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Department of Economics and Finance

IMPACT OF FINANCIAL DEVELOPMENT, FOREIGN DIRECT INVESTMENT AND FOREIGN TRADE ON THE ECONOMIC GROWTH: CASE STUDY OF LIBYA (1990-2020)

Master Thesis

SALIH MAJDI ISHDOUQ

Supervisor

Asst. Prof. Dr. Şükran KAHVECİ

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DECLARATION

I hereby declare that in the preparation of this thesis, scientific ethical rules have been followed, the works of other persons have been referenced in accordance with the scientific norms if used, there is no falsification in the used data, any part of the thesis has not been submitted to this university or any other university as another thesis.

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Director _____

Assoc. Prof. Dr. Asiye TUTUNCU

Member _____

Asst. Prof. Dr. Sukran KAHVECI

(Supervisor)

Member _____

Asst. Prof. Dr. Onur CELIK

APPROVAL

I approve that the signatures above signatures belong to the aforementioned faculty members.

... / ... / 20..

Prof. Dr. Izzet GUMUS

Director of the Institute

SUMMARY

The acceleration of globalization and technological diffusion has greatly helped the increase in foreign investments and the growth of trade exchange between countries around the world. However, while some countries integrated into the global economy faster than others, unfortunately, Libya was not among the countries with a developed financial system and a large trade share. Many studies have shown that foreign direct investments can solve financial problems at national and regional levels, such as lack of financial resources, and play an important role in transferring production technology and know-how to underdeveloped countries. However, the insufficient investments coming into Libya's economy have made it difficult for the country to gain a place in the global economy.

This thesis study investigated the financial development level in the Libyan economy, foreign direct investment inflows, and the effects of international trade on economic growth for the period 1990–2020 through time series analysis. The empirical model included GDP per capita as the economic size variable, and used the ratio of trade volume to GDP, the share of net foreign direct investment inflows in GDP, and the financial globalization index as explanatory variables. The study used ARDL cointegration analysis as a method, and the empirical findings determined the existence of a cointegration relationship between the variables.

This study revealed that there is a long-term co-integration relationship between the level of economic growth in Libya and the level of international trade, foreign direct investments, and financial globalization in the period 1990–2020. Furthermore, according to the results of the applied error correction model, the error correction coefficient is negative and statistically significant, confirming that there is a long-term relationship between the variables. It has been determined that the long-term coefficients of the explanatory variables are statistically significant, and while the effect of international trade on economic growth is positive in the long run, the effect of financial development and direct foreign investments on economic growth is negative.

Key Words: financial development, foreign trade, economic growth, and FDI.

ÖZET

Küreselleşmenin hız kazanması ve teknolojik yayılma, yabancı yatırımların artışına ve dünya ülkeleri arasındaki ticaret alışverişinin büyümesine büyük ölçüde yardımcı oldu. Ancak bazı ülkeler küresel ekonomiye diğerlerinden daha hızlı entegre olurken ne yazık ki Libya gelişmiş finansal sisteme ve büyük ticaret payına sahip ülkeler arasında yer alamamıştır. Pek çok çalışma doğrudan yabancı yatırımların mali kaynak eksikliği gibi ulusal ve bölgesel düzeydeki mali sorunları çözebileceğini ve az gelişmiş ülkelere üretim teknoloji ve bilgi biriki aktarmada önemli rol oynadığını göstermiştir. Ancak Libya ekonomisine gelen yatırımların yetersiz oluşu ülkenin küresel ekonomide yer edinmesini güçleştirmiştir.

Bu tez çalışması, 1990-2020 dönemi için Libya ekonomisinde finansal gelişmişlik düzeyi, doğrudan yabancı yatırım girişleri ve uluslararası ticaretin ekonomik büyümeye etkileri zaman serizi analizi ile araştırılmıştır. Bu doğrultuda Amprik modelde ekonomik büyüklük değişkeni olarak kişi başına düşen GSYH'ye yer verilirken açıklayıcı değişken olarak ticaret hacminin GSYH'ye oranı, net doğrudan yabancı yatırım girişlerinin GSYH içerisindeki payı ve finansal küreselleşme endeksinden yararlanılmıştır. Çalışmada yöntem olarak ARDL eş bütünleşme azalizinden yararlanılmış olup ampirik bulgularda değişkenler arasında eş bütünleşme ilişkisinin varlığı tespit edilmiştir.

Bu çalışma, 1990-2020 döneminde Libya'nın ekonomik büyüme düzeyi ile Uluslararası ticaret, doğrudan yabancı yatırımlar ve finansal küreselleşme düzeyi arasında uzun vadeli bir eş-bütünleşme ilişkisi olduğunu ortaya koymuştur. Ayrıca uygulanan hata düzeltme modeli sonuçlarına göre, modelin hata düzeltme katsayısı negatif ve istatistiki olarak anlamlı olup değişkenler arasında uzun dönem ilişkinin vardığını doğrulamaktadır. Açıklayıcı değişkenlere ait uzun dönem katsayıları istatistiki olarak anlamlı olduğu ve ulusararası ticaretin uzun dönemde ekonomik büyümeye etkisi pozitif iken finansal gelişmişlik ve doğruran yabancı yatırımların ekonomik büyümeye etkisinin negatif olduğu tespit edilmiştir.

Anahtar Kelimeler: finansal gelişme, dış ticaret, ekonomik büyüme ve DYY

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ABBREVIATIONS

FDI	**:**	Foreign Direct Investment
GDP	**:**	Gross Domestic Product
MNCs	**:**	Multinational Companies
OECD	**:**	Organization for Economic Cooperation and Development
WTO	**:**	World Trade Organization
ADF	**:**	Augmented Dickey-Fuller
PP	**:**	Phillips-Pyron test
FD	**:**	Financial Development

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CHAPTER ONE

INTRODUCTION

1.1. Background of The Study

Throughout history, people have engaged in trade, production, and consumption in foreign territories. Before 1914, foreign capital was only present in European countries, but after 1914, foreign capital flows in the world decreased until 1920. However, starting in 1920, it began to increase again and moved towards the developed regions of America. However, the global economic crisis of 1929 had a negative impact on foreign capital inflows, and this economic crisis also harmed existing foreign capital through the realization of foreign capital (Edwards 2014, 62-67).

After World War II, as a result of economic integration, the concept of foreign direct investment (FDI) came to the fore instead of the concept of portfolio investment. After the 1950s, countries began to view foreign direct investment as an important tool for economic growth as well as foreign trade. If we look at the data published by UNCTAD, we can clearly see the importance of this. The volume of foreign direct investment in the world increased from $13.257 billion in the 1970s to $1.762 trillion in 2015 (Osabuohien-Irabor and, Drapkin 2022).

With the rise in the level of knowledge and competition, the phenomenon of globalization in the world is gaining increasing strength. With the liberalization of capital movement, the development of technology, the decline in communication and transportation costs, and the increase in foreign direct investment, the exchange of goods and services between countries has increased.

On the other hand, despite the amount of resources available for investment in the country, there are problems such as the insufficient level of knowledge and technology, the inability to reach the required level of capital, and the inability to employ a workforce that can work, which are the most important problems for developing countries. From this standpoint, foreign direct investments can meet the needs of the country in which the investment will be made, whether in obtaining the necessary technology or in creating a business environment. Initially, there were

negative reactions to foreign direct investments in the 1960s, both in developed and developing countries; Especially after the 1990s, the importance of foreign direct investments in the global economy increased rapidly (Edwards. 2014, 68-69). Developments related to foreign direct investment in Libya and the liberalization of trade, in addition to the strengthening of banking and financial work, began after the oil discoveries in the 1980s and 1990s. However, the general economic instability that occurred as a result of the negative effects of the strategies and practices that were implemented greatly affected the level of foreign direct investment.

Many studies have examined the relationship between economic growth and foreign trade, using appropriate analytical methods to determine whether increasing exports in the country's economies contributes to economic growth by influencing production technology, workforce quality, and the countries' competitive administrative structure. However, studies addressing all of these variables are limited. In this context, the main purpose of this study is to study the impact of foreign direct investment and economic development through production and foreign trade in Libya on economic growth between 1990 and 2020. In order to achieve this goal, the relationships between the selected variables will be analyzed empirically. However, due to data limitations, this study can only be conducted at the aggregate level (Lutfi A, Ashraf M, Watto WA, et al. 2022), and what the country needs to reach the required level (Asiedu, and Lien, 2011).

Currently, Libya's focus is on attracting foreign direct investment and trade liberalization. Therefore, this study aims to identify the impact of international trade, foreign direct investment, and financial development on economic growth in Libya.

The following study questions build on this research and aim to examine short- and long-term quantitative data in order to illustrate the importance of foreign direct investment, international trade, and financial development in economic growth in Libya.

How will FDI and international trade affect Libya's economic development?

H1: Foreign direct investment has a positive impact on economic growth.

H2: Foreign trade has a positive impact on economic growth.

H3: The progress of the financial system has a negative impact on economic growth.

1.2. Problem Statement

Foreign direct investment and foreign trade may help increase economic growth in developed and developing countries, where the more developed financial system also contributes positively to the process of attracting foreign direct investment and developing trade exchanges with different countries, which leads to the growth of the country's gross domestic product and thus achieving economic growth.

On the other hand, it can be said that the rapid growth of globalization and technological diffusion helped greatly in attracting foreign investments and the growth of trade exchange between the countries of the world, but some countries integrated into the global economy faster than others, unfortunately Libya was not one of the countries in which trade exchanges developed. And the financial system, which led to the weakness of foreign direct investment in general, in addition to that, many studies concluded that the influx of foreign direct investment could solve financial problems at the national and regional levels, such as lack of financial resources, technology and skills. In this way, they act as an alternative source of poverty reduction and economic growth.

Based on what has been mentioned, the researcher will try in this study to answer the following question related to the research problem:

Is there an impact of the development of the financial system, foreign direct investment and foreign trade on economic growth in Libya between 1990 and 2020?

1.3. Objective of The Study

This study mainly aims to explore the relationship between economic growth with both foreign trade and foreign direct investment and the development of the financial system in Libya between 1990 and 2020. In addition, this study will seek to explain the theoretical concepts of the study and provide useful recommendations for decision-makers in Libya as well as researchers in Libya and other countries.

1.4. Significance of The Study

There is a variety of empirical studies on the relationship between economic growth, foreign direct investment, foreign trade, and the evolution of the financial system in both developing and developed countries. Where the relationship between

these variables is examined by looking at the determinants of growth and foreign direct investment, the role of multinational companies, and the causal relationship between foreign trade and growth. The lack of a general consensus on the relationship between foreign direct investment, foreign trade and the development of the financial system with economic growth in Libya prompted the researcher to conduct this study.

1.5. Overview of Chapters

The study consists of five chapters. In the first chapter; the background of the study problem statement, the study's objective, the significance of the study scope and the limitations of the study were presented. In chapter two the theoretical and conceptual framework for the study was presented including the main concepts and historical development of financial development, foreign direct investments and foreign trade and the historical development of financial development, foreign direct investments and foreign trade in Libya, besides contributions of these variables to economic growth.

In the third chapter of this study, the literature review of the study was presented including the relationship between economic growth and foreign trade, financial development, foreign direct investments and foreign trade.

In the fourth chapter the methodology of the study was presented in terms of data, the method of collecting it, the design of the study, as well as the presentation of the results.

In the fifth chapter, the general results obtained because of the study and the recommendations are presented.

CHAPTER TWO

THEORETICAL FRAMEWORK

2.1. Financial Development

2.1.1. Definition, Characteristics and Functions of Financial Development

Financial development is a critical and inextricable part of economic development: funding of entrepreneurial activity and innovation is generally seen as the key link between finance and growth. The financial sector encompasses a range of institutions, markets, instruments, and legal frameworks that enable credit transactions. The primary objective of financial sector development is to address the various costs associated with the financial system. By reducing the expenses related to acquiring information, enforcing contracts, and conducting transactions, financial contracts, markets, and intermediaries have emerged. These entities vary across countries and time periods due to the different combinations of information, enforcement, and transaction costs, as well as legal, Essentially, the development of the financial sector revolves around addressing the expenses associated with the financial system. By minimizing the costs involved in obtaining information, enforcing contracts, and conducting transactions, the financial sector has witnessed the rise of financial contracts, markets, and intermediaries.

The functions of the financial system include reducing risks, allocating resources, providing information about investments, monitoring managers and exercising control over companies, mobilizing savings, and facilitating trade in goods and services. The financial system gets rid of the problem of asymmetric information, which prevents the efficient distribution of funds in markets and thus directing savings to optimal investments. In this way, it ensures efficiency in resource distribution and capital accumulation. Increased long-term investments coupled with technological innovation are accelerating economic growth. Financial development is defined as a process that demonstrates improvements in the quantity, quality and efficiency of financial intermediation services. This process involves the interaction of many institutions and activities with each other (Abu Badr and Abu Qarn, 2009: 890).

Finance facilitates trade and has always played an important role in determining living standards. Therefore, governments have consistently played a role in shaping financial systems, striving to influence their size and efficiency. Moreover, financial systems are not only developing at the national level, but also within a multinational structure, interdependent with each other. The activities that take place within the financial system have a direct impact on individual income, producer and consumer behavior, and economic performance as a whole. However, the success of the financial system, which is the center of the money transfer process, is undoubtedly directly related to the stability of the overall economy and other sub-systems (Agenor, 2003).

The view that stresses the importance of the financial system explains poverty with the lack of financial institutions and banks. The existence of an effective credit network saves those in need of funds from the usury system and supports the transfer of surplus funds into productive investments. In addition, according to this point of view, the globalization of financial markets eliminates a sharp division between the rich and the poor country and enables those with financial knowledge to seize development opportunities. Money flows into a wide range of sectors in these countries, covering both rich and poor countries. This situation increases the meaning ascribed to the potential impact of money flows on economic growth. We can say that no sector has benefited as much as it has benefited from the financing of the new international order that began with the fall of the Berlin Wall and the end of the Cold War. In both developed and developing countries, finance has been the fastest growing area of the entire economic system (Öztürk, 2008, 85-98).

2.1.2. Factors Affecting Financial Development

There are many factors that affect the development of the financial system in a particular country. These factors can be classified as follows: (Al-Yousif, 2002, 131-150).

Technological factors: These factors indicate the extent of development of the concept and tools of the financial technology system in a particular country. The concept of financial technology within the framework of the financial system is usually referred to as technological innovation. Technological innovation is affected by several

factors, most notably: technology, research and development, and innovation strategy. What must be noted is that this type of innovation is achieved through the availability of a number of sources, including: unexpected events, financial transaction requirements, changes in the industry or in the market, population changes, and new knowledge.

Economic factors are variables that affect the general economy, as well as individuals, companies, and the financial system in general. It is also created by collecting and compiling data from various sectors of the economy. Most important for investors is that factors can be measured and tracked over time, providing opportunities to identify the underlying trends in the movement of money flows.

Social and cultural factors are factors related to the relationship of individuals with each other in mutual culture and the degree of its impact on the financial system.

Political factors refer to the political system in the country, the degree of political stability, the country's external relationship, and the exchange of information, which facilitates the development of the financial system and its relationship with the financial systems of other countries.

2.1.3. Indicators Used to Measure Financial Development

In the literature, different indicators related to the level of development of the financial system have been suggested. Financial sector development indicators cover credit intermediation, liquidity management and risk management features of the financial system. In addition to these, it is necessary to consider the financial pricing mechanisms, which include the development of the financial system, price determination and price flexibility aspects. It is possible to examine financial development indicators in five categories: quantity criteria, structural criteria, financial prices, product range and exchange costs (Gui-Diby ,2014).

-Quantity Criteria

Quantitative indicators based on money and credit are considered as traditional measures of financial development. In this context, money supply, credit utilization and capital market elements are considered as quantity criteria. As the simplest

indicator, money supply expresses the Money Supply/Gross Domestic Product ratio, which measures the degree of monetization in the economy. It is known that there is a positive relationship between the development of the financial sector in a country and the volume of credit. In this sense, secondly, the ratio of total loans given to the private sector to Gross Domestic Product (GDP) is used to determine the level of financial development. In addition to these criteria, quantitative indicators of the capital market provide information about financial development. The size of the capital market, the number of companies in the capital market and the degree of concentration of these companies in the market are considered as criteria of financial development (Dücan, & Engin ,2016).

- Structural Measures

The ratio of different money supply sizes is accepted as a development criterion as it gives information about the structure of the financial system. The ratio of different money supplies (M2/M1) within the scope of the structural criterion, the situation of deposits in the financial system and the situation in relation to the banking system shows. The increase in the money supply rate indicates that the level of deposits has increased and therefore the financial system has developed with the increasing deposit volume (Agenor, 2003).

-Financial Prices

In an advanced financial system, prices are determined by market forces. Real interest rates form financial prices and must be positive in order to express financial development. This situation is accepted because of the positive relationship between financial savings and real interest rate (Ağır, 2010, p. 94).

- Product Range

The diversity of the instruments used in the financial market and the widespread use of them are accepted as an indicator of financial development. Depending on the development of financial markets after 1990, the diversity of financial instruments has gained significant potential under the leadership of developing technology. Financial product diversity will increase savings rates and thus provide more funds. In this case,

the high level of funds obtained will be used in productive areas, which will provide positive potential for the economy (Value, Kemal & Doğanay, 2017).

- Change Costs

The main function of the financial system is to reduce the information and transaction costs that hinder economic activity. In a developed and well-functioning financial system, productivity increase will be achieved in this way. Financial systems that realize this development at the lowest cost are considered advanced. By providing a suitable competitive environment in the financial market, low brokerage costs and pricing should be done correctly. By reducing the intermediation costs in the financial market, savings will be directed to areas that will provide high returns (Value, Kemal & Doğanay, 2017, 132-144).

2.1.4. Historical Development of the Financial Development

The wave of financial innovation occurred in Amsterdam, Stockholm, and London, respectively. Founded in 1609, the Bank of Amsterdam pioneered practices such as checks, direct debits, and money transfers. However, the close to 100% ratio between deposits and reserves in this bank was an obstacle to credit creation. Later, the Bank of Stockholm, founded in 1657, removed this hurdle by pioneering the practice of fractional reserve banking. Although Holland started modern finance, its full purpose was in the eighteenth.

The Bank of England, founded in London in 1694, was essentially a bank with various privileges intended to support the country in war expenditures. With these waves of financial innovation, cashless transactions between banks, partial reserve banks, and central bank printing concessions began to spread rapidly in the Western world. Money now represents the liabilities of the banks, lending to their total assets. The main function of the institutions of this emerging modern financial system was to collect deposits and manage risks. The Bank of England played a crucial role in strengthening the British financial system, and was both a private and public institution, playing the roles of modern central banks. It provided the British financial system with a stability and financial density unparalleled in other countries (Helhel, 2018, 761-771).

In the nineteenth century Walter Bagehot, expressing the crucial role of financial intermediation in the rapid industrialization of England at the beginning of the nineteenth century, was one of the first thinkers to reveal the relationship between finance and growth. Bajhot argued that more flexible and well-informed commercial bank boards better understand the needs of commercial communities and therefore better determine when to lend and when not to. According to Baghot, the most successful railways in Europe were not built by engineers, but by capitalists with a certain mercantile culture. Bajhot also stated that the unequal political and economic influence exercised by Britain is largely linked to its developed financial system, and that in the same period, the British benefited greatly from the financial system in order to engage in large and risky trade, maintain government bureaucracies, invest in new technologies and obtain on the capital (Kakilli-Acaravcı, & Acaravcı, 2009, 11-27).

Fernand Braudel, noting that the British Industrial Revolution was linked to the process of financial transformation that began in England in 1660, endorsed the view that several private banks in London, particularly the Bank of England, played a crucial role in bringing about the Industrial Revolution by meeting. The fiduciary and monetary needs of the County of England. John Hicks stated that the Industrial Revolution is not only based on the discovery of new resources, but also on new scientific discoveries, and stated that economic growth occurs through the use of new investment opportunities created by scientific developments. As a result, the variety of securities that innovative entrepreneurs need in order to assess investment opportunities and the ease of access to these funds are on the 18th. It existed in England in the first half of the century (Öztürk, 2008, 85-98).

Has there been any financial development between the 18th century and the 21st century?

There have been significant financial developments between the 18th century and the 21st century. Here are some key developments:

1- Industrial Revolution (18th-19th centuries): This period saw the transition from predominantly agrarian economies to industrial economies, characterized by the mechanization of production, urbanization, and the rise of modern capitalism. Financial

systems began to evolve to support industrial growth, including the establishment of banks and stock exchanges.

2- Banking Systems: The 19th and early 20th centuries saw the development of modern banking systems, including central banks like the Bank of England (1694) and the Federal Reserve System (1913), which stabilized economies through monetary policy and lender-of-last-resort functions.

3- Globalization: The latter half of the 20th century and into the 21st century saw unprecedented globalization of financial markets. This involved the integration of national economies into the global economy through trade liberalization, international capital flows, and the development of multinational corporations.

4- Financial Instruments: The range and complexity of financial instruments expanded dramatically. From traditional stocks and bonds to derivatives, options, futures, and complex structured products, financial markets have become highly sophisticated.

5- Regulation and Oversight: Financial regulation evolved to manage increasingly complex markets and prevent systemic risks. Regulatory bodies like the Securities and Exchange Commission (SEC) in the United States and the Financial Conduct Authority (FCA) in the UK were established to oversee financial markets and protect investors.

6- Technological Advancements: The 21st century has witnessed the rise of financial technology (FinTech), which includes electronic trading platforms, mobile banking, cryptocurrencies, blockchain technology, and algorithmic trading. These innovations have transformed how financial services are delivered and accessed globally.

7- Financial Crises: Despite advancements, the 21st century also experienced significant financial crises, such as the dot-com bubble (2000), the global financial crisis (2007-2008), and the Eurozone crisis (2010-2012), which have shaped regulatory responses and market behaviours.

Overall, the trajectory from the 18th century to the 21st century marks a profound evolution in financial systems, institutions, instruments, and global interconnectedness, reflecting broader economic, technological, and societal changes over time.

2.1.4.1. Historical Development of Financial Development in Libya

The financial development in Libya has been influenced by historical, political, and economic factors over the centuries. Here is an overview of its key developments:

Pre-20th Century: Before the 20th century, Libya's economy was largely agrarian and pastoral, with trade routes connecting it to other parts of North Africa and the Mediterranean. The region was influenced by various civilizations, including the Phoenicians, Greeks, Romans, and Byzantines, which introduced rudimentary forms of trade and finance. Italian Colonization (early 20th century): Italy colonized Libya from 1911 to 1943. During this period, Italian authorities introduced modern infrastructure, including banks and financial institutions, to facilitate economic exploitation and governance. The Bank of Italy (Banca d'Italia) operated in Libya during this time. Post-World War II Independence: After World War II, Libya gained independence in 1951, and the Kingdom of Libya was established. The Libyan economy remained heavily dependent on agriculture and later started to benefit from oil discoveries in the 1950s. Oil Wealth and Economic Development: The discovery of oil in the 1950s transformed Libya's economy. Oil exports became the primary source of revenue, leading to rapid urbanization and industrialization. The government invested heavily in infrastructure, education, and healthcare, financed by oil revenues. Financial Institutions and Regulation: Libya established its central bank, the Central Bank of Libya (CBL), in 1956. The CBL plays a crucial role in managing monetary policy, regulating banks, and overseeing the financial sector. Commercial banks, both state-owned and private, were established to support economic development and manage oil revenues. Economic Challenges and Political Instability: Despite its oil wealth, Libya faced challenges due to economic mismanagement, corruption, and political instability. The centralized economic model reliant on oil revenues led to vulnerabilities during global oil price fluctuations. (El-Katiri, 2013)

Revolution and Civil War: The Libyan Civil War in 2011 and subsequent political instability severely disrupted the economy and financial sector. Institutions were damaged, and economic activities, including banking and finance, were disrupted. Current Situation: Since the civil war, Libya has struggled with political fragmentation and economic recovery. The financial sector continues to face challenges such as liquidity issues, weak regulatory frameworks, and the need for institutional reforms to rebuild confidence and stability. (Joffé, 2014).

The World Bank recently conducted a review of the Libyan financial sector. The review showed that even before the civil war, the Libyan financial sector was not sufficiently developed and that the current political crisis has weakened the state of financial intermediation and financial inclusion in Libya. The report indicates that:

First, two central banks are operating in the country. The Central Bank of Libya (Tripoli) is under the control of the UN-backed Government of National Accord in Tripoli. The competing central bank in Al-Bayda, eastern Libya, is under the control of the Eastern Province government. The division between these two central banks has weakened control over monetary policy, public finance policy, and the full performance of banking supervision over banks because each of these two central banks prints money and issues currency without coordination and in the absence of comprehensive controls over public financial policy. The value of the Libyan dinar has fallen significantly, resulting in unequal access to foreign exchange. (Kamal Al-Alawi, Shaker Asaad, 2016).

Second, the central bank is still the largest shareholder of state banks, accounting for 90% of the deposits and loans of this apparatus, and also the institution responsible for the supervision of the banking sector. This includes conflicts of interest, including possible fine mitigation in favour of state banks, as well as the granting of credit to affected beneficiaries. Although the authorities are investigating some reforms in this sector, all businesses have been temporarily suspended due to the current crisis. Third, banks do not have sufficient information and opportunities to make reasonable credit decisions. The banking sector itself suffers from insufficient capital and the value of the assets of state-owned banks is questionable and uncertain. Finally, all initiatives and activities in the financial sector were frozen, except for banking. The stock market

was almost at a standstill with little public trading. Other forms of financing, such as capital leasing and insurance, are still in their infancy. Due to the underdevelopment of the financial sector, companies, small businesses and individuals, as well as refugees and immigrants, often suffer from a lack of services. (Kamal Al-Alawi, Shaker Asaad, 2016).

The current political environment presents significant challenges. Reform/ stabilization of the monetary system is a prerequisite for progress in the field of financial intermediary services, but this can only be achieved after the merger of the two central banks of Libya. An international review of the two central banks should take place soon, which is the first step towards a merger. At the same time, some initiatives can still be activated. This includes strengthening the management of the financial sector (separating the ownership of the Central Bank of Libya from the banks under its supervision), preparing a high-quality audit of assets owned by large banks, improving the collection of financial sector data, restoring the land registry, and development activities. Electronic payments and enforcement measures... Residents and small businesses Central Bank of Libya financial services and capacity building. The Libyan authorities have already made progress in some of these areas and must continue to work. These initiatives will help lay the groundwork for the recovery of Libya and the financial system and should begin immediately. (Maryam Mohanni, 2019).

In summary, Libya's financial development has been heavily influenced by its oil wealth, colonial history, and subsequent political and economic challenges. The country's financial institutions, including the Central Bank of Libya and commercial banks, have played pivotal roles in managing resources and supporting economic growth amidst turbulent times.

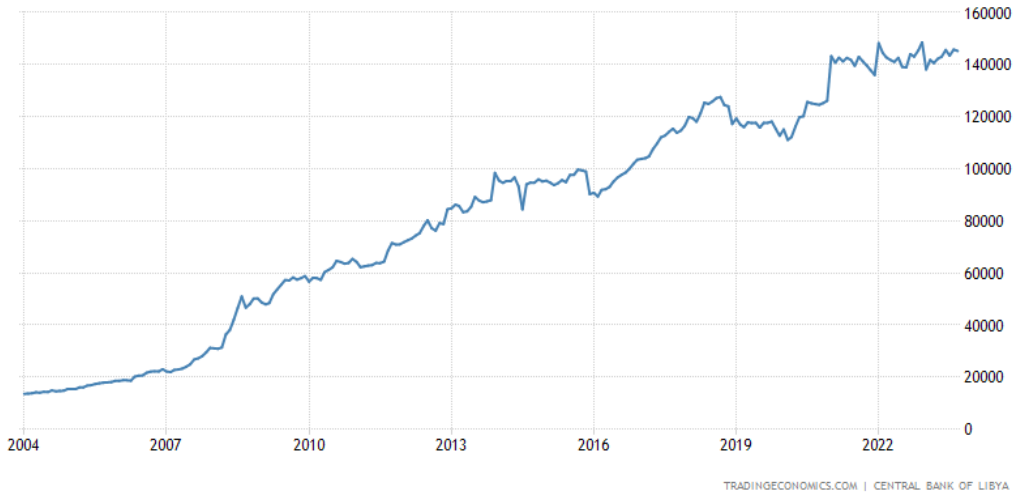


Figure 1. Libyan Banks Balance from 2004 to 2022

Source: World Bank Data (2022)

The bank's Balance Sheet in Libya decreased to 145205.50 LYD Million in September from 145756.10 LYD Million in August of 2023. Banks Balance Sheet in Libya averaged 81646.19 LYD Million from 2004 until 2023, reaching an all-time high of 148529.90 LYD Million in December of 2022 and a record low of 13552.50 LYD Million in January of 2004.

2.1.5. Contributions of Financial Development to Economic Growth

With the rise of industrialization and modern world banking at the turn of the twentieth century, the long-term financing needs of industrial investments were largely met through the issuance of bonds and shares in London. Multinational banking activities have also increased dramatically. The number of foreign branches of British, French and German banks increased from 525 in 1880 to 1,610 in 1913. Capital began to spread around the world, mostly from Europe to North America and Latin America. Joseph Alois Schumpeter stated that well-functioning banking activities encourage innovative operations through the money they give to entrepreneurs, and in this way, promising products and production processes have a chance of success. Schumpeter considers banking activities to be particularly important for building the innovation process. Therefore, he argues that the importance of the credit mechanism for financing

innovation processes is increasing in all countries, albeit in different forms (Helhel, 2018, 761-771).

According to Schumpeter, banks, where all loanable money and daily savings are collected, create a link between those who will innovate by substituting private capitalists or their agents and the owners of the means of production. Especially in periods when there is no central authority managing the social process, banks become the phenomenon of development and enable innovations to be done on behalf of society.

According to Adalbert Winkler, the contribution of the financial system to the economy is grouped under four headings (Al-Yousif, 2002):

a) Transforming resources into economic units with more efficient investment opportunities,

b) ensuring the realization of effective but large-scale investments that cannot be achieved by a single economic unit,

c) To make projects which one company cannot risk because it will provide benefits in the long run, suitable for investment,

d) Ensuring the realization of projects that are efficient but cannot be undertaken by a single company due to high risks.

The functioning of the financial system is achieved through financial instruments and intermediaries who provide the flow of money between borrowers and lenders. Within the system, households, private companies, the government sector, and providers of foreign funds can be both borrowers and lenders. If the relationship between borrowers and lenders is achieved through a financial intermediary, then indirect financing is called direct financing if it is achieved without the use of an intermediary. Borrowing with a maturity of less than a year is called short-term, borrowing for ten years or more is considered long-term, and borrowing between one and ten years is considered medium-term. The buying and selling of short-term debt securities is called the money market, and the sale of medium and long-term debt securities is called the capital market (Öztürk, 2008, 85-98).

The financial market in which the securities issued by the company or the government are sold to the first buyers is called the primary market, and the market in which the previously issued securities are resold is called the secondary market. Secondary markets are organized in two ways. The first is regulated markets, where securities are exchanged within a specific institutional structure. The second is the unregulated or over-the-counter markets, the securities markets that are not implemented in an institutional structure and do not require a specific position thanks to technological opportunities. Transactions in unorganized markets take place under more intense competition conditions compared to organized markets (Helhel, 2018, 761-771).

The main function of the financial system is to ensure the transfer of funds from the savers with surplus funds to the economic actors in need of funds. While securities are sold in direct financing, funds are transferred through an intermediary institution in indirect financing. While money market instruments offer low-risk investment opportunities by showing less fluctuation compared to long-term investment instruments, securities in the capital market consist of instruments such as stocks and long-term bonds. In these markets, long-term savings are collected and transferred to long-term investments (Gounder, 2012).

2.2. Foreign Direct Investments

Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy (OECD 2021).

Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy (Oecd, 2021).

2.2.1. Types of Foreign Direct Investments

Foreign direct investment is a measure of foreign ownership of productive assets, such as factories, mines, and land. Foreign direct investments are classified as follows. Foreign direct investments are classified according to the ownership status of the investment, investment made according to the creation of a new business, investment made according to its place in the production chain, investment made according to its purpose, and investment made according to different other variables (Choong, & Lim, 2009, 13-30).

Joint venture and wholly owned subsidiary occur as intercompany mergers and acquisitions and strategic mergers. A joint venture and a fully owned subsidiary is a joint venture when one or more foreign investors come to the country of investment and establish a joint business with one or more domestic investors in that country. Establishing a fully owned subsidiary is called when one or more foreign investors come to the country of investment and establish a business from scratch. The only difference between these two is whether an investor from the country of investment is a partner in this business. Whether foreign investors choose between joint venture and full ownership options depends on certain characteristics of the investee country (Antwi et al & Pheng, 2015, 11-22).

These can change according to religion, culture, market in the host country, business connections, production technology, consumption patterns, xenophobia, patent, license and property rights. Mergers and Acquisitions M&A This type of foreign investment is the easiest way to enter a foreign market outside the country's borders. This type of investment is one of the most important methods preferred by FDIs recently, as it has the opportunity to reach a better production technology without engaging in research and development (R&D) activities and to benefit from economies of scale.

This method may have negative effects on foreign investors for some reasons. These reasons may have negative effects such as nationality, religion, race, difficulties arising from differences in customs and traditions, economic and political problems arising from the acquisition or merger of a domestic company by a foreign investor,

employment problems after the acquisition or merger, adverse changes in wages or contracts. Strategic mergers and this type of foreign investment have found a wide application area in recent years. The main purpose of this method is to share the cost of R&D activities, to enter the market with the right timing and to share the marketing costs (Kurtishi-Kastrati & Resnick. 2012).

2.2.2. Historical Development of Foreign Direct Investments

Foreign Direct Investment (FDI) as a concept began to take recognizable form in the late 19th century. One pivotal moment often cited in the history of FDI is the establishment of multinational corporations (MNCs) during this era. These corporations, driven by industrialization and seeking to expand their operations globally, started making significant investments in foreign countries to access resources, markets, and cheaper production facilities.

According to the World Investment Report published by the United Nations Conference on Trade and Development (UNCTAD), the modern era of FDI can be traced back to the late 19th century. The report discusses how the rise of multinational enterprises and the expansion of global trade during this period marked the beginning of significant cross-border investments. This development laid the groundwork for the growth of international investment flows that continue to shape the global economy today (Canton, 2021).

Foreign direct investment began to decline with the First World War, to increase again in the 1920s. However foreign investments are directed mostly to the underdeveloped regions of America. Latin American countries have attracted the attention of foreign investors from the very beginning. Since the nineteenth century, foreign investment in Latin American countries has been concentrated in Argentina, Brazil, Colombia and Mexico (Hoang, 2009).

In 1929, the world economic crisis adversely affected foreign capital investments. No new foreign investment was achieved in these years. Even existing foreign investments have been cancelled. Before World War II, the inflow of foreign investment was in the form of portfolios, but after World War II, foreign direct investment replaced portfolio investment. After World War II, new types of borrowing

appeared. These borrowings had different features. The biggest example of this is the United States, which emerged strongly from the war, providing various aids to prevent the collapse of the economy of Europe and the countries that helped the United States in the war, and the spread of communism. After the creation of the European Union in 1958, foreign direct investments increased rapidly (Hoang, 2009). The reason for these increases is the investments made by the United States in European countries. Another important reason for this was the EU customs union and the application of a common tariff to third countries. The Americans shifted their investments towards the European Union to get rid of these tariffs and transportation costs. In these periods, foreign direct investment in less developed countries was mostly done in countries with natural resources or rich in oil. After the outbreak of the oil crisis, the increase in FDI in LDCs slowed down. After the 1990s, foreign direct investment began to increase. After the collapse of the Soviet Union, there was an increase in foreign direct investment for both countries that gained their independence from the Soviet Union and Eastern European countries. In this period, the service sector accounted for 40% of foreign direct investment flows, and structures were formed that aim to open up to the private sector and provide the contribution of foreign capital in making basic infrastructure investments in a country such as construction and operation (Cunda, Gürkan ,2019, 867-885).

After the 1990s, a great change in the direction of foreign direct investment occurred due to political changes. The political and economic systems of the disintegrating Eastern bloc, especially China, have created new areas for foreign direct investment in different countries. In particular, China, with its labor-intensive, cheap and qualified workforce, was ahead of the most important countries that attract and benefit from foreign direct investment (Koçtürk and Eker, 2012: 38). It is known that foreign direct investment in the world mostly favors developed countries. The reason for this is that developed countries have a solid infrastructure and political stability. For these reasons, FDI inflows are higher in least developed countries than in developed countries (Kocatürk, & Yaren ,2022).

In the years 2002-2003 the decline occurred in terms of foreign direct investment. Due to the global financial crisis in 2001, and the decline in cross-border

acquisitions and mergers in parallel with the recession in the economy, and the declines in the stock markets in these countries, especially in the sectors based on information technology, between 2002 and 2003, there was a significant decline in foreign investment flows Direct due to the global financial crisis in 2001. Between 2004 and 2008, foreign direct investment in developing countries began to increase gradually. Thus, developing countries increased foreign direct investment flows to 620 billion dollars in 2008. Because of the global financial crisis that occurred in 2008, there was a decline in foreign direct investment flows inward and outward in all countries of the world. While foreign direct investments in the world amounted to about 1.36 trillion dollars in 2000, it decreased by 684 billion dollars in 2001, and increased to 1.36 trillion dollars in 2006 again (Dogan, Buhari, & Can, Muhlis ,2016, 9-45).

Foreign direct investment flows, which reached a historical peak of over $1.87 trillion in 2007, decreased to $1.49 trillion in 2008 and $1.19 trillion in 2009. After 2009, foreign direct investment in the world gradually increased again until 2011, It fell to approximately $1.23 trillion in 2014.

Global capital flows rebounded significantly in 2020, rising 76% to nearly $1.66 trillion, up slightly from 2019's $928.8 billion and surpassing pre-COVID-19 levels and in 2022, foreign direct capital inflows declined by 24% in 2022, to reach 1,286 1 billion US dollars, after large withdrawals of capital by a multinational telecom company operating in Luxembourg (world bank data ,2023).

2.2.2.1. Historical Development of Foreign Direct Investments in Libya

Libya promulgated Law No. 1997/5 to attract foreign capital to the country. The provisions of the implementation of the law were established by the executive order of the general public and the committee No. 2002/21. Although the law was established in 1997, the real entry of foreign capital into the country has been allowed since the beginning of 2005. Priority areas of permitted investment are agricultural projects, industry, service, oil refining and petrochemicals, power generation, communication services, real estate and infrastructure investments. In Libya, a period of opening and transition to a market economy, there is no developed industry except oil and other related industries. In this context, the aforementioned sectors have investment

opportunities, especially in areas such as construction materials, agriculture, consumer goods, retail and the food industry. Additionally; Due to the large-scale privatization in Libya, some industrial companies were opened to foreign capital with Libyan investors. A law of 1999 established the general administration of free zones and the unique free zone of the country, the Misrata Free Zone. The most important opportunities offered to free zone companies are as follows (Kamal Al-Alawi, Shaker Asaad, 2016).

• Storage of local cross-export products, products produced and exported in the free zone,

• Disassembly, cleaning, making new compositions containing local production, repacking etc. operations that are carried out in the condition of the product according to market demand;

• Disassembly, assembly, completion or reproduction,

• Financial services, banking, insurance and other services that investors in the free zone may need.

Foreign direct investment in Libya averaged approximately -276.06 million LYD million between 2004 and 2019. It reached an all-time high of 2680 LYD million in 2009 and a record low of -3358 LYD million in 2008 (Figure 2), (Libya Foreign Direct Investment, 2022), (WB, 2022). The development of Libya has traditionally been based on several positive factors, such as abundant reserves of oil and gas, a young and relatively small population (6.5 million inhabitants), and a strategic geographical location between Europe and Africa. Region of the Persian Gulf. Civil war, however, presents significant challenges with state and #039 bureaucratic burdens, a poorly trained workforce and very low economic diversity. However, according to the World Investment Report published by UNCTAD in 2021, foreign direct investment in 2020 will be $ 18.5 billion, the report lacks reliable data on the inflow of foreign direct investment. (World Bank Report,2023)

Libya's industrial sector is based on oil refining, petrochemicals, and iron and steel. Foreign investments are mainly directed to the oil industry and it is sensitive to

market changes. In contrast, the World Bank's 2020 Ease of Doing Business Report ranks Libya as the 186th easiest country to do business in out of 190 countries. Transparency International also ranks Libya as the seventh most transparent country in the 2019 Corruption Perceptions Index (173/180). As soon as Libya regained the stability it had lost years ago, competition for space for reconstruction projects began between many countries and companies. That competition has intensified since Libya's new government officially took office last February and delegations arrived in Tripoli to discuss opportunities for joint economic cooperation. China also has an important position here, which was one of the countries that invested the most in Libyan countries during the last 10 years during the chaos, and which had hundreds of development projects suspended for several years due to the country's security situation. competition (Hediyye, 2022).

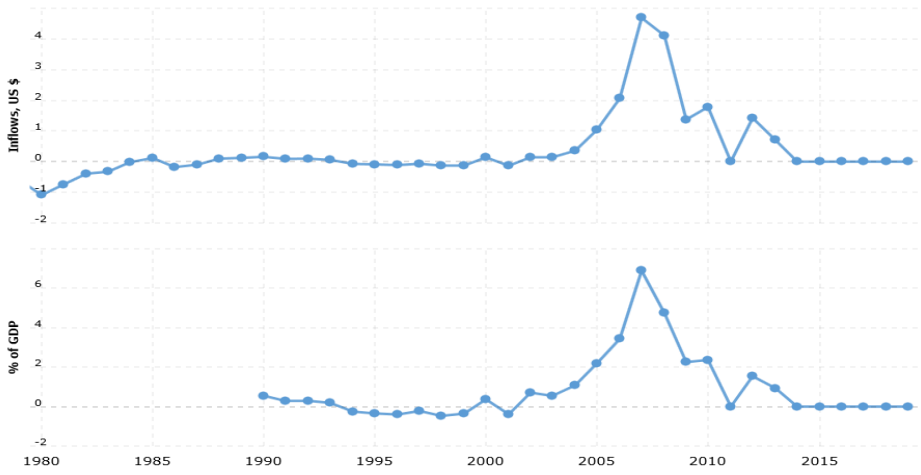


Figure 2. Foreign Direct Investment in Libya

Source: World Bank Data (2023)

2.2.3. Theoretical Background of Foreign Direct Investments

In the literature, foreign direct investment (FDI) is variously expressed as ‘foreign direct investment’, ‘foreign capital direct investment’ and ‘foreign private capital investment’. To ensure the integrity of this study, it will be used as a 'foreign direct investment'. In foreign direct investment (FDI), the investor can establish a new

facility abroad, or it can do so by purchasing or merging an existing company. In either case, the investor plays an active role in the company's approach. According to Ang (2009), FDI means that a large enterprise establishes a company in countries other than the head office in order to carry out its production outside the borders of the country in which it is established, buys the existing production facility or increases its stake in that facility and brings it to a subsidiary production facility she has. And he knows. According to another definition, the word "foreign" mentioned in the concept of "foreign direct investment" is used to mean being outside the borders of another country, another country (Hailu, 2010, 104-116).

On the other hand, the concept of foreign capital refers to a certain amount of capital in another country that belongs to the citizens of any country. The word "direct" distinguishes portfolio investments from foreign direct investments. Foreign direct investment can be defined as an investment type that reflects the long-term interest of a generation council in one country towards a generation council or councils in another country and its long-term control through this generation council (Inusah, 2013, 224-225).

Dücan, & Engin, (2016), explains FDI as follows: "In the past century, economic integration among the countries of the world has increased. This integration into the world economy was primarily aimed at removing obstacles in the example of free movement of goods and, in parallel, attempted Ensuring the free movement of capital. As a result, trade and investment have emerged as the two most important channels for economic integration. Foreign direct investment is affected by factors related to trade." It is a fact accepted by almost everyone involved today that foreign direct investments make different contributions to the countries they go to. If we look at developing countries in particular, they want to attract investments to their countries and make the most of these investments. Small and medium enterprises and local industry are among the most important areas in which the contribution of foreign direct investment is observed. (Dücan, & Engin ,2016).

Companies that make foreign direct investments can diversify internationally in the fields of activity of multinational companies (MNCs) in different countries. However, the decision-making process of companies that will make foreign direct

investments can be quite complex. Because the decision process regarding fixed investments in the countries where investment is planned is quite different from the decision process regarding fixed investments in the country where the resident firm is located (Aydemir, Cahit et al. 2012, 69-104).

According to Value, Kemal & Doğanay, 2017 it is suggested that FDIs should consider economic or political criteria in order to determine their destination country. When it comes to foreign investments due to political reasons, economic reasons are generally not given importance. However, the main purpose of FDI, where economic reasons are at the forefront, is to maximize profits. When this issue is approached from two perspectives, it is necessary to establish a good balance of mutual political and economic interests of the country concerned with FDI. According to OECD norms, FDIs include investments when a foreign investor, consisting of individuals or a production board, has at least 10% of the company's representation power in an incorporated or equivalent enterprise.

As can be understood from the above definitions, foreign direct investments are not only a capital transfer, but also provide the transfer of entrepreneurial talent, technological opportunities and organization, and for this reason, it is considered as an investment in which the establishment and equipment of enterprises, financing is carried out and high risks are undertaken. The biggest obstacle that hinders the development of developing countries is the lack of capital, namely savings. Therefore, foreign investments are very important for developing countries. Likewise, the first priority of countries and companies that invest in FDI is to make a profit. For this reason, it will invest with the desire to obtain from the foreign market what it cannot obtain in the national market (Bashier, & Bataineh, 2007, 12-18).

2.2.4. Contributions of Foreign Direct Investments to Economic Growth

The extent to which foreign direct investment contributes to the economy of a particular country can be considered through the classifications of this investment. Foreign direct investments can be classified according to the status of investment ownership, investment made according to the establishment of a new business project, investment made according to its position in the production chain, and investment made

according to its position in the production chain. According to its purpose, the investment made according to various other factors (Chung, Lim, 2009, 13-30).

-Investment according to the condition of the property

In fact, this type of investment can be done in three ways. The joint venture and wholly owned subsidiary occur as intercompany mergers and acquisitions and strategic mergers. Joint Venture and Wholly Owned Subsidiary A joint venture is when one or more foreign investors come to the country of investment and establish a joint business with one or more local investors in that country. A wholly owned subsidiary is created when one or more foreign investors come to the country of investment and establish a business from scratch. The only difference between these two is whether the investor from the country of investment is a partner in this business. The choice of foreign investors between joint venture and full ownership options depends on certain characteristics of the investee country (Antwi et al & Pheng, 2015, 11-22).

These can change depending on the host country's religion, culture, market, trade relations, production technology, consumption patterns, xenophobia, patents, licenses and property rights. Mergers and Acquisitions Mergers and Acquisitions This type of foreign investment is the easiest way to enter a foreign market outside the country's borders. This type of investment is one of the most important methods favored by foreign direct investment in recent times, as it gives it the opportunity to access better production technology without engaging in research and development activities and benefit from economies of scale.

This method may have negative effects on foreign investors for several reasons, such as nationality, religion, race, difficulties resulting from differences in customs and traditions, economic and political problems arising from the acquisition or merger of a foreign investor in a local company, employment problems after the acquisition or merger, negative changes in wages or contracts. Strategic mergers and this type of foreign investment have found a wide scope of application in recent years. The main purpose of this method is to share the cost of R&D activities, timely market entry and marketing costs (Kurtishi-Kastrati & Resnick. 2012).

-Investment by creating new businesses

This type of foreign investment comes in three forms: Greenfield investments, brownfield investments and acquisitions.

• Green field investments, in this type of investment, is a situation in which a foreign investor establishes a completely new company or facility. This is an element of raising capital in the country in which the investment is made. Foreign direct investment is the most desirable type of investment for host countries. The initial cost and risks of such investment projects are high and the payback period is long. With new investments, foreign investors not only bring capital to the country in which they are going to invest, but also a new business or facility. The main purpose of foreign investors in greenfield investment is to open their own production method, production technology and business. For this reason, foreign investors try to maximize their profits. The disadvantages of this type of investment are slow entry into the host country's market (Hailu, 2010, 117-123).

• Brown field investment, in this type of investment, mixed investment is achieved with purchases by foreign investors. In this type of investment, the purchase process takes place, but the factors that the foreign investor brings to the formation of the institution are more effective than the factors of production of the institution in the host country. In structural investments, the foreign investor aims to buy a company using his own method of production and understanding the method of production (Antwi et al & Pheng, 2015).

• Takeovers: In this type of investment, one or more foreign investors acquire a company in the host country. In this type of investment, foreign investors become owners of only one business, that is, the foreign investor will use the company's technology, style and production method without changing it (Choong, & Lim, 2009, 13-30).

- Investment By Position in The Production Chain

This type of foreign direct investment occurs in two forms as horizontal investments and vertical investments. Horizontal (horizontal) investments are a method used in cases where international transportation fees are expensive and there are

barriers to trade. In this type of investment, foreign investors cannot produce goods and services in their own country and export to another country according to this method, or even if they do, they cannot compete with the host country because the cost of production is high. In this case, they go to invest in that country to capture that country's market. Thus, in order to remove transportation and other trade barriers, it can invest in the host country and capture that country's market and sell raw materials (Inusah, 2013, 227-234).

Vertical investment, this type of investment, despite the progress in transportation and communication, despite all the liberalization movements, there are still differences in factor equipment and prices between countries. Because of these differences, foreign investors produce every stage of production in countries with cheap factors of production. In order to reduce the cost of production, investors produce in countries where labor is cheap in the labor-intensive stage and in countries where capital is cheap in the capital-intensive stage. Thus, investors reduce production costs. This type of investment affects the amount of raw materials, factors, the presence of different production technologies, and the price differences between countries (Kurtishi-Kastrati & Resnick. 2012).

-- Investment According to Its Purpose

According to this distinction, investments are divided into four. Each of these divisions is divided into market-oriented investment (horizontal investment), efficiency-oriented investment (vertical investment), resource-oriented investment, and asset-oriented investment, respectively. These differences and the host country's reasons for attracting the aforementioned investment are shown in the table below (Bhasin, Niti, & Paul, Justin, 2016, 79-83).

2.3. Foreign Trade

Foreign Trade is the exchange of goods and services between two countries in the international market. It helps in the availability of raw material/finished product in a country that either does not have it or has it in scarcity.

2.3.1. Characteristics of International Trade

There are several salient qualities that international trade involves.

These include the following among others;

i. Human wants and countries' resources do not coincide. Hence, there tends to be interdependence on a large scale.

ii. Factors endowments in different countries differ

iii. Technological advancement of different countries differs. Some countries are better placed in one kind of production and some others in some other types of production.

iv. Labour and entrepreneurial skills in different countries.

v. Factors of production are highly immobile between countries. The degree of immobility of factors like labour and capital is greater between countries than within a country. Immigration law, citizenship, qualification, etc, often restrict the international mobility of labour. According to Harrod, he believes that domestic trade consists largely of the exchange of goods between producers who enjoy similar standards of life, whereas international trade consists of an exchange of goods between producers enjoying widely different standards.

vi. Heterogeneous Markets; in the international economy, world markets lack homogeneity on account of differences in climate, language, preferences, habits, customs, weights and measures, etc. The behaviour of international buyers in each case would, therefore, be different.

vii. Different National Groups: International trade takes place between differently covered groups. The socio-economic environment differs greatly among different nations.

viii. Different Political Units: International trade is a phenomenon which occurs among different political units.

ix. Different National Policies and Government Intervention: Economic and political policies differ from one country to another. Policies pertaining to trade, commerce, export and import, taxation, etc., also differ widely among countries though they are more or less uniform within the country. Tariff policy, import quota system, subsidies and other controls adopted by the governments interfere with the course of normal trade between one country and another.

x. Different currencies: Another notable feature of international trade is that it involves the use of different types of currencies. So, each country has its own policy in regard to exchange rates and foreign exchange. (Characteristics of International Trade, 2021)

2.3.2. Historical Development of Foreign Trade

International trade began since ancient times, an example of which is what is known as the Silk Road, but in recent centuries the importance of this trade has increased, whether economically, politically, or socially. The Industrial Revolution contributed greatly to enhancing the importance of this trade, which also contributed to the development of transportation, globalization, and multinational companies. The international community expressed the importance of trade through the launch of the GATT Agreement and then the World Trade Organization (WTO), which is intended to regulate global trade, although there is a difference in views in terms of the benefits expected from this organization, and who will have an interest in its activities. (Saleena, & Nirmalagiri ,2013, 60-85).

Trade is one of the most important and ancient activities that man has practiced since ancient times, which has caused major developments in the human life system for individuals in various parts of the world. The history of trade dates back to 10 thousand years BC, when trade at that time was focused on raising livestock and trading in them, as they are among the most prominent resources. Food, in addition to the possibility of benefiting from livestock in the manufacture of clothing. Over time, barter processes appeared in which one individual obtains a commodity he needs from another person in exchange for obtaining a different commodity from him. Thus, people benefit from different commodities through exchange processes among themselves, but the barter

process It required the existence of different desires between individuals who owned different goods, and this may not always be present, which leads to the failure of many barter operations between people. (Helhel, 2018, 334-356).

Over time, some commercial operations began to appear outside of livestock trading, such as trading with shells and some precious materials that began to be used as a means of commercial exchange in the same manner as they are used for

Money at the present time, and one of the most prominent things that helped in using it in this regard is that it is difficult to counterfeit and large quantities of it cannot be obtained easily because it is produced naturally and is limited, in addition to the ability of the shells that were used at that time as a means of commercial exchange to withstand some conditions due to their hardness and strength, then Some metals began to be used in trade exchange operations, such as copper, gold, bronze, and silver, as a type of currency to provide a degree of flexibility in obtaining various types of goods and services that people need in their daily lives. (Bhasin, Niti, & Paul, Justin ,2016, 60-78).

After that, the initial use of coins made of some metals began, which were stamped with some ancient symbols that gave them elegance and high aesthetics. These coins were made of gold, silver, or other metals. On the commercial level, some types of ancient trade appeared, such as the trade of silk, fabrics, and paper. And gunpowder. After that, simple commercial markets began to appear in which buying and selling operations were active. Then trade operations began to take on an external character through the movement of commercial convoys along ancient trade routes to benefit from some of the goods that were produced in some regions of the world, which contributed to the spread of many Goods on a large scale and not limited to the regions in which these goods are produced. (Bhasin, Niti, & Paul, Justin ,2016 8).

Then the use of paper money in buying and selling operations appeared in the markets, which began to expand in area and become famous, widespread, and popular among people. With the beginning of exploratory campaigns in many regions of the world, commercial operations became more flexible, and it became possible to transport rare goods to places that had previously been difficult to transport commercial

materials and goods. To and from it, and there were seasonal commercial trips to some regions and islands to open the doors to trade in the seasons of some commodities so that merchants could benefit from these seasons as much as possible, and so that these seasonal commodities would reach distant regions after being preserved and transported in an appropriate manner between the production area and the areas of sale and consumption, and many trades began to be held. From trade agreements, some investment entities emerged that established commercial companies in which many commercial and investment ideas were applied and became part of the commercial reality, which led to the emergence of huge global commercial forces over time. (Choi & Park, 2017, 356-367).

2.3.2.1. Historical Development of Foreign Trade in Libya

The Libyan economy, which heavily relies on the oil sector and is centrally managed, had a volume of approximately 80 billion dollars in 2010. However, it faced significant challenges during the nineties due to international sanctions and the subsequent blockade. After the lifting of these sanctions in 2003 and the US lifting its sanctions in 2004, the Libyan government implemented economic reforms to revive the economy. These reforms included measures to empower the private sector, such as reducing interest rates to stimulate private sector borrowing, promoting both domestic and foreign private investment, implementing a new tax law, eliminating customs privileges for public institutions, and reducing import taxes. The socialist transformation in the past had left behind numerous economic problems, leading to a state of economic paralysis and adversely affecting the living standards of many Libyans (Choi & Park, 2017, 328-340).

The majority of the population in Libya is dependent on the state for their livelihood, which is directly linked to salaries and pensions disbursed from the public treasury or affiliated companies. Unfortunately, most of these companies have failed to meet known economic standards. Despite the economic transformations that have occurred in the past five years, economic activity remains limited, and there are still many restrictions on the movement of capital and goods. The living conditions of most Libyans have not improved. However, the government subsidizes the prices of basic

food commodities, fuel, and electricity, and provides free education and health services to citizens. (Maryam Mohanni, 2019)

Total merchandise trade during the first half of the year 2023 in Libya amounted to $27 billion, recording a decrease of 7.1% compared to the same period last year, and the amount of change in the trade balance amounted to minus 25% in the first six months of the current year, compared to The same period in 2022. The Central Bank of Libya explained that the value of merchandise exports amounted to $17.3 billion during the first half of the year, and was $19.6 billion during the same period last year, a decrease of 12%. The Libyan economy depends to a large extent on a depleted natural resource, which is oil, which constitutes a primary source of income and constitutes 96% of total exports (World bank report, 2023).

The Central Bank indicated that Libyan exports to European Union countries amounted to 69.8% of total exports, and Asian countries came in second place with 16.7%, while exports to American countries recorded 3.4%, while the share of the rest of the countries of the year was 10% of total exports. The Central Bank of Libya stated that with regard to intra-trade (exports and imports), Italy topped the list with trade worth $4.704 billion, distributed between imports from Italy amounting to about $914.8 million and exports to it amounting to $3.79 billion. Germany came in second place with bilateral trade worth $2.71 billion, followed by Turkey with a total of $1.756 billion. The UAE ranked fourth among Libya's trading partners, with bilateral trade worth $1.544 billion. Regarding Libya's total imports, during the first half of this year they amounted to 19 billion and 982 million dollars, and Turkey topped the list with imports worth one billion and 409 million dollars at the end of last June, followed by China in second place with about one billion and 265 million dollars. The UAE came in third place, with the value of imports from it amounting to $66 million.(Central Bank of Libya 2023).

Trade is fundamentally an important component of the Libyan economy. As of the early 2000s, trade rebounded and peaked at about 140% of GDP in 2014, before the civil war broke out in Libya and the political regime changed. Economic growth in Libya stopped starting in 2011, and oil exports, which are the most important Libyan exports, stopped in general. In addition, the economic and trade sanctions imposed by

Western countries have destroyed foreign trade. However, foreign trade has returned to recovery after stabilizing since 2018. According to data from the World Bank, foreign trade grew at a rate of 114.1% in 2020 (World Bank). Libya's main exports consist of crude oil, refined petroleum products, and natural gas, which constitute more than 90% of exports, as well as gold, iron, and copper. While basic imports include refined oil, cars, communications equipment, and technological devices, in addition to medicines. .(Central Bank of Libya 2023).

Libya is a member of the Arab Maghreb Union. The country's main imports come from China (16.2%), Turkey (13.7%), Italy (9.1%), the United Arab Emirates (8.9%), and Egypt (5.48%). As for Libyan exports, they are to Italy (18.1%), China (16%), Germany (15%), Spain (14.6%), and the United Arab Emirates (5.7%).

Starting in 2020, foreign trade in Libya returned to normal. Libya’s imports of goods and services decreased by 27.8% in 2020, while exports recorded a decline of 62.6%, mainly due to the negative effects of the pandemic. In 2021, merchandise imports amounted to $18.9 billion, and imports amounted to $28.9 billion, bringing the trade balance to a deficit of $10 billion.

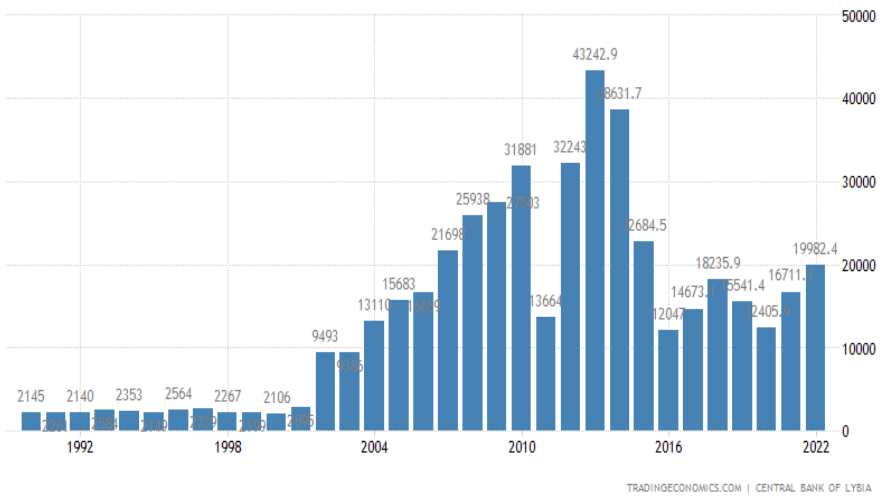


Figure 3. Libyan imports from 1990 to 2022

Source: world bank data (2023)

Imports in Libya increased to 19982.40 LYD Million in 2022 from 16711.30 LYD Million in 2021. Imports in Libya averaged 13933.82 LYD Million from 1990

until 2022, reaching an all-time high of 43242.90 LYD Million in 2013 and a record low of 2106.00 LYD Million in 2000

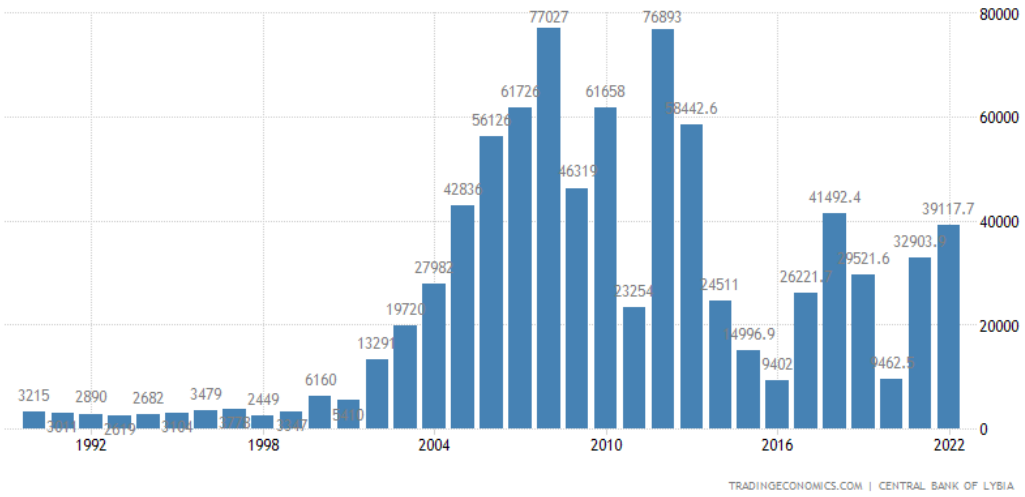


Figure 4. Libyan exports from 1990 to 2022

Source: world bank data (2023)

Exports in Libya increased to 39117.70 LYD Million in 2022 from 32903.90 LYD Million in 2021. Exports in Libya averaged 25304.49 LYD Million from 1990 until 2022, reaching an all-time high of 77027.00 LYD Million in 2008 and a record low of 2449.00 LYD Million in 1998.

2.3.3. Contributions of Foreign Trade to Economic Growth

Most applied studies confirm the existence of a positive and strong correlation between the degree of openness to global markets (foreign trade) and the growth rate of national product. A famous study by the World Bank (1987) divided the countries of the world into four groups: countries with a high degree of openness, countries with a moderate degree of openness, countries that are somewhat closed, and countries that are highly closed. The study concluded that the average income growth rate in the first group was the highest among the four groups during the period 1973-1985, and that the average growth rate in highly closed countries was negative during the same period. This correlation may be the result of one or more of the following four possibilities: First, that growth is generated by or strongly influenced by trade openness. Second,

growth and openness are affected together by a third variable. Third, the relationship is inverse from growth to trade, where growth encourages foreign trade. Fourth, the causal relationship is double and in two directions, where growth leads to increased trade, and increased trade leads to increased growth. In short, this means that the correlation relationship does not necessarily indicate a direct causal relationship from one variable to another variable. Therefore, confirming or denying the causal relationship requires examining the potential effects of trade and openness on growth and its sources, and this is what we will do in the next paragraph. We will devote the last paragraph to presenting the point of view of schools that question the causal relationship between openness and growth. (Helhel, 2018).

-The impact of foreign trade on factors that determine growth

Income (or GDP) is subject to two types of influences. The first type leads to raising or lowering the level of income without affecting its growth rate or sustainable rate of decline. The second type is the impact on the rate of increase and not only on the level of income. That is, the first effect is a one-time effect, while the second effect is sustainable because it affects the growth rate. Foreign trade can affect growth through these two channels. When trade leads to increased production due to the exploitation of comparative advantages and economies of scale, this leads to a one-time increase in the level of income. (Maryam Mohanni, 2019).

-The impact of trade and openness on physical capital

Trade itself does not have a direct impact on the volume of physical capital, but countries that adopt a policy of foreign trade liberalization also liberalize the movement of capital across borders and encourage foreign direct investment (FDI). This means that an economy open to global markets is distinguished from a closed economy in that the amount of its annual domestic savings does not constitute a restriction on the value of its annual investments. (Kamal Al-Alawi, Shaker Asaad, 2016).

The impact of foreign trade on human capital

There is an important influence of foreign trade and openness in general on human capital formation. Reading foreign periodicals and books, using the Internet, and learning about other methods of work and thinking are all types of exchange and trade with the outside world. What the citizen learns from these foreign sources increases his culture and experience. Foreign companies that engage in economic activity in the local market usually train local workers on modern production and marketing methods and organize training courses for local workers, all of which works to increase the formation of local human capital. (Maryam Mohanni, 2019).

-The influence of foreign trade on technical progress

Foreign trade leads to technical progress in two ways. The first concerns the possibility of transferring modern technology from abroad to the country in question, and the second concerns the possibility of creating modern technology in the country itself. Regarding the first, a country that liberalizes trade can import modern technology more easily and more effectively than a closed country. An open country imports modern technology while importing "capital goods," that is, machinery, equipment, and devices. (Kamal Al-Alawi, Shaker Asaad, 2016).

Foreign direct investment is also building new factories that operate according to modern technology methods, in addition to the fact that communication and interaction between different countries leads to the transfer of so-called "soft technology" methods, such as modern management methods and modern marketing methods. The second way in which foreign trade affects technical progress is related to incentives to spend on research in economic enterprises. The main incentive for spending on research and development activities is the expected profits from creating a new technology or good. Naturally, these expectations rise when the owner of the new invention or commodity opens up to the possibility of exporting and being present in markets larger than the local market. (Kamal Al-Alawi, Shaker Asaad, 2016).

The impact of foreign trade on production efficiency

The most important effect of foreign trade on productivity is through its effect on efficiency. Trade liberalization means lifting protection for local enterprises and

exposing them to competition with foreign enterprises. This effect is known as the Bracing Effect. Local enterprises find themselves facing a difficult choice: either improve productivity or go bankrupt. Productivity is improved by eliminating distortions that have accumulated as a result of protection. A classic example of improved productivity after lifting protection is what happened in Canada after signing the free trade agreement with the United States in 1989. The productivity of companies that were protected increased by three times the increase in productivity of companies that were not protected. Another example occurred in India, where the equipment industry was protected by a 100% customs tax. When the Indian government lifted its protection of the industry, through a significant reduction in customs duties, Taiwanese companies were quickly able to enter the market and capture a third of the Indian equipment industry market. This is what forced Indian companies to take difficult and necessary measures that led to improving their productivity in a way that they were able, within ten years, to regain their previous position in the local market and begin exporting abroad. (Kamal Al-Alawi, Shaker Asaad, 2016).

CHAPTER THREE

LITERATURE REVIEW AND EMPRICAL LITERATURE REVIEW

3.1. Literature review

3.1.1. International Trade and Economic Growth

Foreign trade is closely linked to economic growth in that it seeks to provide countries with the necessary resources for growth. While foreign trade, through imports, provides the country's needs for materials that are not available or that are not manufactured, foreign trade also contributes to the export of materials that any country manufactures in abundance and exceeds His needs. However, when examining countries across the globe, it becomes evident that the availability of natural resources is not evenly distributed. While some nations possess abundant natural resources, others are lacking in this aspect. Consequently, countries that are deficient in natural resources rely on imports from resource-rich nations to bolster their economies. This collaborative effort and specialization are made possible through international trade. Conversely, from an economic standpoint, a country may possess a competitive advantage in producing specific goods and services due to various factors. By focusing on producing these items at a lower cost, countries can meet their own demands while importing products in which they are not as proficient from more advanced nations at a reduced price. These transactions are facilitated through foreign trade as well. (Özdemir, & Adnan, 2018, 86-119).

Today, countries around the world, regardless of their size or wealth, engage in trade activities with one another, leading to an improvement in their economic well-being. The reasons behind these economic relations can vary, ranging from profitability to necessity or mutual dependence (Saleena & Nirmalagiri, 2013, 34-38).

In the field of economics, it is widely believed that foreign trade has a significant impact on economic growth and development. Esteemed economists like Adam Smith, David Ricardo, and JS Mill have emphasized the positive effects of

foreign trade on economic growth and development. Following World War II, many countries implemented policies to facilitate foreign trade based on their economic and political circumstances. However, the idea of liberalizing foreign trade gained momentum over time. Furthermore, some countries have joined the WTO to further enhance their trade activities. It is important to note that factors influencing foreign trade extend beyond just exports and imports. Social factors, levels of political and technological development, cultural aspects, and natural resources of communities also play a role in shaping foreign trade. Moreover, foreign trade has an impact on various phenomena such as macroeconomic balances, unemployment, inflation, and market structures. The Balance of Payments, which encompasses trade transactions, serves as a crucial trade indicator for a country (Sezer, S. 2018, 1171-1189).

Hence, the balance of payments indicates whether a country is exporting more or importing more. In a broader sense, it provides an overview of whether foreign trade is balanced. In a narrower sense, the balance of payments refers to the systematic record of payments made between a country's citizens and foreigners within a year. Numerous economic transactions occur between individuals residing in a country and foreigners, but it is challenging and not very informative to include each transaction individually in the balance of payments. (Sultan, & Zafar Ahmad, 2013, 83-93).

Governments intervene in foreign trade policies and their economic policies, often through agreements with other countries. Tariffs are a common tool used by governments to intervene. Additionally, governments employ non-tariff measures to regulate free trade flows. These measures are unilateral actions taken by the state to restrict transactions that result in foreign exchange outflow, apart from customs tariffs. Non-tariff measures include quantity restrictions, import quotas, import bans, and exchange control measures.

Trade refers to the exchange of goods and services for a specific monetary value. It can be categorized into domestic trade, which occurs within a country, and foreign trade, which involves international transactions. Foreign trade encompasses the import and export of goods, as well as trade in services, investment income and expenses, current transactions, and the movement of goods across borders. The objective of foreign trade is to enhance exports and reduce imports, which are crucial

targets for countries. To achieve these goals, countries implement foreign trade policies and take necessary actions. As people's needs continue to grow, foreign trade has become essential in meeting these demands. Economic growth is a primary objective for countries, and foreign trade plays a vital role in their economic development. It is through foreign trade that internal dynamics are activated, and without it, development cannot be attained.

The agriculture, industry, and service sectors are instrumental in facilitating foreign trade. Particularly, increasing the industrial sector's impact on economic growth is crucial for ensuring overall development. Underdeveloped countries can import industrial and investment goods in exchange for the income generated from their exports, which aids in their economic development. As the financing of development investments relies on export revenues, it is imperative to boost exports in order to expedite development.

A change in exports has a direct impact on GDP, leading to growth. This has two significant effects on the economy. Firstly, it increases household income, resulting in a decrease in the poverty rate. Secondly, the increase in production resulting from higher exports, known as the indirect effect, allows for an increase in government expenditures through higher tax revenues. Foreign trade serves as a crucial indicator of a country's economic power. It not only enables countries to prosper and develop economically but also politically compared to other nations. Therefore, countries should prioritize foreign trade and formulate effective foreign trade policies to strengthen their position. The level of technology and specialization a country employs in foreign trade plays a vital role in its development (Huynh, 2021, 760-790).

Foreign trade encompasses two main forms, namely exports and imports, which were liberalized after the Second World War. However, foreign trade is influenced not only by imports and exports but also by various social, political, cultural factors, and technological advancements. Moreover, foreign trade significantly impacts macroeconomic variables such as growth, unemployment, development, market balances, and inflation. In this regard, foreign trade acts as a variable that contributes to the social welfare and overall development of a country. The volume of foreign trade is determined by the total value of a country's exports and imports within a specific

period. A foreign trade deficit occurs when a country's imports exceed its exports, serving as a crucial indicator of its economic situation. Conversely, a trade surplus is a desirable situation where exports surpass imports (Yeboua, 2019, 188-198).

3.1.2. FDI and Economic Growth

Most of the developing countries are facing investment problem due to the low level of income. People can't save much, and therefore they can't invest. The only solution to solve this problem is to use foreign resources. We can define foreign investment in the simplest definition as follows. It is defined as a foreign investment for institutions and individuals residing in a country to acquire wealth in these countries. UNCTAD (1999) defined foreign investment as follows. The transfer of capital of enterprises and persons residing in a foreign country to a country is defined as foreign investment. According to the OECD definition, foreign investment includes the following elements (Arestis, Chortareas, & Desli, 2006, 417 – 440);

- Loans made by foreigners to the company.
- the company's undistributed and reinvested profits,
- Purchase of machinery and production rights from the company.
- Receiving debts and shares from the parent company with cash and in-kind capital.

Foreign investment takes place in two ways: private investment and economic development. We can define special purpose investments as the transactions made by those who solicit and supply funds in the international money and capital markets. Investments for economic development can be defined as transactions that provide intangible rights such as new licenses, patents and technology to a country. Such investments will make positive contributions to the economic infrastructure of the country. It will provide technological and financial resources from one country to another through participation in investment and production or by lending (Gui-Diby ,2014,248- 256).

Foreign direct investment began to decline with the First World War, to increase again in the 1920s. But foreign investments are directed mostly to the underdeveloped regions of America. Latin American countries have attracted the attention of foreign investors from the very beginning. Since the nineteenth century, foreign investment in Latin American countries has been concentrated in countries such as Argentina, Brazil, Colombia and Mexico (Hoang, 2009).

In 1929, the world economic crisis adversely affected foreign capital investments. No new foreign investment was achieved in these years. Even existing foreign investments have been cancelled. Before World War II, the inflow of foreign investment was in the form of portfolio, but after World War II, portfolio investment was replaced by foreign direct investment. After World War II, new types of borrowing appeared. These borrowings had different features. The biggest example of this is the United States, which emerged strongly from the war, providing various aids to prevent the collapse of the economy of Europe and the countries that helped the United States in the war, and the spread of communism. After the creation of the European Union in 1958, foreign direct investments increased very rapidly (Hoang, 2009).

The reason for these increases is the investments made by the United States in European countries. Another important reason for this was the EU customs union and the application of a common tariff to third countries. The Americans shifted their investments towards the European Union to get rid of these tariffs and transportation costs. In these periods, foreign direct investment in less developed countries was mostly done in countries with natural resources or rich in oil. After the outbreak of the oil crisis, the increase in FDI in LDCs slowed down. After the 1990s, foreign direct investment began to increase. After the collapse of the Soviet Union, there was an increase in foreign direct investment for both countries that gained their independence from the Soviet Union and Eastern European countries. In this period, the service sector accounted for 40% of foreign direct investment flows, and structures were formed that aim to open up to the private sector and provide the contribution of foreign capital in making basic infrastructure investments in a country such as construction and operation (Cunda, Gürkan ,2019, 867-885).

After the 1990s, a great change in the direction of foreign direct investment occurred due to political changes. The political and economic systems of the disintegrating Eastern bloc, especially China, have created new areas for foreign direct investment in different countries. In particular, China, with its labor-intensive, cheap and qualified workforce, was ahead of the most important countries that attract and benefit from foreign direct investment (Koçtürk and Eker, 2012: 38). It is known that foreign direct investment in the world mostly favors developed countries. The reason for this is that developed countries have a solid infrastructure and political stability. For these reasons, FDI inflows are higher in least developed countries than in developed countries (Kocatürk, & Yaren ,2022).

In the years 2002-2003 the decline occurred in terms of foreign direct investment. Due to the global financial crisis in 2001, and the decline in cross-border acquisitions and mergers in parallel with the recession in the economy, and the declines in the stock markets in these countries, especially in the sectors based on information technology, between 2002 and 2003, there was a significant decline in foreign investment flows Direct due to the global financial crisis in 2001. Between 2004 and 2008, foreign direct investment in developing countries began to increase gradually. Thus, developing countries increased foreign direct investment flows to 620 billion dollars in 2008. Because of the global financial crisis that occurred in 2008, there was a decline in foreign direct investment flows inward and outward in all countries of the world. While foreign direct investments in the world amounted to about 1.36 trillion dollars in 2000, it decreased by 684 billion dollars in 2001, and increased to 1.36 trillion dollars in 2006 again (Dogan, Buhari, & Can, Muhlis ,2016, 9-45).

Foreign direct investment flows, which reached a historical peak of over $1.87 trillion in 2007, decreased to $1.49 trillion in 2008 and $1.19 trillion in 2009. After 2009, foreign direct investment in the world gradually increased again until 2011, It fell to approximately $1.23 trillion in 2014.

Global capital flows rebounded significantly in 2020, rising 76% to nearly $1.66 trillion, up slightly from 2019's $928.8 billion and surpassing pre-COVID-19 levels and in 2022, foreign direct capital inflows declined by 24% in 2022, to reach

1,286 1 billion US dollars, after large withdrawals of capital by a multinational telecom company operating in Luxembourg (world bank data ,2023).

In traditional neo-classical growth models, the source of economic growth occurs as a result of an increase in factors of production or technological progress, which can be considered as external factors. Foreign direct investment has an effect on growth only in the short run, and in the long run, the economy reaches a stagnant state as the capital falls under the effect of the law of diminishing returns. Under these assumptions, in the traditional model, there is no permanent effect of foreign direct investment on economic growth ((Abu-Bader, et al, 2008).

The effects of foreign direct investment on growth were realized with the introduction of endogenous growth models. In the traditional model, foreign direct investment increases the investment stock in the country and thus contributes to the growth of the country's economy. On the other hand, in endogenous growth models, long-term economic growth can be achieved with continuous technology transfer and dispersion effects (Desbordes, & Wei, 2017).

In domestic growth models, it can be said that the relationship between foreign direct investment and economic growth stems from three channels. First of all, it increases capital accumulation with the acceptance of new technology and inputs by the host country. Secondly, it is ensured that the knowledge and education level of the workforce is increased through education processes. Third, foreign direct investment increases the level of competition in the host country by reducing the barriers to entry and the market power of existing firms. Foreign direct investments can be defined as investments made from one country by acquiring a firm located in another country, providing capital to a newly established firm, or increasing the capital of an existing firm (Ozcan, Burcu, & Ayse Ari ,2011).

Foreign direct investments provide benefits such as providing foreign exchange inflow to the host country, increasing the capital stock, creating employment and transferring technology. In other words, the most important effect of foreign direct investment on developing countries is to contribute to the national income of the country by making production in the country where the investment will be made. The

main effect of well-planned and effectively directed foreign direct investments on the economy of the investee country is its net contribution to national income. In fact, technology develops in the country where foreign direct investment is made, employment volume and production factors increase with new technological developments, causing economic growth to be positively affected. Foreign direct investments in an economy increase output and create direct effects on employment. In this context, investment increases in a sector stimulate investments in sub-sectors of the same sector (Pradhan, Arvin, & Hall, 2019).

It causes positive external effects due to the raising business and its links with other sectors, ultimately increasing output. The increase in produced goods and services increases the demand for labor and creates new employment opportunities. In addition to these positive effects of foreign direct investments, there are also negative effects such as causing foreigners to increase their control over the economy. Apart from this, the negative effects of using advanced technology on the one hand and still existing technology on the other, disrupting the economic integrity and creating unfair competition against small-scale domestic companies by removing protective restrictions such as customs tariffs and import quotas should not be ignored (Jude, & Levieuge, 2017).

3.1.3. Financial Globalization and Economic Growth

While the development of information technology and the liberalization of financial markets contribute significantly to this rapid growth. The maturity structure of central banks has helped to stabilize financial systems and improve the efficiency of financial intermediation. As a result of all these developments, the global economy has essentially grown with an increasingly complex web between borrowers and lenders. In the earliest examples of finance, financial instruments were limited to precious metals and coins. Borrowing was necessary to finance the needs of consumption, agricultural production, and trade. The financial intermediaries were money changers, usurers and banks. In the modern sense, financial intermediation refers to the trading of money through time and the conditions attached to these transactions. Financial intermediation is often accompanied by a financial instrument or legal contract that

specifies the mutual liability of the lender and the borrower (Al-Yousif, 2002, 131-150).

Brokerage has always been an important component of commerce. However, in the seventeenth. Prior to the 20th century, finance tended to be informal and took place between individuals or groups who had previously established economic or family ties with one another. The beginning of modern financial institutions today dates back to the Renaissance and the Medicis. The transformation of the Medici family, which made financial success an important force and had the distinction of being the first bankers, in the structure of banking institutions, occupies an important place. The Medicis, who made banks larger than other financial institutions of the period and diversified risks, traded in foreign currencies in addition to borrowing. With the risk diversification system they discovered, they gained significant prestige and strength, unlike other Italian banks, which collapsed easily with the bankruptcy of a single client. Admittedly, this family, which provided financial support to many artists and scholars in history from Michelangelo to Galileo, caught the first wave of financial creativity (Gounder, 2012).

The next innovative wave of financial innovation occurred in Amsterdam, Stockholm, and London, respectively. Founded in 1609, the Bank of Amsterdam pioneered practices such as checks, direct debits, and money transfers. However, the close to 100% ratio between deposits and reserves in this bank was an obstacle to credit creation. Later, the Bank of Stockholm, founded in 1657, removed this hurdle by pioneering the practice of fractional reserve banking. Although Holland started modern finance, its full purpose was in the eighteenth.

The Bank of England, founded in London in 1694, was essentially a bank with various privileges intended to support the country in war expenditures. With these waves of financial innovation, cashless transactions between banks, partial reserve banks, and central bank printing concessions began to spread rapidly in the Western world. Money now represents the liabilities of the banks, lending to their total assets. The main function of the institutions of this emerging modern financial system was to collect deposits and manage risks. The Bank of England played a crucial role in strengthening the British financial system, and was both a private and public institution,

playing the roles of modern central banks. It provided the British financial system with a stability and financial density unparalleled in other countries (Helhel, 2018, 761-771).

In the nineteenth century Walter Bagehot, expressing the crucial role of financial intermediation in the rapid industrialization of England at the beginning of the nineteenth century, was one of the first thinkers to reveal the relationship between finance and growth. Bajhot argued that more flexible and well-informed commercial bank boards better understand the needs of commercial communities and therefore better determine when to lend and when not to. According to Baghot, the most successful railways in Europe were not built by engineers, but by capitalists with a certain mercantile culture. Bajhot also stated that the unequal political and economic influence exercised by Britain is largely linked to its developed financial system, and that in the same period, the British benefited greatly from the financial system in order to engage in large and risky trade, maintain government bureaucracies, invest in new technologies and obtain on the capital (Kakilli-Acaravcı, & Acaravcı, 2009, 11-27).

Fernand Braudel, noting that the British Industrial Revolution was linked to the process of financial transformation that began in England in 1660, endorsed the view that several private banks in London, particularly the Bank of England, played a crucial role in bringing about the Industrial Revolution by meeting. The fiduciary and monetary needs of the County of England. John Hicks stated that the Industrial Revolution is not only based on the discovery of new resources, but also on new scientific discoveries, and stated that economic growth occurs through the use of new investment opportunities created by scientific developments. As a result, the variety of securities that innovative entrepreneurs need in order to assess investment opportunities and the ease of access to these funds are on the 18th. It existed in England in the first half of the century (Öztürk, 2008, 85-98).

With the rise of industrialization and modern world banking at the turn of the twentieth century, the long-term financing needs of industrial investments were largely met through the issuance of bonds and shares in London. Multinational banking activities have also increased dramatically. The number of foreign branches of British, French and German banks increased from 525 in 1880 to 1,610 in 1913. Capital began to spread around the world, mostly from Europe to North America and Latin America.

Joseph Alois Schumpeter stated that well-functioning banking activities encourage innovative operations through the money they give to entrepreneurs, and in this way, promising products and production processes have a chance of success. Schumpeter considers banking activities to be particularly important for building the innovation process. Therefore, he argues that the importance of the credit mechanism for financing innovation processes is increasing in all countries, albeit in different forms (Helhel, 2018, 761-771).

According to Schumpeter, banks, where all loanable money and daily savings are collected, create a link between those who will innovate by substituting private capitalists or their agents and the owners of the means of production. Especially in periods when there is no central authority managing the social process, banks become the phenomenon of development and enable innovations to be done on behalf of society.

According to Adalbert Winkler, the contribution of the financial system to the economy is grouped under four headings (Al-Yousif, 2002):

a) Transforming resources into economic units with more efficient investment opportunities,

b) ensuring the realization of effective but large-scale investments that cannot be achieved by a single economic unit,

c) To make projects which one company cannot risk because it will provide benefits in the long run, suitable for investment,

d) Ensuring the realization of projects that are efficient but cannot be undertaken by a single company due to high risks.

The functioning of the financial system is achieved through financial instruments and intermediaries who provide the flow of money between borrowers and lenders. Within the system, households, private companies, the government sector, and providers of foreign funds can be both borrowers and lenders. If the relationship between borrowers and lenders is achieved through a financial intermediary, then indirect financing is called direct financing if it is achieved without the use of an

intermediary. Borrowing with a maturity of less than a year is called short-term, borrowing for ten years or more is considered long-term, and borrowing between one and ten years is considered medium-term. The buying and selling of short-term debt securities is called the money market, and the sale of medium and long-term debt securities is called the capital market (Öztürk, 2008, 85-98).

The financial market in which the securities issued by the company or the government are sold to the first buyers is called the primary market, and the market in which the previously issued securities are resold is called the secondary market. Secondary markets are organized in two ways. The first is regulated markets, where securities are exchanged within a specific institutional structure. The second is the unregulated or over-the-counter markets, the securities markets that are not implemented in an institutional structure and do not require a specific position thanks to technological opportunities. Transactions in unorganized markets take place under more intense competition conditions compared to organized markets (Helhel, 2018, 761-771).

The main function of the financial system is to ensure the transfer of funds from the savers with surplus funds to the economic actors in need of funds. While securities are sold in direct financing, funds are transferred through an intermediary institution in indirect financing32. While money market instruments offer low-risk investment opportunities by showing less fluctuation compared to long-term investment instruments, securities in the capital market consist of instruments such as stocks and long-term bonds. In these markets, long-term savings are collected and transferred to long-term investments (Gounder, 2012).

3.2. Emprical Literature review

3.2.1. Relation between International Trade and Economic Growth

Theoretically, there is a direct and vital impact of international trade on a country's economic growth through trade variables such as exports and imports.

However empirically, different models have been used to test and find out the theoretical benefits of international trade on economic growth. However, the results

are different and this is due to several reasons, including the type of estimation techniques used such as (OLS, Granger Causality, Cointegration, and Error correction models), the selection of the samples such as developed countries versus less developed countries, the chosen period, as well as the chosen estimation methodology and other reasons. Through Table 1, we can present much research centered on the relationship between international trade and economic growth.

Table 1: Researches on the impact of international trade on economic growth

IT effects on EG	Sources	Data Span	Empirical Approach	Remarks
Positive	Bhattacharya, M. and Bhattacharya, S. N. (2016).	BRICS developed countries 1991-2013.	Panel cointegration test, Granger causality test, FMOLS and DOLS.	Cause economic growth per capita in the long run.
	Dragusha, Hasaj, Kruja and Lulaj (2023).	Albania 1994-2019	The ordinary least squares (OLS).	Empirical results for the Albanian case show that trade liberalization has a positive relationship with economic growth, exports, and imports.
	Ulaşan and Bülent (2012).	Lesser developed countries 1960- 2000.	The augmented neo-classical growth model suggested by Mankiw et al. (1992).	Many openness variables are positively and significantly correlated with long-run economic growth.
	Gokmenoglu, Amin and Taspinar (2015).	Pakistan 1967-2013.	Cointegration Analysis and Granger Causality Test.	The analysis confirms a long-run relationship between international trade and economic growth.
	Bardi and Hfaiedh (2021).	The countries bordering the Mediterranean of eight countries 1975-2016.	Ardl cointegration analysis.	The results show that the variables of commercial and financial openness favour economic growth.

IT effects on EG	Sources	Data Span	Empirical Approach	Remarks
Weak	Afolabi, Danladi, and Azeez (2017).	Nigeria 1981–2014.	The Ordinary Least Square (OLS)	The result revealed that government expenditures, interest rate, import and export are all positively significant while exchange rate and foreign direct investment are negatively insignificant to the growth process of the Nigerian Economy.
Null	Adeleye J., Adeteye O. and Adewuyi (2015).	Nigeria 1988-2012.	Ardl cointegration analysis.	Only Total Export (TEX) remains positive and significant while others remain insignificant.
Negative	Hystad and Jensen (2015).	91 developed countries 1970- 2011.	Pooled (OLS), Instrument Variable Regression, Panel data methods	A negative relationship between international trade and EG.

3.2.2. Relation between FDI and Economic Growth

Theoretically, FDI is concerned with directly impacting on economic growth through capital accumulation and the incorporation of new inputs and foreign technologies in the production function of the host country.

Empirically, Neoclassical and endogenous growth models have been widely used to test the theoretical benefits of FDI. However, the results are varying. The reasons include sample selection e.g. (Developed versus less developed countries), the selected estimation techniques e.g. (OLS, Granger Causality, Cointegration, Error correction models), and the selected period, the estimation methodology (i.e. time series versus cross-section), etc.

Table 2 presents several researches on the general relationship between FDI and economic growth.

Table 2: Researches on the impact of FDI on economic growth

FDI effects on EG	Sources	Data Span	Empirical Approach	Remarks
Positive	Mwakabungu and Kauangal (2023).	Tanzania 1990–2020.	Ardl cointegration analysis and Granger causality tests.	There exists a long-run relationship.
	Pegkas (2015).	Eurozone countries 2002–2012.	Panel data estimations and uses the Fully Modified OLS (FMOLS) and Dynamic OLS (DOLS) methods.	There is a positive long-run cointegrating relationship.
Weak	De Mello (1999).	32 developed and developing countries 1970- 1990.	Stationarity tests.	Weak evidence for FDI effects on economic growth.
Null	Manuchehr and Ericsson (2001).	Denmark, Finland, Sweden, and Norway 1970-1997.	Lag-augmented vector autoregression.	No causal relationship for Finland and Denmark.
Negative	Shaikh (2010).	47 developing countries 1981- 1999.	OLS regressions.	Negative effect in primary sector.
	Khaliq and Noy (2007).	Indonesia 1997- 2006.	OLS fixed effects regression.	Negative effect on growth in the mining and quarrying sector.
	Ludoșean (2012).	Romania 1991-2009.	Vector autoregressive type (VAR).	The FDI volume does not initiate growth.

3.2.3. Relation between Financial Globalization and Economic Growth

Theoretically, Financial Globalization is concerned with directly impacting economic growth.

Empirically, Neoclassical and endogenous growth models have been widely used to test the theoretical benefits of Financial Globalization. However, the results are varying. The reasons include sample selection e.g (Developed versus less developed countries), the selected estimation techniques e.g (OLS, Granger Causality,

Cointegration, Error correction models), and the selected period, the estimation methodology (i.e. time series versus cross-section), etc.

Table 3 presents several researches on the general relationship between Financial Globalization and economic growth.

Table 3: Researches on the impact of Financial Globalization on economic growth

FDI effects on EG	Sources	Data Span	Empirical Approach	Remarks
Positive	Gokmenoglu, Amin and Taspinar (2015).	Pakistan 1967-2013.	Unit Root Test for Stationarity, Co-Integration Analysis and Granger Causality Test.	The analysis confirms a long-run relationship between Financial Globalization and economic growth.
	Kazar, A. and Kazar, G. (2016).	High-income OECD countries. Furthermore, the poor performances of low-middle-income and low-income countries are also validated 1980-2010.	Dynamic ordinary least squares (DOLS) method.	The long-term relations, represented by the results of the DOLS method, show that financial development has positive effects.
Weak	Bhanumurthy and Kumawat (2020).	South Asian countries namely Bhutan, Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka. 1990–2015.	Panel VAR and Panel causality (in GMM framework).	the causation from financial globalization to growth in the region appears to be weak.
Negative	İnce (2011).	Turkey 1980-2010.	Cointegration and Granger causality tests.	There is a strong relationship in the short run, but it has failed in the long-run causality.

FDI effects on EG	Sources	Data Span	Empirical Approach	Remarks
	Maazo and Hammana (2013).	Algeria 1970-2010.	The (KAOPEN) index.	There is a long-term negative moral relationship between financial liberalization and economic growth.
	Mahsuli, & Saeid 2024).	(32) Developing countries 1990-2017.	The panel Granger causality test was performed depending on Yamamoto methodology.	Both the trade openness variable and foreign direct investment showed no significance on economic growth, for most of the sample countries during the study period.

CHAPTER FOUR

METHODOLOGY AND EMPIRICAL FINDINGS

4.1. Data Set and Model

This thesis aims to study the degree of economic growth through GDP in Libya resulting from foreign direct investment, foreign trade, and financial development. That is, this research will study how foreign direct investment, foreign trade, and financial development affect the amount of economic growth (GDP) and its interaction with it. Furthermore, this study will attempt to determine which of these variables has the greatest impact on economic growth in Libya.

Annual statistics for the period from 1990 to 2020 are collected from the World Data indicators and KOF Swiss Economic Institute. Information about the variables included in the study is included in Table 4.

Table 4: Variable Information

Variable	Explanation	Source
Growth	GDP per capita (current US$)	World Data Indicators
Trade	Merchandise trade (% of GDP)	World Data Indicators
FDI	Foreign direct investment, net inflows (% of GDP)	World Data Indicators
FIGL	Financial Globalization Index	KOF Swiss Economic Institute

Economic growth, or GDP, is the main factor in measuring the standard of living, as we mentioned previously. Foreign trade, foreign direct investment, and financial development are factors that directly affect economic growth. The main formula that examines the relationship between these factors is as follows:

$$Growth = C + \beta 1FDI - \beta 2FIGL + \beta 3Trade + E$$

Where:

C = Constant variable

β1, β2, β3 = model parameters

Growth: GDP per capita (current US$)

FDI: Foreign direct investment, net inflows (% of GDP)

FIGL: Financial Globalization Index

Trade: Merchandise trade (% of GDP)

E: Erorr term

4.1.1. Descriptive Statistics

Table 5: Descriptive Statistics of variables

	Growth	FDI	FIGL	Trade
Mean	4.808920	0.836592	41.84294	61.04949
Median	4.533487	0.189670	44.19022	56.87606
Maximum	5.957219	6.892245	56.13831	96.90367
Minimum	3.965954	-0.469314	23.06660	30.91636
Std. Dev.	0.572353	1.656406	11.74758	17.11911
Skewness	0.699684	2.171142	-0.225960	0.263261
Kurtosis	2.194328	7.570197	1.385149	2.186494
Jarque-Bera	3.367814	51.33358	3.632134	1.212896
Probability	0.185647	0.000000	0.162664	0.545284
Sum	149.0765	25.93434	1297.131	1892.534
Sum Sq. Dev.	9.827655	82.31040	4140.166	8791.923
Observations	31	31	31	31

Table 5 shows the descriptive statistics of all variables with 31 observation numbers. Since the probability values of the JB test statistics of the variables are greater than the 5% significance level, the null hypothesis of normally distributed cannot be rejected. All variables except FIGL show normal distribution.

4.2. Methodology and Empirical Findings

4.2.1. Unit Root Tests

A unit root test must be performed to determine whether variables are stationary or not. This is very important because as long as the variables are not constant, the logarithmic form of the functional relationship will not be robust. Unit root tests such as the Augmented Dickey-Fuller (ADF) test and the Phillips-Pyron (PP) test will be used; To test the stationary nature of GDP, FDI, foreign trade and financial development for first and level differences.

4.2.1.1. Augmented Dickey-Fuller test (ADF)

In the Review of Econometrics and Measurements, the extended Dickey-Fuller (ADF) test tests the incorrect theorem that a unit root is available in the period series test. Selection theory varies depending on the type of test used, but is generally consistent or consistent in type. It is an increasing demonstration of the Dickey-Fuller test for a larger and more noisy set of time series models.

The hypothesis of the unit root test is as follows:

H0: unit root (not stationary)

H1: There is no unit root (stationary)

4.2.1.2. Phillips-Perron Test (PP)

The Phillips-Perron test is a unit root test. This test is used in time series investigation to test the incorrect hypothesis that the time series is coordinated in order 1. It expands on the Dickey-Fuller test for the null hypothesis $\rho=1$ at $\Delta yt = (\rho -1) yt - 1 + ut$, where Δ is the variance accountant the first. Like the augmented Dickey-Fuller test, the Phillips-Perron test solves the problem that the interaction that creates information for yt can have a higher demand for autocorrelation than what was given up in the test case making yt -1 endogenous and in this way negates the Dickey-full test. While the incremental Dickey-Fuller test solves this problem by introducing lags Δyt as regressors in the test case, the Phillips-Perron test performs a non-parametric correction to the t-test measure. The test is robust with respect to the unknown autocorrelation and heterogeneity in the compounding cycle of the test equation.

The null hypothesis of the Phillips-Perron (PP) test is that there is a unit root, and the alternative is that there is no unit root. If the value of p is higher than the critical size, zero cannot be rejected there and the series will look like a unit root.

The hypothesis of the unit root test is as follows:

H0: unit root (not stationary)

H1: There is no unit root (stationary).

4.2.1.3. ADF and PP unit root test results

The results of the ADF and PP unit root tests applied to determine the stationarity of the variables are included in Tables 6 and 7.

Table 6*:* ADF unit root test result

Level		**Growth**	**FDI**	**FIGL**	**Trade**
With Constant	**t-Statistic**	-1.6211	-1.8780	-0.5603	-2.4708
	Prob.	0.4598	0.3376	0.8651	0.1323
With Constant & Trend	**t-Statistic**	-2.1862	-1.8145	-2.2765	-2.5297
	Prob.	0.4797	0.6724	0.4331	0.3127
First Difference		**d(Growth)**	**d(FDI)**	**d(FIGL)**	**d(Trade)**
With Constant	**t-Statistic**	-6.5322	-5.4744	-5.5821	-5.7532
	Prob.	0.0000	0.0001	0.0001	0.0000
With Constant & Trend	**t-Statistic**	-6.6147	-5.4043	-5.4692	-5.6220
	Prob.	0.0000	0.0007	0.0006	0.0004

Table 7*:* PP unit root test result

		Growth	**FDI**	**FIGL**	**Trade**
With Constant	**t-Statistic**	-1.5378	-1.9782	-0.4840	-2.5143
	Prob.	0.5011	0.2943	0.8810	0.1222
With Constant & Trend	**t-Statistic**	-2.1483	-1.9220	-2.3731	-2.5998
	Prob.	0.4995	0.6183	0.3851	0.2829
		d(Growth)	**d(FDI)**	**d(FIGL)**	**d(Trade)**
With Constant	**t-Statistic**	-7.0840	-5.4744	-5.6437	-8.5017
	Prob.	0.0000	0.0001	0.0001	0.0000
With Constant & Trend	**t-Statistic**	-10.6601	-5.4043	-5.5156	-9.7491
	Prob.	0.0000	0.0007	0.0006	0.0000

The results of Table 6 and 7 show that all variables at the original level of data are non-stationary according to the ADF and PP tests, and after taking the first difference of the variables and performing the stationary test, we find that all variables have become stationary at the first difference according to the ADF and PP tests, as Table 1 and 2 shows.

4.2.2. ARDL Cointegration Approach

The concept of cointegration can be defined as a representation of a permanent balance between specific variables that gradually combine or coincide over two or

more time series. This occurrence results in fluctuations in one variable that compensate for the fluctuations of another variable in a way that makes the ratio between their values constant over time, and thus this series may not appear. Stability when observed individually, but when examined collectively, they will show the same behavior. This perspective is important for researchers seeking to explain fluctuations between the variables being investigated in both short- and long-term contexts (Attiya, 2004: 669). Between economic variables, the use of cointegration is a valuable tool. Some variables show regular patterns of movement over time, even though they show random fluctuations when observed individually. In addition, cointegration helps determine equilibrium levels between non-stationary data and those that are stationary. Or rest, and to achieve the property of co-integration, it is necessary for the two series to be complementary to the same degree; otherwise, they do not achieve the property of co-integration (Ismail, 2022:147). Cointegration has gained attention for several reasons (Lin 2008: 9–8):

1. Cointegration indicates the existence of a long-run equilibrium.

2. Cointegration indicates a general random trend.

3. Short-run and long-run relationships between variables can be distinguished by cointegration.

4. Studies have proven that using integration is an effective way to enhance the accuracy of long-term forecasts.

5. Cointegration refers to imposing constraints on the parameters.

There are different methods for cointegration analysis including the Angel-Cranger test and the Johansen-Jeslius test. In addition, a section is devoted to examining the autoregressive distributed model (ARDL) (Battal et al., 2013:14).

4.2.3. Estimation Results of the ARDL Model

The applied unit root tests revealed that the variables were stationary at the first difference, indicating no issues with the application of ARDL cointegration analysis. In the next stage, the appropriate lag length of the ARDL model to be created must be determined. In this regard, 20 alternative models are evaluated within the framework of the AIC criterion to determine the lag length, and the model with the lowest value

is selected. Figure 5 shows the AIC information criteria for 20 models. Accordingly, the model with the lowest AIC information criterion was determined as 5.4.4.4.

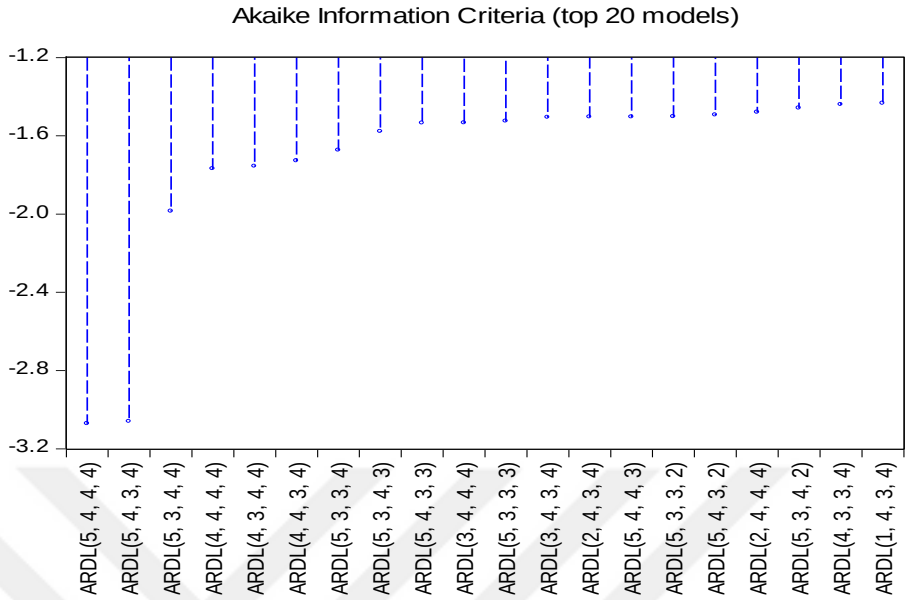


Figure 5: Identifying the top 20 models according to the AIC standard

4.2.3.1 Diagnostic Tests Results

Before determining the short and long term coefficients for the determined optimal ARDL model, diagnostic tests were conducted to assess the dependability of the model. The following tests were conducted: the Breusch-Godfrey Serial Correlation LM Test, the ARCH LM heteroscedasticity test, the Ramsey RESET test, and the Jarquera-Bera Normality Test.

Diagnostic tests of the optimum model (5.4.4.4) determined according to the AIC information criterion are shown in Table 8.

Table 8: ARDL Model (5.4.4.4) Diagnostic Tests Results

Diagnostic Tests		**Test Statistic**	**Prob Value**
F Stat.		66,237	0,000
Breusch-Godfrey Serial Correlation LM Test	F Stat.	3.237353	0.1464
Heteroskedasticity Test: ARCH LM	F Stat.	0.866391	0.3616
Ramsey RESET Tesf (F stat.)	F Stat.	0.014495	0.9100
Jarquera-Bera Normality	F Stat.	1,031809	0,5969
R^2		0,996	
Adjusted R^2		0,981	

Table 8 shows the diagnostic test findings of the model. For normality analysis of the model, Jarque-Bera test was used. According to the JB test result, the F statistics value is (F = 1.031) and the probability value is (P = 0.596). Since the JB probability value is greater than 5%, the null hypothesis that it is normally distributed cannot be rejected. It was found that the model did not have a normal distribution problem. For the autocorrelation test, the Breusch-Godfrey LM test was used. According to the LM test result, the F statistics value is (F = 3,237) and the probability value is (P = 0.146). Since the LM probability value is higher than 5%, the null hypothesis of no autocorrelation cannot be rejected. Therefore, according to the LM test result, it was found that the model was not a result of autocorrelation. ARCH LM test was used for heteroscedasticity analysis. According to the test results, the probability values were greater than 5% and the null hypothesis of no heteroscedasticity could not be rejected. It was found that the model has constant variance, not variable variance. The Ramsey-Reset test was used to examine whether the model had a specification error, and since the probability value of the Reset test was greater than 5%, it was concluded that there was no specification error in the model. Additionally, it was concluded that the model's coefficient of determination (R^2) and corrected coefficient of determination (Adjusted R^2) were quite high. Additionally, the graphs of the CUSUM and CUSUM-Q Tests are shown in figures 7 and 8.

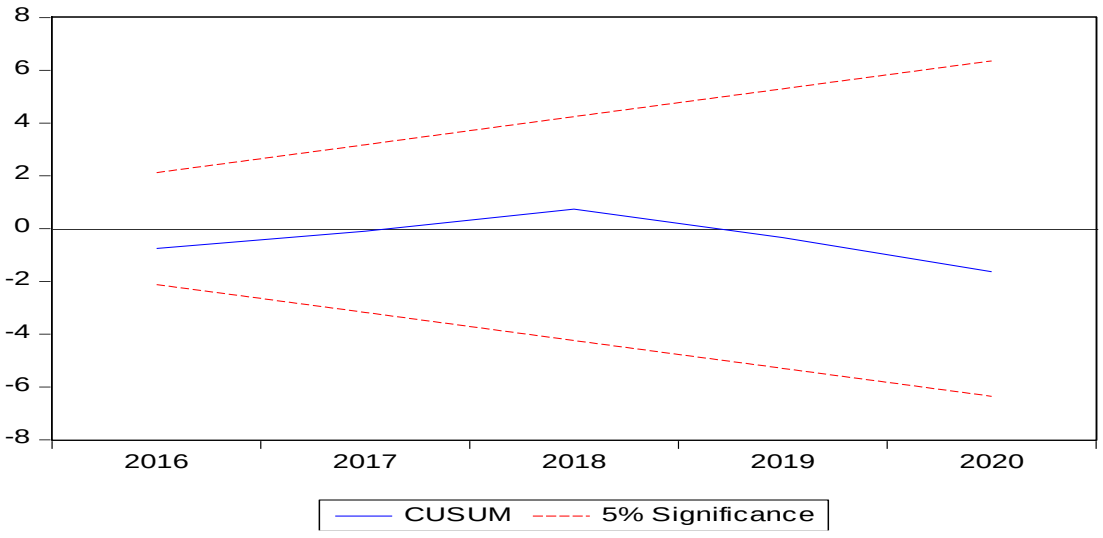


Figure 6: CUSUM Test

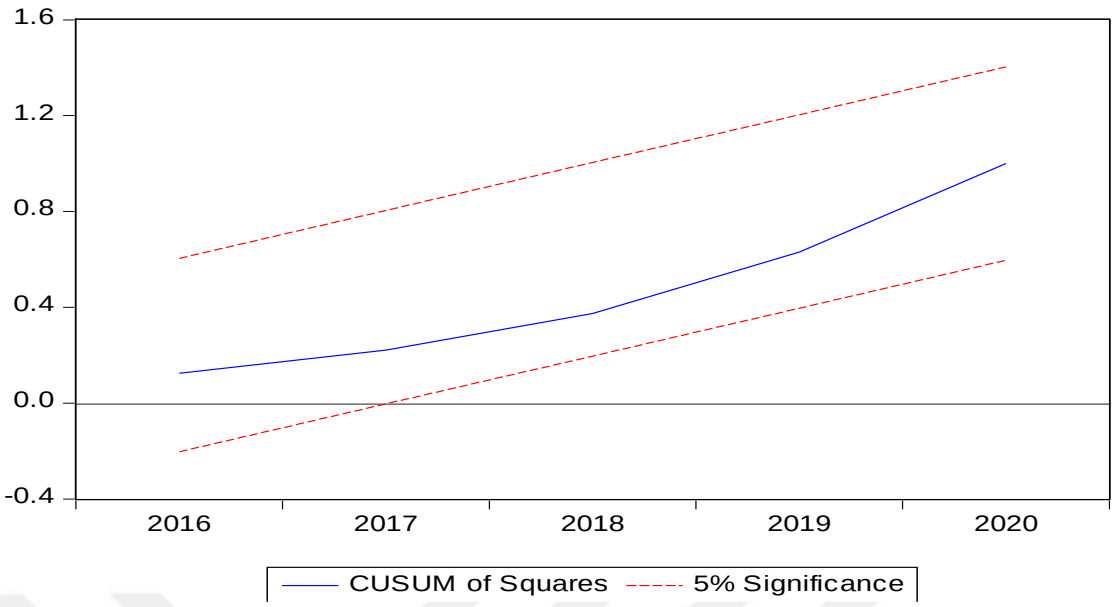


Figure 7: CUSUM of Squares Test

The results of the CUSUM and CUSUM of Squares tests show that the behavior of the function is stable and within significant limits at the 5% level.

4.2.3.2 ARDL Boundary Test Results

To determine whether there is long-term cointegration between the variables, the ARDL bounds test results are shown in Table 9. According to the findings in Table 9, the F statistics value (F = 17.786) was 1% greater than the upper limit critical value I (1) of Narayan (2005). This resulted in the rejection of the null hypothesis and the existence of a cointegration relationship between the series. The bounds test shows that there is a cointegration relationship between GDP per capita and the financial globalization index, trade in goods (as a share of GDP) and foreign direct investment flows for the period 1990-2020 and the Libyan economy.

Table 9: ARDL Bounds Test Result

Null Hypothesis: No long-run relationships exist		
Test Statistic	Value	K
F-statistic	17.78641	3
Critical Value Bounds		
Significance	I(0) Bound	I(1) Bound
10%	2.72	3.77
5%	3.23	4.35
2.5%	3.69	4.89
1%	4.29	5.61

4.2.3.3 Short-Term and Long-Term Coefficient Estimation of the ARDL Model

Table 10: Error Correction Model

Cointegrating Form				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
D(Growh(-1))	-0.267091	0.140299	-1.903730	0.1153
D(Growh (-2))	-0.284050	0.212579	-1.336211	0.2391
D(Growh (-3))	0.392848	0.159688	2.460103	0.0572
D(Growh (-4))	0.404444	0.104878	3.856351	0.0119
D(FDI)	-0.018732	0.017964	-1.042733	0.3448
D(FDI(-1))	0.004241	0.017899	0.236945	0.8221
D(FDI(-2))	0.004303	0.022495	0.191301	0.8558
D(FDI(-3))	0.086252	0.026020	3.314870	0.0211
D(FIGL)	-0.045027	0.005912	-7.616208	0.0006
D(FIGL(-1))	0.026840	0.014448	1.857684	0.1223
D(FIGL(-2))	-0.054031	0.009646	-5.601416	0.0025
D(FIGL(-3))	-0.009627	0.014206	-0.677678	0.5281
D(Trade)	0.004396	0.001369	3.210898	0.0237
D(Trade (-1))	-0.002521	0.001993	-1.265049	0.2616
D(Trade (-2))	0.002648	0.002222	1.191653	0.2869
D(Trade (-3))	-0.008279	0.001812	-4.569844	0.0060
CointEq (-1)	-1.091743	0.169575	-6.438097	0.0013
Cointeq = Growth - (-0.0658*FDI -0.0319*FIGL + 0.0100*Trade + 5.6091)				

The table above shows the short-term relationship between economic growth international trade, Financial development anf FDI variables. The results of Table 10 show that, the sign of the error correction coefficient CointEq(-1) is negative and significant, and it confirms the existence of a long-term equilibrium between the volume of trade, foreign direct investment, and financial globalization on the per capita share of GDP in Libya during the period (1990–2020).

Table 11: ARDL Test Long-Term Relationships

Long Run Coefficients				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
FDI	-0.065839	0.019316	-3.408470	0.0191
FIGL	-0.031902	0.002712	-11.762893	0.0001
Trade	0.010021	0.002685	3.732121	0.0135
C	5.609130	0.128932	43.504524	0.0000

FDI parameter also shows the results of flexibility long-term the negative impact of foreign direct investment on the per capita share of GDP, as increasing foreign investment by 1% reduces the per capita share of GDP by 0.06%. In addition to the FIGL parameter, financial globalization also had a negative impact on the per capita share of GDP as increasing financial globalization by 1% leads to a decrease in the per capita share of GDP by 0.03%, the negative impact of foreign direct investment and financial globalization on Libyan economic growth can be justified due to the tension in economic relations between Libya and foreign countries during Gaddafi's rule, as well as because of the civil war after 2011, and both factors contributed to discouraging financial globalization and foreign direct investment in Libya during the period 1990–2020. While (Trade) the proportion of trade volume in the GDP shows a positive impact on the per capita share of GDP, increasing (Trade) the proportion of trade volume to GDP by 1% leads to an increase in the per capita share of GDP by 0.01%. The results also show that all long-run elasticities were significant at the 1% level.

The most important conclusions

There is a long-term co-integration equilibrium between the ratio of trade volume to GDP, foreign direct investment, and financial globalization with the per

capita share of GDP in the Libyan economy during the period 1990-2020, and there is also a direct effect of the ratio of trade to GDP contribution to the per capita share of GDP. Overall, the results showed a negative impact of both foreign direct investment and financial globalization on the per capita share of GDP.

CHAPTER FIVE

CONCLUSION AND POLICY RECOMMENDATION

5.1. Conclusion

This thesis will focus on measuring the impact of financial development, foreign trade, and foreign direct investment on economic growth in Libya between 1990 and 2022. There are many factors that affect GDP that were not taken into account in this study due to the goal of the study and the difficulty of measuring many variables. And its impact on economic growth during this time period. For example, besides financial development, foreign direct investment and foreign trade, there are labor force, technological progress, domestic capital, national policies and other political and economic factors. However, this thesis only selects financial development, foreign direct investment, and foreign trade to study their effects on GDP, based on the hypothesis that states that foreign direct investment, foreign trade, and financial development positively affect economic growth, and it was adopted In estimating the impact of the relationship between foreign direct investment, foreign trade, financial development, and economic growth, the descriptive method presented the basic concepts of the variables in addition to the standard method using the ARDL modal equation, which was estimated using the ordinary least squares method.

In the first chapter; the background of the study problem statement, the study's objective, the significance of the study scope and the limitations of the study were presented. In chapter two the theoretical and conceptual framework for the study was presented including the main concepts and historical development of financial development, foreign direct investments and foreign trade and the historical development of financial development, foreign direct investments and foreign trade in Libya, besides contributions of these variables to economic growth.

In the third chapter of this study, the literature review of the study was presented including the relationship between economic growth and foreign trade, financial development, foreign direct investments and foreign trade.

In the fourth chapter the methodology of the study was presented in terms of data, the method of collecting it, the design of the study, as well as the presentation of the results.

In the fifth chapter, the general results obtained because of the study and the recommendations are presented.

The results of the ARDL model are as follows:

There is a long-term co-integration equilibrium between the ratio of trade volume to GDP, foreign direct investment, and financial globalization with the per capita share of GDP in the Libyan economy during the period 1990–2020, and there is also a direct effect of the ratio of trade to GDP contribution on the per capita share of GDP. Overall.

The results showed a negative impact of both foreign direct investment and financial globalization on the per capita share of GDP due to the tension in economic relations between Libya and foreign countries during Gaddafi's rule, as well as because of the civil war after 2011, and both factors contributed to discouraging financial globalization and foreign direct investment in Libya during the period 1990–2020.

5.2. Policy Recommendations

Based on what was achieved in the previous chapters, the study recommends the following:

1- The study recommends the need to establish a law for foreign direct investment in Libya that is comprehensive for everything related to foreign direct investment so that the foreign investor is sufficiently informed, which helps him make the decision.

2- The study recommends encouraging foreign direct investment, foreign trade, and financial development in sectors that have a high export capacity, such as the manufacturing sector, to reduce Libya's dependence on its oil revenues.

3- The study recommends an intensive focus on infrastructure development and the creation of huge projects that bring prestige to the Emirates, which contributes to increasing the attraction of foreign direct investment.

4- The study proposes to increase research on the subject of foreign direct investment, foreign trade, and financial development in Libya and to evaluate the extent to which it has benefited from foreign direct investment, foreign trade, and financial development by highlighting other economic indicators such as its impact on the balance of payments, development, and other indicators.

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RESUME

Personal Information

Surname, name	: Salih MAJDI ISHDOUQ
Nationality	: LIBYA
Birth date and place	:
Telephone	:
Fax	:
E-mail	:

Education

Degree	**Education Unit**	**Graduation Date**
Master		
Bachelor		
High School		

Work Experience

Year	**Place**	**Title**
2016 −2020	LIBYA	Tax Collection Department

Foreing Language

English

Publications

Hobbies

reading, football, swimming