the standpoint of each country's structural changes. It can be argued that at the current time, international trade is one of the major factors driving economic growth in both individual countries and the global economy, following the conclusions of the classical, neo-classical, and contemporary theories of foreign trade. (Akua Sakyiabea & Akuffo, 2012,p. 5).

When we look at how each country's economy operates in terms of international trade, we may see substantial differences in how the kind of economy depends on the country's size and stage of creation. Nevertheless, some operations may be universally legitimate (Mounir Belloumi and Atef Alshehry, 2020, p.9).

Growth function, which meets the "economy of time" perspective and results in the saving of domestic labor through participation in the global division of labor. Transformation function, i.e., how international trade changes the degree of internal economic balance. Foreign trade might, under some situations, act as a roadblock to home economic growth.

1.6. Foreign Trade Theories

Studies on the relationship between trade and economic development date back to the classic era of the 18th century, when Adam Smith and David Ricardo contended that trade had a broad influence on the economy's healthy growth. It is widely acknowledged that international trade theories may illuminate the mechanisms behind this activity, the variables influencing trade patterns, and the connections between

trade and economic growth. Managers of large corporations and legislators commonly use commerce theories to identify strategies to increase international trade inside their enterprises or governments. The schools of thought known as the classical and neoclassical are two further divisions that may be made for these notions. The primary contrast between the classical and neoclassical schools of thought is that the classical school of thought was developed under perfect rivalry and consistent yields to scale (Azeez, Dada, and Aluke 2014, p. 34).

Afonso (2017) explains that trade gains successfully convert into higher productivity by encouraging perfect competition. On the other hand, the Neoclassical school of thought, more appropriate to the modern context of global trade, was predicated on the suppositions that economies of scale exist and the economy operates under imperfect competition. Neoclassical theories of trade also explain commerce in terms of technological advancements, delays in their spread and adaptation, and continual innovation processes.

1.6.1 Mercantilism Theory

The mercantilist system was based on the mercantilism trade theory and encouraged increasing the nation's wealth by promptly boosting output, boosting exports, and cutting back on domestic spending. Mercantilism encouraged low wages to give the domestic economy a competitive edge in international trade (Foreign Trade and Theory, 2008). Essentially, the system's main objective was to ensure that each country produced more than it imported. The mercantilists promoted strict government control of every aspect of the economy and economic nationalism to achieve the theoretical foundations of their ideology because they believed that trade was unfair competition and that a nation could only benefit from commerce by harming other nations (Frieden & Rogowski, 2016,27).

As we can see from those above, protectionism was a vital aspect of the mercantilism concept of trade, which took the shape of fiscal policy and other regulatory regulations like the Navigation Acts of 1951, which forbade foreign vessels from operating close to the British shore. Laws also required that the British government supervise exports before being distributed across Europe. The "Gold Standard" of the twenty-first century upholds the mercantilist theory that a nation's

economic health could be gauged by measuring the amount of precious metals it had. The "Gold Standard" refers to a system in which a country's currency is directly tied to its reserve of gold, precious metals, and coins. In affluent countries like France, Germany, Italy, China, and Switzerland, owning precious metals like gold is still widespread. Gold, for example, helps with macroeconomic stability and is regularly sold during difficult times to ensure a government has a sufficient reserve (Gupta, 2015, p. 11).

1.6.2 Theory of Absolute advantage

The foreign trade idea of absolute advantage was the first trade theory to advocate for free trade. When Adam Smith initially put up the concept in 1776, he stated, "If a foreign nation can supply us with products less than we would create, it is better to buy them from the nation in question, with a part of the output of our work, using them in a way that would bring us an advantage." In essence, it was argued that if a country is more productive than others, it has a clear advantage over them in producing things. The concept was founded on the assumption that under free trade agreements, just two goods were transferred between two countries, with labor being the only cost. Absolute advantage theory contends that free trade causes nations to specialize in producing products they are better at producing while importing things they cannot produce. This foreign expertise in production components might increase global output. Foreign specialization introduces elements of the "division of labor" (Chia, 2015, p. 35–40).

Because it only considered one aspect of production and its related cost, the theory of absolute advantage was attacked like any other theory would be. On the other hand, there are additional expenses related to international trade, such as financing and shipping (Frieden & Rogowski, 2016, p. 37).

1.6.3 Hicksher-Ohlin Theory

The Hicksher-Ohlin (HO) theory differs from the abovementioned foreign trade ideas. It emphasizes differences in the relative factor endowment of different countries and variations in the utilization levels of these components across commodities. The concept paints a more accurate image of manufacturing by showing that several

ingredients create a particular trade well instead of just one. The HO essentially asserts that countries frequently export the products for which they have a sufficient supply. Following the theory underpinning international commodity trade, indirect factor arbitrage is the transfer of services provided by otherwise stationary production components from regions where they are abundant to places where they are scarce. (Botha, Reid, & van Jaarsveld, 2021).

1.6.4 Gravity Trade Model

Walter Isard created the gravity trade model in 1954, which estimates trade patterns. The model argues that trade between two countries is favorably connected with their incomes and negatively correlated with their proximity. This model predicts that adjacent countries will trade with each other more than countries that are farther away due to factors like transportation expenses connected to permitting commerce. The theory continues by looking at a pattern depending on the size of the countries of the trading nations, arguing that large economies will promote trade (Gujrati, 2015, p. 26). Evidence suggests that the distance component of the concept works well. This could be due to rising globalization's effects on the growth of regional commercial blocs and the merging of national boundaries. The revenue component is still uncertain, partly due to wealthy countries' increased commerce with developing nations, but the expansion of South-South trade presents a different picture. The conclusions of the gravity model may be ambiguous since it tends to ignore the sources of the fundamental price and demand of the commodities, which frequently determine how the commodities move (Akua Sakyiabea & Akuffo, 2012, p. 9).

1.7. Opened And Closed Trade

A country with a closed economy does not engage in trade or other financial interactions with other countries. This means that neither exports nor imports reach the country. A closed economy aims to provide local customers with everything they need from within the country's borders. In contrast, an open economy depends on great trade exchange and freedom of trade with countries (Gujarati, 2015).

Globalization and trade create new possibilities for countries' economies but also present challenges. Developing countries like Iraq may struggle to compete globally for several reasons.

Insufficient or ineffective logistics, transportation, or customs systems. Ineffective contacts in financial markets, information technology, or communications;

Cartels or major market players engage in anti-competitive behavior that impedes market development, productivity, or innovation. Complex regulatory frameworks that discourage new investment.

The increasing complexity of trade significantly impacts the world's poor, who are sometimes disproportionately isolated from local, regional, and even global markets. Poverty is usually concentrated in some geographic regions and has little access to thriving economic centers. They lack links with global production chains, which limits their ability to diversify their products and capabilities and causes them to miss out on opportunities to develop a highly skilled and productive workforce. Increased trade also affects how things are distributed. Even while more trade usually helps nations greatly, as competition intensifies and many quality jobs are created in export-oriented enterprises, wages for workers in import-oriented industries may decline, or some individuals may lose their jobs. (Zhang and Bambridge, 2012).

In this context of trade, it is also essential to understand the effects of capital, trade, and investment flows from rich to poor countries. Take, for example, Chinese investments and entrepreneurship in North Africa and the Middle East, where we frequently note that wealthy people tend to associate with other wealthy people due to a bias known as wealth. Failure in the global capital market can prevent capital from benefiting from high returns in underdeveloped countries. (Omotor, 2008).

1.8. Foreign Trade Policies

Foreign trade activity is governed by a variety of laws and policies passed by state bodies that either impose restrictions on commercial activity or remove the barriers that it encounters on an international or regional scale—attaining what may be referred to be "trade policy."

As a result, trade policy aspires to be a collection of mechanisms and practices that a nation employs to shape the direction of its international commerce. This policy contains clear objectives and resources to assist it in getting there. The following list provides a summary of the trade policy's goals (Bakarı, 2017):

From the Economic Side

1) Providing a suitable climate for developing and advancing the national industry to protect it against international competition, particularly developing sectors.

2) Take steps to address the payments shortfall and bring the payments back into balance.

3) Increasing and utilizing the state's financial resources to pay for public spending.

4) Guarding against exogenous changes like inflation, deflation, and similar phenomena.

From the Political Side

1) Assuring the maximum possible level of military, food, and economic stability and security for the nation.

2) Work to meet the state's requirements for energy supplies and other strategic goods, particularly during emergencies and times of war.

From the Social Side

It is exemplified by defending the rights of some social groups, like farmers or small producers, increasing employment, redistributing income in favor of particular social groups, and safeguarding the public's health by preventing the importation of certain harmful or illegal goods.

Countries employ a variety of instruments and strategies to accomplish these objectives, including taxes, subsidies, import licenses, quotas, and customs limitations (Gokmenolu et al., 2015).

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1.9. Foreign Trade in MENA

Before the pandemic, the MENA area's integration performance was poor, both within the region and with the rest of the globe. Due to economic factors, including subpar logistical performance, ineffective customs procedures, expensive infrastructure costs, insufficient legal protections for investments, and systemic disputes that raise the high cost of trade and have turned into non-customs obstacles to trade, this is the case. Cooperation was hampered by political economy issues and economic progress was deterred by the negative consequences of war and violence on commerce (Nguyen,2017).

Difficulties hamper the region's incorporation into the global and regional value chains in logistics and the business climate. Despite recent advances, MENA ranks poorly in terms of access to credit, ranking lower than any other area in the globe. The average cost of cross-border commerce is $442, and it takes 53 hours to complete export border formalities, which is three times more expensive and four times longer than the average in high-income OECD nations. The region is likewise one of the most restricted in terms of the trade of services.

Even in normal circumstances, it is challenging to overcome the political and economic barriers preventing the integration of MENA, much less in the middle of the epidemic and the present economic crisis. The coronavirus epidemic allows the nations in the area to reconsider their social and economic policies, advance trade integration, and lessen their reliance on foreign energy. According to specific World Bank research, trade liberalization should benefit all industries, including services and agriculture. The area won't gain from trade liberalization until the general business climate is improved and the private sector is supported. To prevent the failure of trade agreements, a greater balance between political and economic goals will be required for implementation. It will be necessary to have explicit norms and efficient implementation procedures to conduct simultaneous changes across borders, within the region, and in collaboration with Europe and Africa (Nguyen,2017, 127-150).

In addition to facilitating regional value chains, a coordinated framework for trade integration in the MENA area would pave the door for improved integration into global value networks. The study suggests concentrating on regional commerce in

industries including knowledge economy, renewable energy, food security, and healthcare systems. Additionally, it suggests creating a shared digital market in the MENA area where the nations may enhance digital communication and commerce with larger markets in Africa and the Mediterranean nations. This will promote inclusive, adaptable, and sustainable job options in the area while also helping to enhance production and coordinate efficient pandemic responses (Nguyen,2017, 206-234).

Table 1: Economic and Population of the MENA

Region/ country	GDP in 2013 (billions of $US)	Average annual GDP change, % (2004-2013)	Projected annual average GDP growth, % (2015-2024)	Population in 2013 (millions)	Average annual population growth, % (2004-2013)	Projected annual population growth, % (2015-2024)
Turkey	845	4.9	4.2	80.7	1.4	1.0
Saudi Arabia	628	6.3	4.5	26.9	1.7	1.4
Iran	422	3.4	3.2	79.9	1.2	1.1
UAE	328	4.1	4.2	5.5	3.9	2.2
Israel	259	4.5	3.6	7.7	1.7	1.3
Iraq	177	11.2	6.8	31.9	2.6	2.0
Kuwait	142	4.5	2.8	2.7	2.3	1.3
Oman	68	5.4	4.4	3.2	2.0	2.0
Lebanon	40	5.4	3.0	4.1	0.7	0.4
Syria	31	-1.1	4.7	22.5	2.4	1.5
Yemen	29	1.9	3.7	25.3	3.0	2.2
Bahrain	29	5.3	3.4	1.3	5.1	1.8
Jordan	29	5.6	4.1	6.5	2.6	1.8
West Bank & Gaza	10	4.2	4.6	4.4	2.7	2.1
Egypt	232	4.6	4.4	85.3	2.1	1.6
Algeria	177	3.1	3.9	38.1	1.8	1.6
Morocco	102	4.4	4.0	32.6	1.1	0.9
Libya	53	7.0	8.4	6.0	1.2	1.6
Tunisia	47	4.0	4.6	10.8	1.0	0.8
MENA	3,647	4.7	4.3	475.4	2.1	1.5
United States	15,902	1.7	2.7	316.5	0.9	0.7
World	69,656	2.9	3.5	7,044.7	1.2	1.0

Notes: GDP values are reported in constant 2010 $US.

Source: MENA-OECD (2023)

The region's governments and state-owned corporations are its main economic actors, and its exports of natural resources (especially oil), tourism, foreign direct investment, remittances, and foreign aid are its primary sources of foreign currency income. Forty million people in the area still live on less than $2 per day, even though poverty is not as severe as in other growing nations. By this measure, 15% of people in Egypt and close to 50% in Yemen live in poverty. (World Bank, 2022).

Because of the region's expanding population and insufficient economic diversification, unemployment is still a problem. Like per capita income, the region's unemployment rates vary. In Kuwait and the United Arab Emirates, the unemployment rate is less than 5%; in Yemen and Tunisia, it is over 18%. These figures, however, mask the expanding youth population, whose jobless rate is projected to range between 25 and 30 percent over the next five years. The Middle East, North Africa, and sub-Saharan Africa have the chance to streamline and standardize non-tariff practices thanks to the African Free Trade Area. While addressing concerns of labor mobility as they pertain to trade, the current bilateral debate with the EU should concentrate on including service industries and agriculture, which would be of tremendous advantage to MENA nations (MENA-OECD,2023).

Figure 1 shows that the MENA region's international trade as a percentage of GDP peaked in 2008 before falling again to less than 55 percent in 2020, the smallest percentage in twenty years.
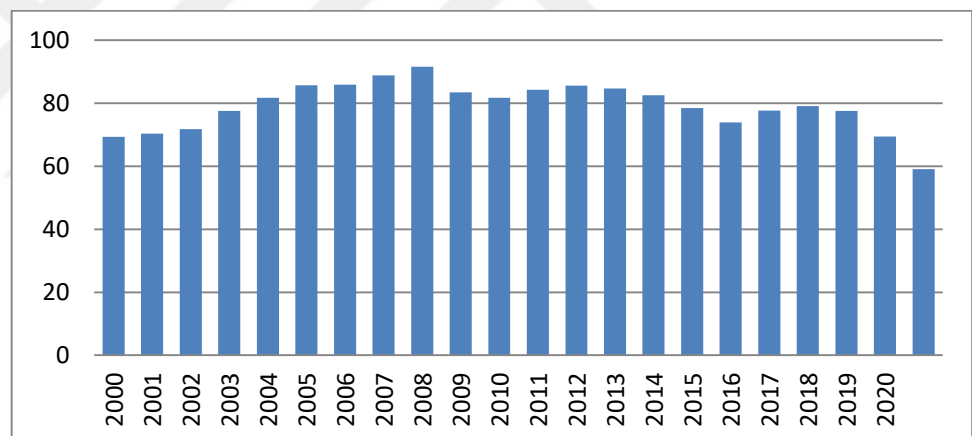
FIGURE 1. Trade (% of GDP) for MENA from 2000 to 2020

Source: Researcher Design Depending On World Bank Data (https://data.worldbank.org/country/ZQ)
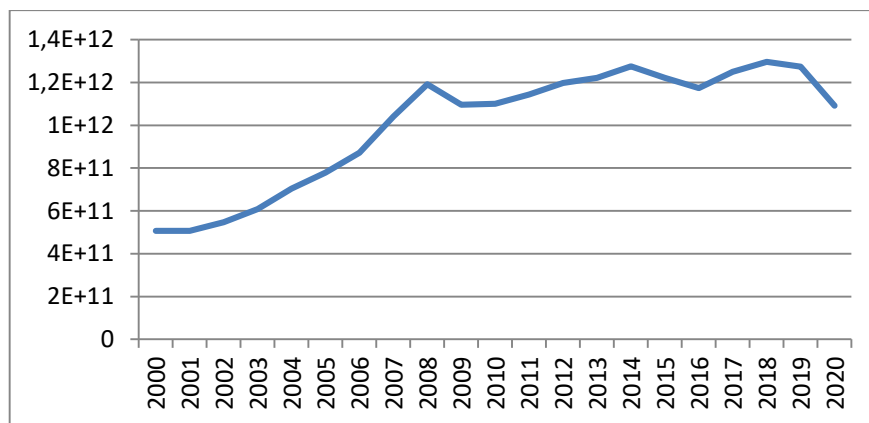
FIGURE 2. Imports of Goods and Services for MENA from 2000 to 2020
Source: Researcher Design Depending On World Bank Data (https://data.worldbank.org/country/ZQ)

It can be seen from Figure 2 that imports in the MENA region continued to rise from 2000 to 2008, then decreased slightly due to the global financial crisis, then rose again until 2019, when it began to decline and continued in 2020.
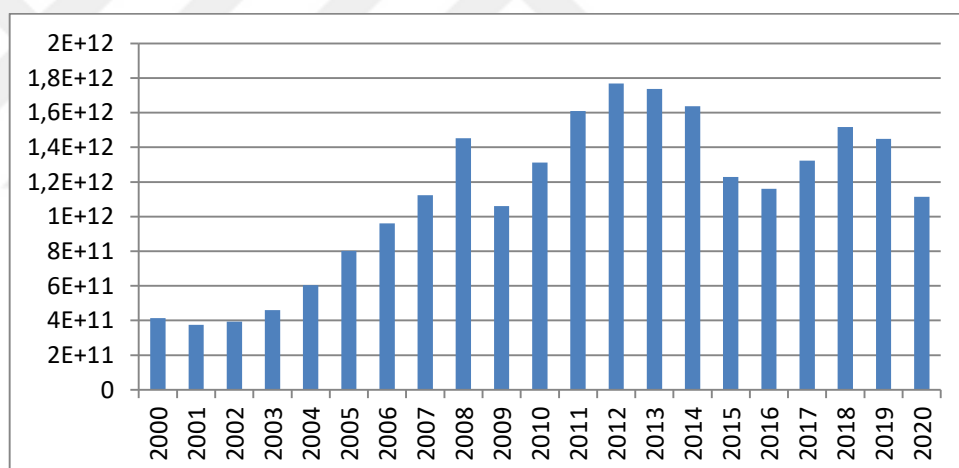
FIGURE 3. Exports of Goods and Services for MENA from 2000 To 2020
Source: Researcher Design Depending On World Bank Data (https://data.worldbank.org/country/ZQ)

Additionally, exports have progressively climbed since 2000, reaching a peak in 2012 before decreasing again until 2018, when they gradually increased until 2020, as seen in Figure 5.

The MENA area has lagged behind the rest of the globe regarding economic integration. Despite having 5.5 percent of the world's population and 3.9 percent of the

global GDP, this area only accounts for 1.8 percent of non-oil commerce, which increases to 6.2 percent when oil is considered. While countries with liberal trade and investment regimes, especially those in East Asia like Singapore and Malaysia, can achieve higher growth and productive employment due to the nature of the oil sector, with its unequal distribution and more expansive protectionist measures.

The MENA area has tried several attempts to integrate itself. Before most of the 22 member states gained independence, the Arab League was founded in 1945 to coordinate cooperation amongst Arab nations. The Greater Arab Free Trade Area (GAFTA) was established by the Arab League in 1997, and it was decided in 2011 that most tariffs would be abolished by 2005. Trade between member nations climbed by 20% between 1998 and 2012. Therefore, there was some progress. However, it had little impact on the local economies.

According to experts, exaggerated statements about the advantages of regional integration were to blame for the lack of success in the MENA area. Most research centered on trade integration or the advantages nations see in (one region). However, while trading with the rest of the world is more advantageous, trade integration has the advantage of fostering commerce between nations and the disadvantage of trade diversion since countries deal only inside the trade blocs to which they are affiliated. The most significant advantages come from closer integration with Europe and the US rather than between them. Many nations have attempted to follow these two routes but have often failed (Mounir Belloumi & Atef Alshehry, 2020).

Beyond wars, the MENA region's governments confront difficulties with economic integration. Although regional average tariffs have been reduced, they remain expensive compared to East Asia, the Americas, and Europe. Higher non-tariff restrictions erect higher obstacles.

For trade in services, which is growing at the most significant rate internationally, the MENA area continues to be one of the most restricted regions. Although there have been advancements in the Gulf and other countries, logistics is still behind, especially regarding reducing the cost of cross-border commerce. High transportation costs and technological restrictions are also impeding the growth of efficient integration. Lack of administrative red tape and consistent standards are

further barriers. Protectionist economies with an inward-looking perspective, with personnel in the public and private sectors defending "their" markets, are frequently added to these difficulties, inhibiting market competition, a crucial component of outward openness (Mounir Belloumi & Atef Alshehry, 2020).

It is still working to harmonize educational standards across all sectors, from services to commodities. The regulation of the Internet and the new economy, including a tax structure, is a developing topic. Political actions may liberalize labor markets and lead to simple successes, such as permitting private companies to conduct business amid political unrest. If Israel and Turkey continue to conduct active trade despite their stark political divergences, as is the case with Egypt and Turkey, then this is not impossible.

Various additional chances also present themselves. The conversion of commerce associated with regional trade agreements may be constrained by production across nations and the expanding influence of global value chains.

CHAPTER TWO

ECONOMIC GROWTH

2.1. The Concept of Economic Growth

"The long-term increase in the nation's production, that is, sustainability," defines economic growth. Economic growth is a quantitative concept that denotes a long-term rise in production. The continual expansion of the economy is known as economic growth. Growth considers the per capita share of output or, in the case of the example above, the growth rate of per capita income since it represents the rise in production, whether of products or services. The idea of economic development, which is the irregular rise in production, may also be used. Economic development may be measured by real gross domestic product changes and per capita income between two periods. (Medina-Smith, 2001,22-27).

A nation's rise in its gross domestic product may also be coupled with economic progress if its gross domestic product growth rate is higher than the country's population growth rate, or it may not be accompanied by progress if the national product growth rate is equal to population growth. Take Iraq as an example. Economic growth is necessary, yet it is insufficient to raise peoples' living standards and material well-being. (Nguyen,2017, 520).

On the other hand, Anwer and Sampath (2000) define economic growth as a long-term increase in the population's ability to access a wider variety of economic goods. This expanding potential is based on modern technology and the institutional and ideological changes needed to support it.

From this description, we may infer several characteristics, such as: • Emphasis on long-term and sustainable growth as opposed to temporary growth.

• The requirement of institutional and ideological adaptability highlights the institutional system's significance in the growth process. • The function of central technology in long-term growth. This term is significant because it bridges the gap between economic development as a chosen action and economic growth as an automatic act.

According to Caleb, Mazanai, and Dhoro (2014), economic growth is the steady transformation of the economy through a rise in output or welfare, with the economy's position moving toward an increase in the latter—per capita real income. According to American economist Kuznets, who believes that economic growth primarily results from investments in human and physical capital, technological advancements, the effectiveness of economic systems, and constant improvements in the creation of material wealth, these factors are the key drivers of economic growth. Both physical and human capital have a favorable impact on workforce development, training, and qualification, which raises the proportion of economically active personnel. Technical advancement refers to applying new technical techniques due to invention or innovation and the level of risk present in manufacturing facilities. Economic systems demonstrate their effectiveness by allocating resources to places with the most significant potential for economies of scale and the best circumstances for production (Caleb et al., 2017:621).

2.2. Elements of Economic Growth

The following are some of the contributing factors to economic growth (Dritsaki & Stiakakis, 2014, 181-122):

Work is "the sum of the mental and cultural abilities that an individual can use to manufacture products and services that are necessary to meet his needs."

Capital, defined as "the sum of the goods that are present at a particular time in a particular economy," aids in advancing technology and expanding output through various investments.

Technical advancement: This is the most effective utilization of manufacturing inputs during production.

The most significant advantages of expansion may be summed up as follows, according to Olayiwola & Okodua (2013):

- Increasing the number of products and services accessible to the community's residents.

- Improving the welfare of the populace through improving production, wages, profits, and other sources of revenue.

- It raises people's levels of health and education and contributes to eradicating poverty.

- Increasing the national income allows the state to have more resources. It improves its capacity to carry out all of its duties, including ensuring security, health, and education, as well as constructing essential facilities and the equitable distribution of the nation's income.

2.3. The Measurement of The Economic Growth

Output growth and per capita income are used to measure it. Calculating the growth rate of the national product—a metric for the results of productive activity- is referred to as the growth rate. A state has its national currency. Hence it is impossible to compare the growth rates attained in other nations using this metric. Therefore, it is simple to compare the growth rates obtained in various nations' average per capita income when evaluating the national production of those countries using a single international currency. (Shihab, Soufan, & Abdul-Khaliq, 2014, 22-28).

There are two methods for calculating the growth rate at the individual level:

Simple growth rate method: It calculates the annual rate of change in the average real income.

The central growth rate technique calculates yearly revenue growth over time.

These were the fundamental tenets and techniques for gauging economic progress.

2.4. Theories of growth in economic thought

2.4.1. The classical theory of growth

Adam Smith and David Ricardo's theories on growth are included in the classical growth theory, merchants' viewpoints on how international commerce generates wealth, John Stuart Mill's theories on markets, and Robert Malthus's theories on

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population. According to Grossman and Helpman (1990, 8–10), the theory's components can be summed up as follows:

Capital formation is the key to progress.

Investment is motivated by profit; capital formation and investment rates also rise when profits rise.

Profits tend to drop as capitalists compete more fiercely for capital accumulation.

The traditional theory held that the process of capital accumulation would inevitably come to an end when the state of stability was reached; once profits start to decline, they will continue to do so until the rate of earnings reaches zero, at which point capital development will cease, the population will stabilize, the wage rate will reach the subsistence level, and the lack of natural resources will cause the economy to enter a state of dormancy.

In the view of the classic, the result of development is stagnation. This stagnation results from the natural tendency of profits to decline and the consequent restrictions on capital accumulation or the stabilization of the population and a state of stasis (Akbar, Fatima, 2003, 18-20).

Criticisms of the Classical Theory:

According to the view of Blecker (2009), the criticisms of the classical theory are:

• Ignore the middle class.

• Neglecting the public sector.

• Give less importance to technology.

• Unreal Laws: The pessimism leading to the inevitability of depression.

• Wrong view of wages and profits: In fact, it did not happen that wages reached the level of subsistence and the developed countries did not reach the level of permanent depression.

• The unrealistic concept of the growth process: where the classic assumed a state of stillness with a change revolving around the static equilibrium point; That is: the

classics assumed that some growth would occur in a constant, continuous form, as in the case of tree growth. This explanation is not a convincing explanation for the process of economic growth as it is today.

2.4.2. The neoclassical theory of growth:

The following are perhaps the most significant neoclassical ideas (Belloumi, 2008, 44–49):

-Economic growth is a cohesive, integrated, and compatible process with a positive feedback loop in which the expansion of one sector fuels the expansion of all other sectors. The development of various income categories, including salaries and profits, results from Marshall's theory, also known as external savings, and the rise of the national product.

- Economic development is influenced by the availability of labor, land, natural resources, money, organizations, and technology.

- Regarding the labor component, we discover a hypothesis connecting population fluctuations and the labor force's size, stressing the significance of balancing the number of natural resources accessible with growth in the labor force or the population.

Regarding the organizational component, the theory's proponents contend that the regulator directs technical advancement in a way that rules out any development process stasis and ensures that innovation and creativity are always possible. According to Marshall, organic growth, a type of economic growth, develops gradually rather than suddenly. In this sense, Neoclassicism has made use of an analytical technique based on the notion of static partial equilibrium,

- When considering issues in a limited field, it may be claimed that a little project is a component of a more significant undertaking that develops gradually, consistently, in an overlapping manner, and with a reciprocal impact on other projects. Focusing on specialization, the division of labor, and trade freedom is necessary for economic progress.

The Criticism of the neoclassical theory

The most important criticisms of the neoclassical theory, according to Kharusi & Ada (2018):

- Focusing on the economic aspects of achieving growth and development, ignoring other aspects that are no less important, As social, cultural, and political aspects.

- Saying that development is taking place gradually, contrary to what is agreed upon in the economic literature about the importance of a strong impetus for the development process.

I was paying attention to economic problems in the short term without referring to what might happen in the long term.

- Assuming the freedom of foreign trade is not easy to implement after that with government intervention and trade barriers, especially after the thirties of the twentieth century.

2.4.3. Economic growth in Keynesian theory

This theory is based on the concepts of economist John Maynard Keynes (1883–1966), who was able to come up with workable solutions to the 1929–1932 global economic crisis. According to this theory, the rules of national income growth are connected to the multiplier theory; the national income rises by a multiple of the rise in investment expenditure and via the marginal propensity to consume.

This hypothesis proposes three rates of growth, as follows (Tapşn, 2016, 69-72):

It is the real growth rate, the income change to income ratio.

B - The targeted growth rate, or the rate of increase when the production ability is at its highest.

The natural growth rate (GN), which must be equal to both the actual growth rate and the preferred rate of growth as well as the normal and desired rates, is the highest rate of growth that can be produced by increases in technological advancement, capital accumulation, and labor force at full employment; The first tie leads to the managers being satisfied with their productive decisions (Tessema, 2016,8-13).

2.4.4. Economic growth in Marxist theory:

This theory relied on Karl Marx's views on the function of production, development, and inventions, in addition to profits and wages. Karl Marx says that increasing production above consumption requirements in society means that there is investment Consequently, the best possible use of its natural resources and labor force. Marx held that the dominant mode of production was the best indicator of an individual's behavior; hence, there is a certain mode of production in society that consists of the following (Sothan, 2018, 168-173):

- Dividing labor effectively and cooperatively, as well as organizing work according to the legal status of employees in terms of freedom or slavery.

- Geographical setting and understanding of how to exploit the financial resources already at hand.

- The use of scientific and technological methods in manufacturing and the general status of science. What is blamed on Marx is his neglect of the role of demand in determining value-added, and his determination of work only as a determinant of value, and the reality negates what Marx said that workers' wages are declining,

On the contrary, wages have risen for long periods in the advanced capitalist countries without this affecting the realized surplus value, just as the Marxist prediction of the demise of capitalism was counterproductive.

2.4.5. Joseph Schumpeter's Theory of Economic Growth

Joseph Schumpeter, who lived from 1883 to 1950, disapproved of the economic schools that were popular at the time and became recognized for his views on economic cycles and growth. He has once more rejected the neo-traditional school, the Keynesian school, and later the neo-Keynesian school in order to deal with the economic challenges of his day, in addition to history and sociology. Joseph Schumpeter detests communism but neither calls for the abolition of capitalism nor takes a side in favour of it. Instead, he anticipated that the socialist system, not the communist one, would take over after the fall of the capitalist one. His key concepts are as follows (Owusu-Nantwi, & Erickson, 2016, pp. 116–119):

This is due to the innovations and developments made by lawmakers, which might boost manufacturing and drive growth. Development occurs under the capitalist system in the form of inconsistent leaps and uncoordinated impulses, which are followed by successive periods of short-term stagnation and boom.

-The regulator and bank credit, which give the regulator opportunities for innovation and renewal, are the two key variables that determine growth.

The developments brought about by the regulator affect the customs, traditions and tastes of consumers, which can take one or some of the following forms (Ada, & Acaroglu, 2014, 59-63):

• Exploiting new resources.

• Development of new goods.

• Introducing new production methods.

• Opening new markets.

• Reorganization of some industries.

The collapse of capitalism may occur as a result of one or all of the following reasons (Adel & AlAdlani, 2019,82-85):

- Boar the function of the regulator (the result of a routine innovation and renewal, and carried out by experts and researchers).

- The demise of the organizational framework of capitalist society (monopoly, and cartels).

The dissolution of the political class that was protecting it.

- The persistent active hostility against capitalism on the part of the intellectuals and the workers.

The supremacy of competition and full work for a market in static equilibrium that always repeats itself without investment losses or population is the initial assumption made by Schumpeter in his explanation of the process of economic growth; A wave of investments is created where the regulator discovers viable chances to fund new investments as a consequence of renewal and innovation. The latter shuts its doors as prices decline and it can no longer compete with the new facilities. The organizers

are in a pessimistic mood, and the innovation and movement are struggling, and a state of depression prevails, and the depression does not follow for a short period, so that things return to improvement with new innovations. (Aleksey Poliduts & Yuner Kapkaev, 2015, 62-65).

Criticism of the theory

There are many criticisms of this theory the most important of it are (Tessema, 2016,22-26):

- Giving excessive importance to the organizer; Where the function of the latter loses its place with the emergence of groups of experts and specialists.

- The assumption of the effect of saving at the interest rate, although The relationship is still ambiguous in its aspects.

-Assuming financing by bank credit, But long-term loans in capitalist countries are not provided by banks, but long-term investments are financed through retained earnings or the issuance of shares and bonds.

- Not to be exposed to obstacles that can hinder the growth process; Such as population increase, declining yields, and other obstacles that most of the least developed countries suffer from.

2.4.6. The Theory of Stages of Economic Development

According to Raymond Aron, the entire world has read this book, and the difference between The phases of economic growth irrespective of the contradiction between political systems is a normal thing.

The underdeveloped nations must follow the same path as the developed nations did between 1850 and 1950. According to Rostow, any society can be classified into one of the five stages based on the degree of its economic development (Kurt, Terzi, 2007, 25–29):

The stage of traditional society.

Preparation stage for launch.

Starting phase.

The stage of trend towards maturity.

Heavy consumption stage.

Rostow sees that these stages are nothing but general results deduced from the huge events witnessed in modern history.

The stage of launch or takeoff preparation is the second stage. In terms of decentralized political structure and ideals, this next stage is similar to the previous one since studies of traditional society stop there; On your own behalf, you turn into a temporary stage, the stage of resuming the qualification stage, the impetus for a radical transformation, the transformation of political institutions

The third stage is the beginning, which is a necessary phase of growth. If development barriers are removed, society enters the first stage, during which active forces dominate for advancement in all spheres of life. At this point, growth and development become a norm in society, and the incentives change. (Nguyen, ,2017, 523).

The fourth stage is the maturity stage, which is when industrialized nations are seen as being economically mature; Where the local economy's technical capabilities have increased, all sectors of the national economy have reached full development, many basic industries have been established, industries are more ambitious than they were in the past, and industries that are leading for development; as well as a surge in industrial exports, as well as the production of industrial, agricultural, electronic, and chemical gear.

Following are the most significant changes that Rostow recognized as occurring at this point (Caleb et al., 2014):

- The demographic transition from rural to urban areas as well as the modernization of the countryside.

-large proportion of technicians and experts in their field

-The shift of power from business owners and investors to the group of executive coaches.

2.4.7. The Harold and Domar theory

It was created in the 1940s and is one of the most reliable and widely used models. It is associated with the names of the British economist "Roy Harold" and the American economist "Avery Duma." The model emphasizes investment as a critical component of any economy's needs and highlights the role that saving plays in boosting investment as a means of obtaining capital and fostering economic growth. In order to understand this relationship and the issue of the ratio of capital to output in the field of economics with the capital coefficient, the model presupposes that there is a relationship between the quantitative size of the inventory of assets and the total national product (Akbar, Fatima, 2003, 22).

According to the Harold Domar model, in order to accelerate growth, there must be higher saving in order to achieve development. Growth is based on the capital produced via investments in factories and equipment, which is primarily determined by individual and corporate savings that enable investments. Regarding the capital-output ratio, also known as the capital factor, it is only a measurement of how productive investments or financial resources are. (Blecker, 2009,64).

2.4.8. Theory of Structural Transformations

Arthur Lewis was one of the first researchers to propose a development proposal based on moving from the countryside to the cities, or from agriculture to the services and industry sector, but in a carefully planned manner. This theory is considered one of the important theories on which development concepts were built in the last century. Including finding a way to transform developing countries into developed ones, and from agriculture to industry and services, so that their economies become more able to cope with changes in the local environment.

-Lewis considered the following while formulating his theory in cases when productivity increases and inexpensive labor in the conventional sector is progressively and methodically shifted to it (Saaed, & Hussain, 2015, 132):

- The process of moving jobs from the traditional sector to the industrial sector and the expansion of employment in the latter are dependent on the rise in industrial sector production brought on by the accumulation of more capital.

-All of the earnings are reinvested by the capitalist class in society.- There is a strong incentive for workers to gradually migrate to the industrial sector when the production of the latter increases, which in turn increases the demand for labor in it (Lucas, 2013, 80). This is because the industrial sector maintains an ongoing level of wages at a level that is greater than the level of the subsistence wage prevalent in the agricultural industry .

In actuality, the long-term changes are nothing more than the accumulative effects of a series of short-term changes. The growth in consumer demand is emphasized by structural theories, which also sought to define the peculiarities of the economic structure of emerging nations (Tapşn, 2016, 78–80).

Criticism of the theory

There are many criticisms to this theory the most important of it were (Tessema, 2016,22):

Although the theory is consistent with the historical experience of the countries of the Western world, it is difficult to apply it to the reality of developing countries for three reasons:

- Assuming the theory that capital accumulation and reinvestment works to create new job opportunities, and the reality says that if investments are directed to purchase capital equipment, the demand for work will decrease, and the reality of developing countries shows that profits are reinvested outside the country for economic and political reasons instead of investing them in their country.

- The theory assumes that there is a surplus of work in the rural sector that can be transferred to urban areas, while the reality of developing countries shows crowding of cities, and high unemployment rates.

- Assuming the existence of a competitive labor market in the industrial sector, which works to stabilize wages, but many developing countries have high real wages,

due to the presence of trade unions with high bargaining power, even with unemployment.

2.4.9. Revised Traditional Theory of Economic Growth

This model is called the Limits of Growth Model (1972), which indicates that the current increasing trends of population growth, declining food production, environmental pollution and resource depletion can make growth rates reach an end within the next 100 years. The model is called the Club of Rome model; Because the study was initiated by the Club of Rome and supervised by Dennis Meadows at the Massachusetts Institute of Technology (Surya Bahadur & Khatri Chhetri, 2017,14-15).

This study indicates that the rate of population growth is an exponential proportion to the supply of food that is decreasing over time, and that industrial production will also decline due to the depletion of mineral resources in the ground and oil as well, and then famine will spread by the end of the next hundred years.

Criticism of the theory

As it assumed the limited technological progress, although this variable is growing increasingly, and the population growth assumed by the study is growing rapidly, it can be reduced as long as the per capita income increases, and that the model ignores the importance of the price system as a catalyst for the economy in the use of scarce resources and the search for alternatives (Pietak, 2014,54).

2.4.10. The theory of the international dependency revolution

During the seventies, international dependency models gained the support of third world thinkers. The international dependency model sees that the third world countries are surrounded by institutional, political and economic obstacles, whether local or international, in addition to their falling under the dependence and control of rich countries through their relationship with them. Within the international subordination there are three streams of thought, which are (Owusu-Nantwi, & Erickson, 2016,123):

A - The neo-colonial dependency model.

B - false example model.

C - the developmental dualism hypothesis.

A - The neo-colonial dependency model:

This model is an indirect development of Marxist thinking about economic development; It attributes the existence and continuity of the backward third world to the historical development of the unjust capitalist system in relation to the relationship between rich and poor countries.

Dualism is a broad concept in economic development, which indicates the existence of a continuing growing difference between rich and poor countries. The concept of dualism includes four basic elements (Aleksey Poliduts & Yuner Kapkaev, 2015, 71-78):

- Availability of a set of divergent circumstances at the same time and in one place (modern and traditional, city and country, rich class with more poor).

- The breadth of this coexistence and its character of continuity rather than phases (structural causes that are not easy to remove and eliminate).

- The lack of convergence of bilateralism, on the contrary, it increases greatly, such as the productivity of workers in developed and underdeveloped countries, and it expands from year to year.

- The most important characteristic of the duality lies in the fact that the underdeveloped sector is not affected by the boom or recovery found in the advanced sector.

2.4.11. Balanced and Unbalanced Growth Theory

According to researcher Rosenstein Rodin, in order to overcome the state of poverty and destitution, it is mainly important that development be large and its programs sequential, and it must overcome stagnation in the economy as a whole. Moreover, development programs in developing countries must be prepared by the government as a whole. This is done to ensure an increase in revenue sufficient to boost effective demand, thus ensuring the success of the initiatives as a whole. (Tessema, 2016,30-36).

The development process requires an imbalance in its early stages, as growth shifts from the leading sectors to the secondary sectors and creates external savings that benefit other sectors. Each new project will bring savings and benefits (profits of private organizers, social profits) and every other new project will benefit.

2.4.12. Pro-Poor Growth Theory

Economic development discussions have historically centered on growth and the eradication of poverty. According to Lustig and Arias (2002), achieving significant poverty reduction depends much on economic development as well as the growth pattern. The trickle-down theory, which holds that as an economy expands, its benefits would flow down from the affluent to the poor and end poverty, dominated the early 1950s and 1960s debate on the link between growth and poverty. However, history has shown that in many emerging nations, notably those in sub-Saharan Africa, poverty has risen rather than decreased with growth.

According to changes in the earnings of the families in which they reside and the assets they and their children accumulate to earn greater incomes in the future, pro-poor growth focuses on how much poor women and men are able to participate in, contribute to, and profit from growth. On this matter, there are several points of view. For some people, the key question is whether inequality is decreasing and the poor's wages are increasing in comparison to those of the non-poor. This viewpoint has the advantage of focusing attention on whether the poor are benefiting from growth more or less proportionately and if inequality, a crucial factor in determining how much growth decreases poverty, is rising or declining (Olaogun ,2008).

Pro-poor growth, according to Olaogun (2008), is growth that can raise the percentage of the poor relative to the international average. Son (2007) defined pro-poor growth as growth that may reduce poverty in absolute terms and as growth that can disproportionately raise the income of the poor such that inequality decreases in relative terms.

Development and progress are harmed by poverty. White (2001) asserts that eradicating poverty is crucial because it can hasten economic expansion. Lustig and Arias (2002) stressed the need of combating poverty as one of the causes endangering global progress. De la Fuente said that improving the existing level of living must be

done in order to accelerate global growth. The claim was consistent with the Olaogun's (2008) thesis that growth is hampered by poverty. Therefore, pursuing policies to reduce poverty should result in long-term economic growth and global development in the twenty-first century. The poor are those who lack the means to satisfy even the most basic necessities that enhance welfare; they are also those who are more susceptible to illness, live in subpar circumstances, or lack the most basic infrastructure.

2.5. Export-Led Growth

The policies of nations that have been successful in expanding their export markets are all referred to by the words "export-led growth," "outward-oriented," "export promotion," and "export substitution." Because export orientation promotes specialization, which raises national output and lowers local prices, many nations, are motivated to adopt it. Exports help the economy use its resources more efficiently to generate goods and services that can then be sold in excess to meet foreign demand. This increases national production and brings in foreign exchange earnings that may be used to finance economic growth (Ann Coenen, 2015, p.33).

Following World War II, the import substitution strategy gained popularity and was used by many emerging nations until the 1970s. Many developing nations tried to use this technique at this time to hasten their development and achieve economic prosperity. The approach favors manufacturing for the home market over export markets due to trade and industrial incentives. The import substitution strategy uses a wide range of trade policy measures to shield home businesses from foreign competition. To do this, developing nations frequently employ high tariffs and quotas. In addition to these weapons for trade policy, import restrictions sometimes involve exchange rate revaluation. Governments may also employ tax breaks, infrastructural improvements, and other incentive programs to boost domestic manufacturing (Weiyun Wang & Manru Wang, 2021,p.8).

Since nondurable consumer items need labor-intensive and primitive manufacturing methods, countries using import substitution strategies typically start by producing them. After completing this simple phase, import replacement gets more challenging. After this point, industrialization can proceed in one of two ways.

Opening up the economy to foreign competition is one of them. For instance, Taiwan and South Korea started with import substitution before switching to an export-focused strategy. The second strategy is to focus on assembly-type commodities' final processing, restrict imports of these finished items, and boost the production of intermediate and capital goods. This is accomplished by intensifying the protective structure according to the level of processing, with finished items protected to a greater extent than intermediate commodities. This approach has been selected by Turkey and the majority of other emerging nations (Jeníček, & Krepl , 2009,p.16).

For developing nations, the import-substitution strategy has certain appealing features.

Following is a list of benefits of this protective program provided by António Jorge Soares and Jesus Antunes, (2012):

Because there is already a demand for industrial goods as shown by imports, there is no risk in developing a local industry to compete with imports.

It is simpler for a developing nation to defend its home market against foreign rivalry than to compel other developing nations to ease their trade restrictions on manufactured goods exported by those nations.

After imposing import tariffs, foreign businesses are motivated to build so-called "tariff factories" in the nation to get around the tariff barriers, which helps to lower unemployment. In addition to these benefits, this technique has several drawbacks for developing nations.

Zdzisław and Puślecki (2013, p.29) lists the following as a few of these drawbacks:

Trade restrictions shield home industries from foreign rivalry, thus they lack motivation to improve their efficiency.

Because many developing nations' local markets are too small for manufacturers to benefit from economies of scale, import substitution creates inefficient industries and high unit prices.

Because more capital-intensive and technologically complex imports must be replaced by local production after the simpler manufactured imports have been

replaced by domestic production, rising levels of protection and inefficiency make import substitution increasingly challenging and expensive.

The benefits and drawbacks of the import-substitution method demonstrate that some developing nations may execute it successfully while others may experience failure. There may also be some variations among implementations.

Brazil and Mexico's import substitution policies may be characterized as measures that allowed emerging nations to switch from being primary commodity exporters to exporters of developing indigenous industrial-based exports (Ayanda, 2021,p.28).

By the 1950s, these nations were encouraging domestic production of consumer products while limiting foreign imports through protectionism. Brazil and Mexico started the next phase of import substitution in the 1960s. At this period, more labor-intensive consumer items were produced, and manufacturing of capital-intensive commodities was also started.

The import substitution strategy's outcomes in the years that followed weren't as excellent. High foreign debt was created by the borrowing from abroad approach employed to expand local business. In several industries, the import-substitution program also backfired. For instance, the Brazilian government recognized in 1991 that this approach had a detrimental impact on the computer sector (Farag,et al, 2021).

The rate of protection was quite high during import-substitution periods in various nations, including Argentina, India, Nigeria, and Pakistan.

2.6.Import-Led Growth

The belief that there is a negative correlation between economic growth and imports stems from the fact that the majority of import expenditures reduce national income resources. However, economists generally agreed that imports had an influence on GDP because they allow a nation to obtain productive elements that it is unable to produce on its own and within its geographical boundaries owing to the lack of the necessary manpower, technology, skills, and other variables. Because imported

foreign technical knowledge has the potential to increase domestic production levels and because imports facilitate economic interactions between citizens of a country and their counterparts abroad, imports are the primary diffusion channel in this global trade of capital and technology (Afonso, 2017,p.107)

Coe et al. (1993) identified a number of channels via which imports influence GDP expansion. First, they pointed out that importing intermediate capital products can raise a nation's productive capital stock levels, which would eventually result in economic expansion. Second, imports raise GDP levels by enabling developing nations with less technical know-how to embrace and adapt cutting-edge technology innovations from industrialized nations with greater technical know-how. Thirdly, imports provide nations the chance to observe more effective resource allocation techniques, which have a significant impact on productivity and raised levels of national revenue (Botha, et al ,2021,p.47).

These are the facts that demonstrate how imports may raise the standard of domestic technology by fostering competition that compels domestic businesses to enhance their manufacturing methods. Since consumers and producers make decisions about their consumption and output based on minimizing costs and maximizing satisfaction and profits, respectively, imports ensure the economic productivity of both producers and consumers. Many developing nations that had previously used an import substitution approach started liberalizing their trade and implementing outward-looking policies in the 1980s. These strategies with an foreign focus are referred to as "export-led growth," "export-oriented strategy," and "export promotion" in the literature.

Because it connects the home economy to the global economy and seeks to gain from free trade and global specialization, the approach is outward-looking. This plan seeks to stimulate economic growth through exporting produced goods (Chia, 2015,p.38).

The Heckscher-Ohlin model proposes that emerging nations should focus on industries that make extensive use of their comparatively plentiful natural resources and manpower. Specialization in labor-intensive industries may also help these nations' unemployment issues. The country's export income show the effects of the

export-oriented policies. In general, a rise in export volume raises the nation's foreign exchange earnings. However, when export-oriented policies are put into practice alongside open trade policies, imports into the nation also rise. In this aspect, the country's balance of payments could not improve at all. The following are some succinct advantages44 of an export-oriented strategy (Frieden, & Rogowski, 2016,p.):

Industries where emerging nations are expected to have a comparative advantage, including labor-intensive manufactured goods, are stimulated and encouraged through export-oriented strategies. By lowering import barriers, this method places domestic businesses under a competitive discipline that drives and encourages them to improve efficiency .Export-oriented strategies help countries with plentiful labor create more jobs .The increase of the domestic market is not a constraint on the growth of manufactured exports .Exports encourage the use of scale economies for small open economies . As a result, the economy's expenses will go down and the value of output will rise. Additionally, a larger market encourages inflows of foreign money and capital. An rise in exports may relax a rigid restriction on foreign exchange, allowing increases in productive intermediate imports, which would then lead to an increase in production .Exports encourage the long-term spread of technological knowledge through ideas from overseas clients and experiential learning (Azeez et al, 2014,p.38).

According to Zdzisław and Puślecki (2013), some of these benefits like a rise in employment are gains that last forever, while others like technical change have an ongoing impact.

Despite these benefits, this technique does have certain drawbacks that are discussed in the literature:

Establishing export-oriented firms in a developing nation can be highly challenging since they will have to compete with existing, more advanced industries from wealthier nations.

The labor-intensive industries where emerging nations can gain a competitive edge are often protected by wealthy countries .

These two approaches are distinguished from one another by a number of salient features (Weiyun Wang & Manru Wang, 2021,p.14):

Import substitution strategies often include tight and lengthy licensing procedures for imported manufactured goods; export-oriented regimes provide quick access to imports of intermediate and capital goods, at least for exporters.

With inflated exchange rates, import substitution is used. Home manufacturers are seldom induced to grow their output outside the domestic market since they would earn a significantly lower price for their products on the foreign market than they do behind the protective wall.

An export-oriented strategy is distinguished by realistic and/or undervalued currency rates, which encourage domestic producers to sell overseas.

The major goal of many developing nations' import substitution strategies is to boost industrial expansion. However, the pace of industrial growth appears to be stronger under export-oriented policies (Akua Sakyiabea Akuffo, 2012).

Countries that use import substitution seek to lessen their reliance on foreign markets. Import substitution necessitates the importation of both intermediate and capital goods in order to continue development and production; hence, it seems to increase their dependency. There are significant variances in how these plans are launched and implemented. Launching an import substitution program is very simple since it involves simple laws, stringent limits, and prohibitions on imports at first. However, as investments expand, it becomes more difficult and costly to oversee and sustain this policy. On the contrary, launching an export-oriented strategy is challenging since it necessitates a mix of measures. However, once an export-oriented strategy is implemented, it becomes more likely to be self-sustaining (Chia, 2015,p.32).

2.7.Economic Growth ın MENA

MENA region refers to a large area, from Morocco in northwest Africa to Iran in southwest Asia, that usually includes all the countries of the Middle East and North Africa. Saudi Arabia, and Yemen. Where the UAE, Saudi Arabia, Qatar, Bahrain, Oman and Kuwait are rich countries because they possess large and varied amounts of natural resources, which is reflected in the gross domestic product, in addition to trade liberalization and strong economic relations with many countries such as America and

China, while Tunisia, Algeria, Iran, Iraq, Morocco, Egypt and Malta are among the Developing countries with stable economies in addition to the availability of natural resources. As for trade in these countries, it varies. Iran, for example, is subject to US sanctions. International trade in it is limited. Like Djibouti, Syria, the West Bank, the Gaza Strip, Lebanon, Libya and Yemen, they suffer from wars and political instability, which makes their GDP low and suffer from trade difficulties in terms of export and import with other countries (Hussain, & Saaed, 2015).

The population of MENA region is estimated at least at about 381 million, which constitutes about 6% of the total world population. The Middle East region has large reserves of oil and natural gas that make it a vital source of global economic stability. The Middle East region holds 70% of the world's oil reserves (797.04 billion barrels) and 46% of the world's natural gas reserves (2.8413 quadrillion cubic feet). The economic shock caused by the pandemic and the drop in oil prices. Almost two years after the outbreak of the Coronavirus (COVID-19) pandemic, economic recovery paths in MENA region remain weak and uneven. The performance of each of the twenty economies in the region depends on the extent to which it is affected by fluctuations in oil prices, as well as on the extent of its success in managing this pandemic and containing the repercussions resulting from it. Therefore, predictions that the region will achieve an average growth rate of 2.8% in its GDP in 2021, and its rise in the following year to reach 4.2% in the event of the pandemic receding, hide differences among its countries. In addition to the proceeding of the tragic human losses caused by the global health crisis in 2020/2021, it showed the extent to which economic performance stopped on the efforts made to confront this pace (Weiyun Wang & Manru Wang, 2021).

The economies of the region are among the countries of the world, which are currently paying the price of its investments for decades in the field of public health. Indeed, most of the countries of the region faced this pandemic and are very confident in their capabilities, and without sufficient readiness to overcome them, and pollination rates will affect their economic recovery. Once again, future prospects appear to be varying, with the most richer countries in this regard. By December, the United Arab Emirates had achieved the highest full vaccination rate among its inhabitants in the world of 90%, while Yemen has fully vaccinated only 1% of its population. It is

necessary to distribute vaccines more fairly across the region in order to achieve recovery (Botha, et al ,2021,p.31-39).

The GDP per capita which is often a more accurate measure of the standard of living - sends a more worrying message, as the expected increase led by 1.1% in 2021, after a decrease of 5.4% in 2020, to a decrease in the per capita share of GDP Real 4.3% for his level in 2019. The great borrowing that the governments of the countries of the region were forced to finance the provisions of emergency spending on health services and social welfare to the high size of government debt. It is expected that the average percentage of public debt in the countries of the region will decrease from 56.3% to 53.6%, while the countries of the developing region importing oil will witness an increase in the percentage of public debt to the gross domestic product from 90.4% to 92.3% in 2021, with the elderly finances remaining (Farag,et al, 2021).

Figures 3 and 4 show that the per capita gross domestic product continued to rise from 2000 to 2018 in MENA region, then it declined again due to the Corona pandemic in 2019. Also, economic growth declined significantly in 2019 on an annual basis, and there was stagnation.
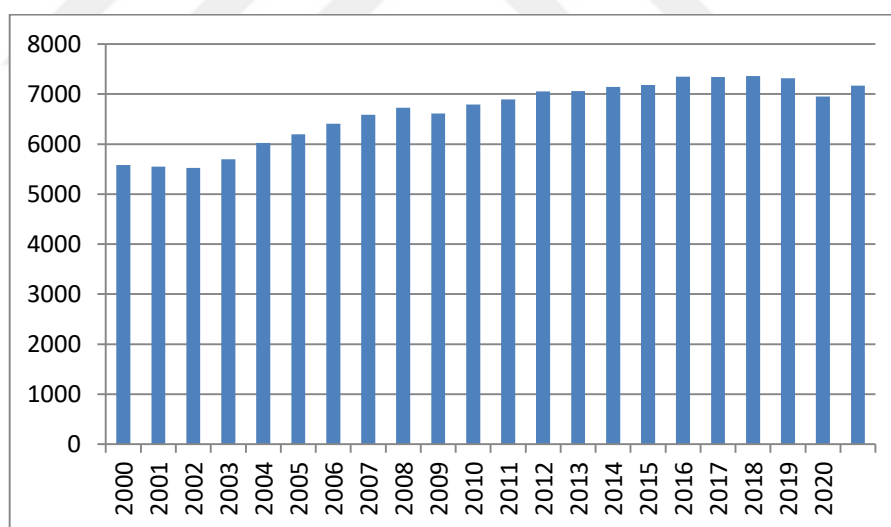
FIGURE 4. GDP Per Capita for MENA from 2000 tO 2020

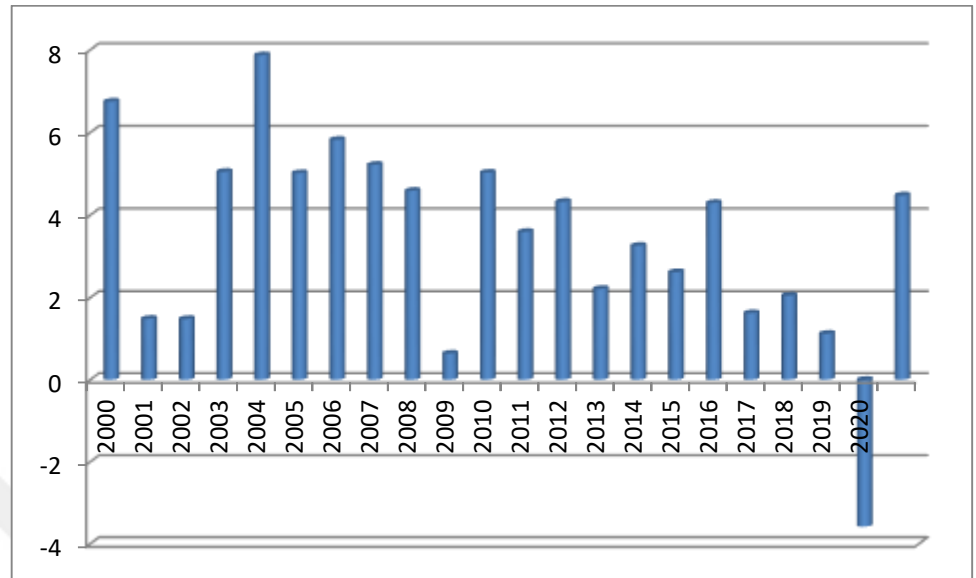Source: Researcher Design Depending On World Bank Data (https://data.worldbank.org/country/ZQ)

FIGURE 5. GDP Annual Growth for MENA from 2000 to 2020

Source: Researcher Design Depending On World Bank Data(https://data.worldbank.org/country/ZQ)

CHAPTER THREE

METHODOLOGY AND RESULTS

3.1. Foreign Trade and Economic Growth

Numerous empirical studies examined the link between international commerce and economic expansion. For instance, Chaudhry et al. (2007) used cointegration and multivariate causality to examine the link between international trade and economic development in Bangladesh from 1973 to 20002. The study's findings indicate that exports and imports boost output growth in the short term, but it has no long-term effects.

Omotor (2008) examined the connection between Nigerian exports and economic development between 1979 and 2005. He concluded using a model that refuted the notion that exports have a favorable impact on economic growth. Tang (2010) examined the actual relationship between international trade and Chinese economic development using Ardl's model. He found no sustained relationships between imports, exports, or real GDP. Additionally, Zang and Bimbridge (2012) used vector autoregression (VAR) to study the connection between exports, imports, and economic growth. They found that there is a two-way causal link between imports and economic progress in two different countries.

Between 1977 and 2003, when Egypt transitioned from a government-run economy to a free market economy, Abou Steit (2005) tried to test the idea that exports are the key factor driving economic progress in the country. The study's findings concluded that expanding output, incorporating the private sector, and assisting small and medium-sized businesses at every stage of the growth process are all essential to improve exports.

Hussein and Said (2015) also investigated the empirical link between Tunisia's export, import, and economic growth between 1977 and 2012. According to the findings, exports and economic growth are causally related in just one direction.

Faraj (2008) aimed to ascertain how Libyan foreign trade strategy operated and how much the nation's economic growth rates accelerated from 1988 to 2003. According to the research, greater international commerce contributed to the total

increase. The research claims that to increase exports, one must increase output, involve the private sector, and aid small and medium-sized businesses at every stage of the growth process. Hussein and Said (2015) also investigated the empirical link between Tunisia's export, import, and economic development between 1977 and 2012. According to the findings, exports and economic growth are causally related in just one direction.

Faraj (2008) aimed to ascertain how Libyan foreign trade strategy operated and how much the nation's economic growth rates accelerated from 1988 to 2003. According to the research, greater international commerce contributed to the total increase. Domestic output, which relies on capital, intermediary goods, and exports as a primary source of revenue to support economic development, is the primary funding source.

Haweta and Shatt (2009) employed the regression model to investigate the association between international trade and economic development in Libya between 1977 and 2006. It was determined that exports support economic expansion. Al-Baidi et al. (2010) also aimed to establish a causal relationship between exports and economic expansion in Libya from 1980 to 2007. The study concluded that there is a causally bidirectional link between income growth and export growth over the long run, meaning that export growth fuels economic expansion.

Suleiman's (2012) study also sought to ascertain how the Maghreb nations' economic progress during that period (1989–2005) was impacted by international commerce. The study concluded that exports and imports have a greater influence on economic growth in Maghreb than domestic investment. Similarly, Bolazi (2012) aimed to look into the link between exports and economic expansion. The outcome confirms that exports and GDP in MENA countries have a sizable interdependent causal link. The research above shows conflicting evidence about the link between global commerce and national economic growth.

Additionally, the distributed autoregressive test method was used to evaluate the joint merger and the vector error correction model in a 2019 study by the researcher Nahed Zghidi titled The Association between Foreign Trade, Economic Growth, and Investment from Abroad for the Middle East and North Africa Countries during the

Period 1999-2012. The study found a one-way association between foreign direct investment and economic development and an ongoing beneficial connection between foreign trade with it.

The Connection between Economic Growth, Foreign Trade, and Foreign Investment is a study for the year 2022 by scholars Stephen Taiwo Onifade, Murat Canitez, and others. Fully modified normal least-squares (FMOLS) and dynamic normal least-squares (DOLS) regression approaches were used in the study to analyze panel data. The study concluded that foreign direct investment and economic growth are positively correlated over the long run and that trade openness negatively impacts economic growth over the study period. This study aims to identify the short- and long-term relationship between global commerce and economic growth in the Middle Eastern and North African nations.

Alakbarov (2010) used yearly data from the years 1996 to 2008 together with the Granger causality test and Johansen cointegration to assess the impact of international trade on the economic growth of the Azerbaijani economy. Although the findings disproved the export-based growth theory, a causal link between growth and export was discovered.

Gül and Kamasi (2013) looked at the connection between growth and international commerce in the nations that make up the Republic of Turkey. While a bidirectional causation from export to long-term growth was discovered in the analyses' findings, a unidirectional causation from import to growth was also discovered.

Using yearly data for the years 1971 to 2005, Busse and Koniger (2012) looked at how trade affected economic development in 108 countries, including 87 developing nations. On the basis of the experimental investigation, it was shown that import and export had a considerable impact on GDP.

Using yearly data from the years 1977 to 2012, Said and Hussein (2015) examined the effects of export and import on the economic growth of Tunisia. The study revealed a causal link between growth and imports as well as growth and exports.

Using yearly data from 1995 to 2013, Machado et al. (2014) investigated the effects of economic factors on the economic development of the BRICS nations. The

empirical study' findings indicate that investments have negative effects on growth overall whereas exports have favourable ones.

Topallı (2017) used panel data analysis and yearly data from the 1984–2015 period to examine the link between exports and economic development in 9 chosen nations (Brazil, China, India, Indonesia, South Korea, Philippines, Malaysia, and Thailand). The analysis's findings indicated that in some nations, exports and economic growth had a one-way causal link.

Using yearly data for the years 1960–1997, Ekanayake (1999) examined the connection between economic development and export for eight emerging Asian nations. Based on two phases of the cointegration and error correction model developed by Engel-Granger and Johansen, the research was examined using Granger causality analysis. The application's findings indicated that exports and economic development in the research nations had a co-integration connection.

The growth theories based on exports to Turkey, Greece, Ireland, Mexico, and Portugal were examined by Hatemi-J and Irandoust in 2000. They used the research approach developed by Toda and Yamamoto. The application revealed no export-output causal association for Greece and Turkey, but it did identify an export-to-growth relationship for Ireland and Mexico, as well as an export-to-growth tie for Portugal.

By using a vector autoregressive (VAR) model, Zang and Baimbridge (2012) examined the connection between export-import and economic development in South Korea and Japan. The empirical analysis's findings led to the conclusion that each country's exports and economic growth are causally related in both directions.

Using an ARDL linkage test, Kesgingöz and Karamelikli (2015) examined the effects of international trade, energy consumption, and economic development on Turkey's CO_2 emissions during the years 1960 to 2011. The test findings showed that there is a long-term connection between growth and international commerce. Long-term environmental contamination has increased due to foreign commerce, energy use, and economic expansion.

3.2.Research Method

In terms of the results of econometric analysis, it depends on the reliability of the data used in the analysis. For this reason, the quality of the data used in econometric analyses is vital for the analyses to yield accurate results. In econometric analysis, Three different analyses are used: cross-section, time series, and panel data analysis. Panel data analysis consists of a combination of time series and cross-section series. Panel data are formed in the values of cross-section units over time. However, the same economic unit is followed throughout the sampling period.

In this study, dynamic panel data methods are used. Panel data analysis allows the creation of a data set consisting of t-time and k variables for n cross-sections (countries), thus enabling us to see unit and time effects together. Panel data analysis method; It consists of observing cross-sectional units such as individuals, regions, or countries in a determined period.

The time series used in the analysis includes the data collected in multiple periods for a single unit (Stock and Watson, 2011). Time series is "an index of values taken by any variable in a certain period." Time series data can be published daily and annually (Gujarati and Porter, 2009, 22).

Cross-sectional data, on the other hand, consists of data collected from a defined point in the period and different units (firms, consumers, countries, etc.). The relationship between the variables can be analyzed by aiming to examine the differences between cross-sectional data and units. In cases where working with only time series or cross-section data is insufficient, the panel data technique allows working with both types. A panel data set is formed by combining data from different units such as individuals, companies, and countries with time series belonging to daily, monthly, or annual periods.

3.3.Panel Data Approach

Panel data is a group of repeated observations for a group of individuals over several periods, as they combine features of cross-sectional data and time-series data simultaneously. Cross-sectional data describes the behavior of a set of cross-sectional units (companies or countries) in a single period. At the same time, time-series data

examines a single unit's behavior over time. Using panel data here is important because it contains basic information about temporal dynamics and multiple units. If the observations of the units over all periods are known, it is called a "balanced panel." However, if the period differs from unit to unit, it is called an "unbalanced panel" (Dielman, 1989).

Before moving on to unbalanced panel data, focusing on panel data models would be appropriate. Panel data regression differs from normal time series or cross-section regression because the variables have two dimensions. A panel data model is given in implicit notation.

$$y_{it} = \alpha + x'_{it}\beta + u_{it} \qquad i = 1, ..., N; \; t = 1, ..., T$$

The index i is used to denoting units such as households, individuals, firms, countries, etc., and t is used to denote time. Thus, i denotes the cross-section dimension, while t denotes the time series dimension. α is a scalar, $K \times 1$ dimensional, and x´it, K one independent variable i. represents the observation. For errors (residuals) in many panel data model applications

It uses a one-way error component model denoted by $u_{it} = \mu_i + v_{it}$. Here, μ_i denotes unobservable unit effect, and v_{it} denotes disturbance residues (error term) (Baltagi, 2005).

Advantages and disadvantages of panel data

• Forecasting based on panel data has significant advantages. It gives more precise results as it considers information about the time dimension in the time series and the cross-section size in different units. Therefore, it can be said that panel data has two dimensions, a time dimension and a unit dimension (Green, 2003). Panel data has the following advantages as it makes field research in econometrics more efficient and active (Peracchi, 2001):

• Considering the impact of invisible characteristics of units on their behavior, such as the impact of countries' social, political, or religious characteristics on economic performance. This means that the two-dimensional panel data considers the behavior of units over time.

• Panel data allow the researcher to examine differences in behavior among individuals (units). Thus, the data being two-dimensional means that it has more available information than the unit or time; in this case, higher reliability estimates can be obtained with the increase in the number of observations, and the correlation (multilinearity) problem between the variables may be less severe than the time series data.

• With panel data, more degrees of freedom and more efficient parameter estimations are obtained, which positively affects the precision of the estimators.

• Panel data models allow the investigation of problems that cannot be investigated using cross-section data or time series to help prevent the problem of "varying variance" when cross-sectional data is used to estimate standard models, unlike macroeconomic time series. The importance of using panel data emerges as one of the important reasons for the unstable homogeneity of cross-sectional data is the removal of relatively stable information from individual units. Hence, it takes into account inconsistency, whether cross-section or time series.

Admittedly, longitudinal data is more complex than purely cross-sectional or time-series data and therefore has a downside to working with such data. The most crucial disadvantage is the difficulty in designing the sampling plan to reduce the problem of subjects leaving the study before completion (Frees, 2004). In addition, accessing and editing panel data is one of the most important problems encountered in panel data studies.

3.4. Data Set And Model

This thesis examines how foreign trade affects economic growth in 11 Middle Eastern and North African nations (Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Morocco, Oman, Saudi Arabia, Tunisia, and the United Arab Emirates). Specifically, this research will examine how trade openness, import, and export influence and interact with GDP growth.

The World Data Bank information Indicators were used to gather annual information from 2000 through 2020. Due to the data availability for all variables during this time, the researcher selected this period. The study will use the following

variables: Economic growth, measured by yearly gross domestic product (GDP) increase, is the dependent variable. Foreign direct investment (FDI), oil income (% of GDP) based on the international price denominated in US dollars, gross fixed capital creation (% of GDP), the labor force (LAB), and foreign trade volume (% of GDP) are some of the independent variables in the research. The World Bank (WDB, 2021) provided the information for this.

We included a multivariate regression analysis for MENA nations in our study. To conduct an empirical investigation of the connection between global commerce and economic growth, it is necessary to estimate the stochastic Cobb-Douglas production function as follows:

$$(1) \ GDP = AK^{\alpha_i} L^{\alpha_2} FDI^{\alpha_3} \ OIL^{\alpha_4} TRA^{\alpha_5} Z^{\alpha_j} e^u$$

Where the dependent variable (GDP) denotes the real gross domestic product (GDP), and the independent variable K is the capital input, L represents labor force (LAB), e^u multiplicative disturbance term.

Equation (1) is a multiplicative exponential function. In logarithmic form, it is linear and estimable:

$$(2) \ GDP_t = \beta_0 + \beta_1 \ K + \beta_2 \ LOGL + \beta_3 \ OIL + \beta_4 \ LOGTRA + \beta_5 \ FDI + u$$

These independent variables are included in the model as possible determinants of economic growth in MENA countries. The analysis was conducted using panel data covering the period 2000-2020. The following flexible form of the relationship in question was adopted:

$$(3) \ \Delta GDP_t = \beta_0 + \beta_1 \ \Delta K \ it + \beta_2 \ \Delta LOG L \ it + \beta_3 \ \Delta OIL \ it + \beta_4 \ \Delta TRA \ it + \Delta \beta_5 \ FDI_t + u \ it$$

where the subscript i (=1, 2, …, N) is the cross-section dimension that represents the MENA countries, and the subscript t (=1, 2, …, T) is the time-series dimension that represents years. The residuals follow a one-way error component consisting of time-invariant country effects and the random error term, $u_{it} = \mu_i + v_{it}$

3.5. Results

In this study, annual growth in gross domestic product (GDP) was adopted as an alternative estimate of economic growth (GDP), which is the dependent variable for the study. The study's independent variables include foreign direct investment (FDI) and oil revenue (OIL). K is capital input (CAP), and L stands for labor input (LAB) and foreign trade (TRA). The International Data Bank provides data on GDP, foreign direct investment, imports, and export (WDB, 2021).

3.5.1. Descriptive Test Statistics

Table 2: Descriptive Test Statistics for Variables

Variables	Mean	Standard Error	Minimum	Maximum
GDP	3.63	5.66	-36.56	53.38
Trade	89.24	36.09	30.24	191.87
Labor	0.95	0.86	0.31	3.09
Capital	23.57	6.98	2.9	43.07
Oil rent	18.50	16.13	0.00	65.15
FDI	2.66	3.28	-4.54	23.53

Table 1 presents descriptive statistics for the variables; Economic growth rate is a dependent variable, representing the economic growth of the countries of the group. There are five main independent variables: foreign direct investment, labor force, capital, foreign trade, and oil rent revenues. The results show in Table 2 the values of each arithmetic mean, standard deviation, minimum and maximum values for the Middle East and North Africa group of countries.

3.5.2. Cross-Sectional Dependence Tests

Panel data can be subject to pervasive cross-sectional dependence, whereby all units in the same cross-section are correlated. This is usually attributed to the effect of some unobserved common factors, common to all units and affecting each of them, although possibly in different ways.

To determine the relationship between the dependent variable, which is the GDP of MENA countries, and the independent variables, which are foreign direct investment, labor force, capital, foreign trade, and oil rent revenues, it is essential first to establish a correlation between units for the countries that make up the panel data.

To ensure this, the researcher conducted a cross-sectional dependence analysis, where according to this analysis, the researcher will verify whether the shock that affects the chain affects all cross-sections in the chain with the same force.

The researcher carried out three different tests for cross-section dependence. These are i) the Breusch and Pagan (1980) LM test; ii) the Pesaran, Ullah, and Yamagata (2008) bias-adjusted LM test; iii) the Pesaran (2004) is in the form of CD test, where T, which represents the number of observations in the period, and p is a significant value of the test, which is 5% significance level, as shown in Table 2.

Table 3: Test Results of Cross-Section Dependence

Test	t-Statistic	P Value
LM	94.6	0.0007
LM adj	5.49	0.0000
LM cd	3.99	0.0001

Based on the results shown in Table 3, it can be noticed that according to the LM test, the null hypothesis stating that there is no cross-sectional dependence in 11 MENA countries is rejected. This result can be evaluated as there is cross-sectional dependence among the panel units. Table 2 also shows the outcomes of the LM adj and LM cd test statistics and probability values. The H0 hypothesis, which represents " no correlation between the units, " has been tested. Because the p-values are lower than 0.05, the "H0 hypothesis is rejected", and it was induced that there is a correlation among the countries for all t.

3.5.3. Heterogeneity Test

Before performing the unit root test, we must study the slope homogeneity of our model using the Pesaran and Yamagata (2008) test, an updated version of the Swamy Test (Swamy S) that provides more robust and reliable results. The test results are represented in Table 3. Homogeneity analysis combines maximizing the correlations between variables of a multivariate data set with that of optimal scaling. A different test, called the homogeneity test, can be used to infer whether two-time series have the same distribution.

Table 4: Heterogeneity Test Results

Test Statistic		Probability Value
LM	2.309	0.021**
LM adj	2.864	0.004**

Although the countries of the Middle East and North Africa are related to each other in many aspects, there are some differences between these countries. These countries differ in several macroeconomic aggregates, including per capita and shares of renewable energy consumption, and the level of trade.

The slope smoothing test was used for Pesaran and Yamagata in this study. This method involves estimating two test statistics (Δ and adj.) under the null hypothesis for homogeneous regression coefficients across units of cross-section. The results obtained in Table 4 show that at a significance level of 1%, the null hypothesis is rejected, confirming the existence of slope heterogeneity problems in the data.

3.5.4. Unit Root Test Result

Table 5: Unit Root Test

	Specification without trend		Specification with trend	
	Zt-bar	p-value	Zt-bar	p-value
GDP	-3.48	0.00	-3.05	0.00
TRA	-2.35	0.00	-1.37	0.08
K	1.37	0.91	-0.17	0.43

Δ K	1.37	0.00	-0.17	0.00
Oil	-1.18	0.11	0.51	0.69
Δ Oil	-1.18	0.00	0.51	0.00
FDI	-4.46	0.00	-4.46	0.00
Log L	-1.97	0.02	-1.43	0.50
Δ Log L	-1.97	0.03	-1.43	0.07

Table 4 shows the unit root tests according to the second generation; Pesaran (2007) 2nd Generation Panel Unit Root test (CIPS). In comparison, the second generation allows to rely on the cross-section. According to second-generation unit root tests, the annual growth in gross domestic product, the dependent variable, is stationary at level 1 (0).

The tests also showed that among the independent variables, only the foreign direct investment variable is stationary at level 1 (0), while the independent variables, which are Oil rents (% of GDP), Gross fixed capital formation (% of GDP), log Labor force and The trade (% of GDP), is stationary at the first difference, i.e., level 1 (1). The results do not show a difference with or without a trend. Ideally, the second-generation unit root test is implemented with no lag times. Pesaran's (2007) CIPS unit root results lead to applying the Westerlund Error Correction Model panel cointegration test and Fmols test.

3.5.5. Westerlund Error Correction Model panel

Statistics	Value	Z-value	P-value
G_t	-5.945	-11.482	0.000
G_a	-0.770	5.715	1.000
P_t	-10.635	-2.558	0.005
P_a	-1.000	4.106	1.000

Table 6: Cointegration Test
Notes: * indicates cointegration at the significance level of 1%.

The results of the panel cointegration test developed by Westerlund (2007) for all country groups are given in Table 6. According to these test results, which consider the cross-sectional dependence, there is no cointegration according to the Ga and Pa statistics null hypothesis.

The Westerlund test statistics test the null hypothesis of no cointegration and have several advantages, including using smoothing to preprocess depending on the cross-section. There are four panels.

Cointegration tests proposed by Westerlund consist of two sets of alternative hypotheses: (1) medium test set (Gt and Ga) and (2) panel tests (Pt and Pa). The main difference between the two sets of alternative hypotheses depends on how they treat equality in error. Correction term across board modules: Group mean tests do not assume equal error correction, while board tests assume that the error correction term is equal for all modules.

The results show that the Gt and Pt tests support the long-term relationship between the variables.

3.5.6. FMOLS Long run coef Test Results

Through the results reached by the researcher in the FMOLS test in Table 6, it is clear that there is a long-term positive relationship between trade and oil rents, as well

as employment, foreign direct investment, and GDP, at the level of statistical significance. At 1%, while the results showed a long-term relationship between capital variables and GDP, this relationship is not statistically significant. We also find that all the independent variables have a positive effect on the dependent variable, i.e., trade, foreign direct investment, labor, capital, and oil imports, according to the following equation:

$$LOGGDP = 0.253 LOG \text{ TRA} + 0.276 \text{Log FDI} + 0.176 \text{Log}$$
$$\text{AK} + 0.347 \text{Log L} + 0.252 \text{Log OIL}$$

Through the results obtained, which proved the existence of a long-term relationship between the independent variables and the dependent variable, we can say that enhancing foreign trade in terms of exports and importing basic materials in the country's industries enhances economic growth, as the results show that enhancing trade through which goods and services are bought and sold Between the countries of the Middle East and North Africa with each other and with other countries will allow countries to expand their markets. The international circulation of goods and services also facilitates access to goods and products that are not available locally in the countries of the Middle East and North Africa, especially technical products, technology, and advanced industries, as trade openness will allow these countries to enhance industrial capacity and thus achieve economic growth by benefiting from the competitive advantages that It can be achieved by foreign trade, which may contribute to achieving more competitive prices and more diversified products for consumers., Also, according to the results obtained, the long-term positive relationship between foreign direct investment and economic growth makes it necessary for the Middle East and North African countries to amend investment laws, encourage the entry of foreign capital, and increase tax exemption to encourage foreign investment. We also find a relationship between employment And economic growth according to the production function, as trained and qualified labor stimulates economic growth and is positively reflected in the success and growth of companies and increases their competitiveness. The study's results also showed a positive relationship between capital and economic growth, but this relationship is not statistically significant. Therefore, it is necessary to stimulate capital growth in the Middle East and North African countries and conduct

other studies on the relationship of capital to economic growth in different periods in the Middle East and North Africa to reach more accurate results.

Table 7. The FMOLS estimation results

Countries	Coef.	Std.Err.	z	P>|z|	[95% Conf.	Interval]
Trade	0.216367	0.0060298	3.55	0.000	0.0097008	0.335725
Capital	0.0610737	0.1049707	-0.58	0.561	0.2668126	0.1446651
Oil rent	0.1895936	0.0802089	2.36	0.018	0.032387	0.3468002
FDI	0.2211934	0.1208045	1.83	0.067	-0.015579	0.4579659
Labor	0.2169291	9.785922	2.22	0.027	2.5121858	40.87297

The results of Table No. 7 showed that the relationship between capital and economic growth is positive, but it is not statistically significant. The results also showed that an increase in foreign trade by 1% leads to an increase in the gross domestic product of the Middle East and North Africa by 0.21% and an increase in foreign direct investment by 1% %. It leads to a 0.22% increase in GDP, a 1% increase in oil rents, a 0.18% increase in GDP, and a 1% increase in work leads to a 0.21% increase in GDP.

CONCLUSION AND RECOMMENDATIONS

- **Conclusion**

The Middle East and North Africa (MENA) countries follow strict trade policies, especially the non-oil countries, as the gross domestic product of most of these countries is weak. They cannot compete in the industrial and commercial markets, in addition to the laws that limit the ability of these countries to open trade in a way that enhances economic growth.

Additionally, the MENA region's expectations for current transactions and state financial balances declined. Due to poor oil export income and a decline in public financial receipts, the region's current and budget balances are predicted to record in 2020 -4.8% and -10.1% of GDP, respectively. These projections are significantly worse than those made in October 2019—the costs involved in responding to and fighting the epidemic. According to projections, public debt will rise over the coming years, from around 45% of GDP in 2019 to 58% in 2022. Particularly in non-oil nations, the Middle East and North Africa are among those with poor rates of economic development. This is due to several issues, including both internal and external ones. Internal factors include the insufficient utilization of these nations' economic resources, such as labor and capital. In contrast, external ones include the insufficient influx of direct foreign capital and dependency on certain Countries' sole reliance on oil revenues has largely resulted in weak production and trade with other nations, as the average trade-to-GDP ratio in the region as a whole reached 19 percent, but only 11 percent in non-oil producing nations, as opposed to a ratio of about 25 percent in developing nations.

In 2020, 5.3% of all imports and 6% of all exports came from the Middle East and North Africa (MENA) area. Due to the volatility of their export profits, which is a result of the high concentration of their exports in primary commodities and oil, the Middle East and North African nations are particularly susceptible to significant swings in terms of trade. There is a knowledge gap in the study of the association between international trade (exports and imports) and the growth of the economy in the Middle East and North Africa region between 2000 and 2020, as demonstrated by the contradictory results from earlier studies such as (Gries, Thomas & Redlin,

Margarete,2012; Dritsaki, C. & Stiakakis, E. 2014). This study investigates the relationship between international trade and economic growth in 11 Middle Eastern nations (Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Morocco, Oman, Saudi Arabia, Tunisia, and the United Arab Emirates), the researcher conducted this study. The researcher used cross-sectional dependency tests, heterogeneity testing, unit root test findings, Westerlund ECM panel cointegration tests, and fmols long run coef tests to accomplish the study's objective.

The study found that, with a statistical significance of 1%, there is a long-term positive relationship between trade and oil rents, employment, foreign direct investment, and GDP. However, the results also revealed a long-term relationship between the capital variable and GDP, which is not statistically significant at 1%. We also discover that the labor force, capital, foreign commerce, foreign direct investment, and oil rental revenues all contribute positively to the economic development of the Middle Eastern and North African nations. The researcher's findings demonstrate the significance of opening up international trade in the Middle East and North Africa, as well as the significance of variable foreign direct investment and the necessity of encouraging the establishment of investment projects and reaping the benefits of foreign capital, particularly in the establishment of projects necessary for the Middle Eastern countries to support economic growth and increase their capacity to do so. The research also demonstrated the need to utilize oil earnings to achieve economic growth and efficiently and effectively use the labor force. This study's findings align with several other studies, including Suleiman's study from 2012, which came to the conclusion that there is a positive relationship between foreign trade and economic growth. However, this study differs from Suleiman's because it did not discover a statistically significant relationship between foreign direct investment and economic growth variables. The findings of this study are similar to those of Bolazi's (2012) study in that there is a statistically significant relationship between foreign trade and economic growth in Middle Eastern and North African countries. Still, they differ from Bolazi's study in that it only looked at the relationship between foreign trade and economic growth and ignored other factors like foreign direct investment, capital, labor, and oil revenues. The findings of this study concur with those of a study published in 2019 by Nahed Al-Zoghidi, titled The Relationship between Foreign

Trade, Economic Growth, and FDI in MENA Countries over the Period 1999-2012. The autoregressive approach and the error correction model were employed in this investigation. The autoregressive approach and the error correction model were employed in this investigation. According to the study's findings, economic growth, international trade, and foreign direct investment are all positively correlated over the long run.

The Relationship between Economic Growth, Foreign Trade, and Foreign Investment, conducted by researchers Stephen Taiwo Onifad, Morat Kanitez, and others for the year 2022, differs from the results of this study in that it used the same methodology, panel data analysis with fully modified normal least squares (FMOLS) and dynamic normal least squares. It concluded that during the research period, trade openness had a negative impact on economic growth.

- **Recommendations**

Based on the findings of this study, the researcher recommends the following:

The countries of the Middle East and North Africa must follow a more open trade policy in terms of supporting exports, facilitating the import of means of production and the necessary raw materials, reducing taxes, and granting customs exemptions on some imports, in addition to the need to sign trade cooperation agreements with other regional or global countries to enhance trade and move the financial markets, for the interests of this country.

It is necessary for the countries of the Middle East and North Africa to take advantage of the outcome factors, distribute human and material resources, and employ capital optimally in a way that contributes to enhancing the outputs of the production process, contributes to providing job opportunities, supporting export operations, and thus achieving sustainable economic growth. The Middle East and North African countries must encourage the inflow of direct foreign capital to ensure the benefit of technology, the promotion of production, and the establishment of investment projects that these countries need, such as large production projects and investments in raw materials.

The need to benefit from oil revenues in oil countries such as the Emirates, Bahrain, Saudi Arabia, and others to enhance the growth of other sectors such as agriculture and industry and contribute to transferring the economy of these countries to a diversified economy and achieving the required growth. This study was based on the panel data analysis and relied on time series data for 11 countries between 2000 and 2020, as the results it reached are of importance. Still, to generalize these results, many other researches must be conducted in other countries and during a different time period.

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