Does Foreign Direct Investment Contribute to Growth in the Arab World?

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ABSTRACT

The paper attempts to show the relationship between economic growth and Foreign Direct Investment FDI in seven countries in the Middle East and North Africa (MENA) region, using the most recent data that is available. The study uses two different proxies for the FDI variable and studies the possible complementarity between FDI and domestic investment and some fundamental variables in the host countries. Three different versions of the statistical model were employed in estimating the results. The results reveal no empirical support for the hypothesis that the relationship between FDI and the host country’s economic growth seems generally positive. However, we find evidence of complementarity between FDI and aggregate investment-output ratio. The results support the dominating effects of government spending and exports in affecting economic growth. An important point to note is the robustness of the results across the regression models estimated.

Keywords: Economic growth; FDI; MENA Region; Government spending; Export growth.

1. INTRODUCTION

The debate on the relationship between Foreign Direct Investment (FDI, hereafter) and economic growth has exhibited considerable interest in the field of development economics. The assessment of effects of FDI on domestic and total investment is not a trivial matter, but little could be said on a priori basis, and may vary from country to country. Many empirical and theoretical studies have attempted to explain the differences of economic growth rates by linking the growth pattern to characteristics of these countries such as population growth, private investment, unemployment rate, and government expenditures.

In evaluating the impact of FDI on development, a key question is whether transnational corporation crowd in domestic investment or they have the opposite effect of displacing domestic producers or pre-empting their investment opportunities. Thus, if FDI crowds out domestic investment or fails to contribute to capital formation, there would be good reasons to question its benefit for recipient developing countries.

There is a widely shared view that FDI accelerates host countries’ growth in several ways. In this paper, we import the comprehensive description of Ram and Zhang (2002) of pointing the channels by which FDI accelerates (or retards) host countries’ growth by: (1) augmenting domestic savings and investment, (2) helping transfer of technology from the “leaders”, (3) increasing competition in the host country’s domestic market, (4) increasing exports and earning foreign exchange, and (5) imparting several other types of positive externalities (spillovers) to the economy at large.

On the other hand, it is sometimes suggested that FDI may (1) repatriate funds almost to the same extent as it brings in funds, (2) transfer technologies that are inappropriate for the host country’s factor proportions, (3) “kill” indigenous enterprise through an intense competition, especially due to the strong economic power of multinational corporations that bring FDI, (4) primarily target the host country’s domestic market and thus not increase exports, (5) cause distortions in the host country’s policies so as to benefit the foreign investors, and (6) create distortions in the host country’s social and economic structures by infusing inappropriate social and cultural norms and behavior patterns.

The growth of FDI in the developing world was extremely rapid during the period of 1990's. It rose from an annual rate of $35 billion in 1990 before surging to over $185 billion in 1999 (World Bank, 2002). About 90% of global FDI goes to industrial countries and the fastest growing less developed countries. This tendency
could be attributed to the fact that multinational corporations seek out the best profit opportunities and are largely unconcerned with issues such as poverty, inequality and unemployment alleviation (Todaro and Smith, 2003).

Many Arab countries have been particularly involved in offering preferential tax treatments and other explicit and implicit subsidies to attract FDI. These measures include reduced corporate income taxes, tax holidays, investment allowances and tax credits, accelerated depreciation, exemption from selected indirect taxes, and export processing zones (Oman, 2000). In addition to the fiscal measures, some promotion strategies have been geared towards investment generating activities through direct targeting firms by promoting specific sectors and industries, investment-service activities tailored to the current investors' need and perspective, raising the realization ratio, adoption of market reforms, open economies, and privatization of state owned enterprises.

With the exception of Israel, examination of the data of FDI over the period from 1990 through 2002 shows a great degree of instability in most MENA countries. With varying levels, it could be argued that most MENA countries have failed to attract as much FDI as they need for their development plans. In order to successfully restructure their economies to lure foreign investors, policy makers need to better understand what makes a market attractive to foreign investors.

The purpose of this paper is to examine empirically the response of growth to FDI inflows in Egypt, Morocco, Oman, and Tunisia. With varying levels, most of these countries have special characteristics: weak economic base, high population growth, dominance of the state in the economy, high unemployment, underdeveloped financial and capital markets, underdeveloped institutions, and low rates of returns on human and physical capitals (Makdisi et al., 2002).

The first stylized fact is that FDI flows to these countries have been poor in comparison with world and developing country inflows. The second is that these countries have the highest FDI performance indices compared to all Arab countries since the early 1990. The third is that the percentage of FDI inflows in gross fixed capital formation in Arab countries remains below the average for the world and for developing countries.

This study has three advantages over most of the previous studies conducted on the contribution of FDI to economic growth using data from Arab countries. The first advantage is that it uses the most recent available data set for some countries, which has the highest performance indices relative to the rest of all Arab countries. The second is that it employs unit root tests which are important in examining the stationarity of a time series. Stationarity here is a matter of concern in the derivation of standard inference procedures for regression models. The third is that it uses an advanced methodology which offers techniques that improve the efficiency of estimation.

The rest of the paper is organized as follows. Section 2 surveys the most recent empirical literature on FDI and growth. Section 3 presents the theoretical model and describes the data used. Section 4 presents the empirical findings. Section 5 provides some concluding remarks.

2. Literature Review

The theoretical foundation for empirical studies on FDI and growth is derived from either neo-classical models of growth or endogenous growth models. In neoclassical models of growth, FDI increases the volume of investment and/or its efficiency, and leads to long-term level effect and medium-term transitional increase in growth. The new endogenous growth models consider long-run growth as a function of technology progress, and provide a framework in which FDI can permanently promote the rate of growth in the host economy through its role as a conduit for transferring advanced technology from the industrialized to developing economies. While there is yet no consensus on the relationship between FDI and growth, there is a growing view in recent years that FDI is positively correlated with growth.

The effect of FDI on growth is expected to run through two channels: First, FDI is expected to increase economic growth by encouraging the incorporation of new inputs and foreign technologies in the production function of the recipient economy (Blomstrom et al., 1996; Borenszttein et al., 1998). Second, FDI is expected to augment the level of knowledge in the host economy through labor training and skill acquisition (De Mello, 1997; 1999). A particular significant channel for spillovers is through the linkages between the multinational corporation affiliate and its local suppliers and customers (Lall, 1980). Empirically, there appears to be good evidence that FDI efficiency spillovers exist, although there is no strong consensus on the associated magnitudes (Blomstrom et al., 2000).

Krogstrup and Matar (2005) hypothesized some
channels through which FDI may exhibit negative externalities over and above other types of investment. One important channel is that FDI by a multinational corporation may trigger an additional need for financing which could be sought in domestic capital markets, in order to complement the initial FDI. The potential additional domestic portfolio financing may have negative financial crowding out effects on domestic investments when the supply of domestic financial resources is limited or scarce. Along the same line, when FDI brings in a product already produced in the local market, the foreign affiliate enters into a competitive position with domestic industry and crowd out some of the demand for local investment. Finally, in the case of scarcity of skilled labor in the host country, FDI may draw skilled labor away from domestic industries, which will then lead to a negative impact on domestically owned activities, in turn inducing additional negative crowding-out effects on local investment. Whether the crowding channel leads to a positive or a negative spillover can thus be an empirical issue.

More interesting in the Arab world context is the study by Sadik and Bolbol (2001), who investigate the effect of FDI through technology spillovers on overall total factor productivity for Egypt, Jordan, Morocco, Oman, Saudi Arabia and Tunisia over a 20-year period. They find that FDI has not had any manifest positive spillovers on technology and productivity over and above those of other types of capital formation. In addition to this finding, there are some indications that the effect of FDI on total factor productivity has lower than domestic investments in some of the countries over the period studied, indicating a possibly dominating negative crowding out effect.

For developed countries, the limited evidence available indicates fairly and consistently that the productivity of domestically owned firms is positively related to the presence of foreign firms (Caves, 1974; Globerman, 1979). For developing countries, the results are also generally positive, although somewhat mixed, with a number of studies showing a higher foreign presence increasing productivity in host country sectors, but others pointing to limited or no efficiency spillovers. For instance, Blomstrom (1986) and Kokko (1994) find empirical evidence of positive FDI spillovers for Mexico. In a recent study, Sjoholm (1999) provides evidence supporting the existence of this relationship using Indonesian data. De Gregorio (1992) and Fry (1994) find that FDI correlates with economic growth using data from Latin American countries and Asian countries, respectively. Aitken and et al. (1997) find that foreign manufacturing investors in Mexico act in general as export catalysts for domestic firms-the probability of a Mexican-owned plant engaging in exports is positively correlated with its proximity to multinational corporations, after controlling for various other factors. As such, they conclude that the export spillovers they observe must spring directly or indirectly from ways in which the foreign investors act as a conduit for technology, management, distribution services, and information about foreign markets.

Micro studies at the firm level suggest that the impact of FDI on growth may depend on many factors. In a recent study by Aitkin and Harrison (1999) using panel data from Venezuelan plants show, that foreign equity participation is positively correlated with plant productivity, but that this relationship is robust for small firms. Harrison (1994) cites a case study evidence in Morocco and Venezuela, which indicates that firms with foreign equity participation are more productive than domestic firms and have higher productivity growth. However, Harrison (1996) finds that while joint ventures in Morroco and Venezuela exhibit higher productivity levels than their domestic counterparts, there is no evidence of positive short run spillovers from foreign to domestic firms. Harrison suggests that in the short run, FDI may adversely affect domestic firms by taking away market share and leading to reduced capacity utilization for the firms-although that does not rule out positive spillovers on the long run. More recent studies emphasize the potential role of FDI in enhancing growth through technological diffusion (Bengoa and Sauchez 2003; Driffield and Dylan, 2003; Jr-Tsung, 2004; Cheung and Lin, 2004).

Several empirical studies show that the impact of FDI depends on a multitude of factors, such as the level of technology used in domestic production in the host country, the level of education of the host country workforce, the level of financial sector and institutional development (Blomstrom, 1986; Kokko, 1994; Kokko and et al., 1996; Moran, 1998; Rodrik, 1999; Krugman, 1998; Razin and et al., 1999; and Loungani and Razin, 2001). The interaction among these factors will affect the host country capacity to absorb the foreign technology. Evidence supporting this point of view is provided by Dees (1998) by using macroeconomic data from China.
Another theme is the type of trade regime. Balasubramanyam et al. (1996; 1999) use cross-country annual data over the period 1970-1985 for a sample of 46 developing countries. They provide results suggesting that the size of the domestic market, the competitive climate in relation to local producers and interactions between FDI and human capital exert an important influence upon growth performance. This finding indicates that FDI is more productive in countries that have pursued export promotion rather than import substitution policies (using classifications of trade regime from Bhagwati (1978) and World Bank (1987)). This latter result is consistent with the results of Kawai (1994).

However, a different view is reported in Rodrik (1999) who surveyed the literature on the effect of FDI on economic growth and concluded that there has been little evidence of any horizontal spillovers, and suggested that much if not most of the correlation between FDI and superior economic performance is driven by reverse causality. In its crudest form, this implies that multinational corporations tend to locate in the more productive, faster growing, and profitable economies. In his study, Rodrik does not find the “crowding-in” effect of Borensztein, De Gregorio, and Lee (1998). In contrast, Bosworth and Collins (1999) find that the positive effect of FDI on domestic fixed investment tends to fall off significantly when more country characteristics are controlled for (Aitken and Harrison, 1999). Mencinger (2003) finds a negative relationship between FDI and growth, and the higher the inflow of FDI into a country, the higher is its current account deficit and foreign debt.

3. The Econometric Model and Data

3.1 The Econometric Model

To investigate the association between foreign direct investment and economic performance, we use the aggregate production function specification of the form

\[ Y_t = f(K_t^D, K_t^F, H_t, G_t, X_t) \]  (1)

where \( Y \) is aggregate real output, \( K_t^D \) is the aggregate input of domestic capital, \( K_t^F \) is the aggregate input of foreign direct capital, \( H \) is the aggregate input of labor, \( G \) is the government spending, and \( X \) is the flow of exports. In this paper, \( K_t^F \) is treated as a "quasi-input" in the sense that, for given levels of conventional aggregate inputs \( K_t^D \), \( H \), \( G \), and \( X \), \( K_t^F \) may raise efficiency and productivity, and thus aggregate output, because of (1) technological improvements in the host economy, (2) higher productivity in the FDI projects, (3) increased competition, (4) greater availability of imported intermediate inputs caused by increased exports, and (5) other positive spillovers to the host country’s economy (Ram and Zhang, 2002). Taking total derivatives, manipulating the expression, and adding constant and random error term, we get the familiar growth equation

\[ dY_t = \beta_0 + \beta_1 dK_t^D + \beta_2 dK_t^F + \beta_3 dH_t + \beta_4 dG_t + \beta_5 dX_t + e_t \]  (2)

where \( d \) refers to the annual rate of growth of the variables and is derived by estimating an exponential growth equation of the form \( [dY = \ln Y_t - \ln Y_{t-1}] \). The disturbance term, \( e \), reflects unobserved shocks, which are assumed to be serially uncorrelated. The parameters \( \beta_1, \beta_2, \beta_3, \beta_4, \) and \( \beta_5 \) are output elasticities of the respective right hand-side-variables in (2).

Since the rates of growth of \( K_t^D \) and \( K_t^F \) are not known, the growth rates of gross fixed capital formation (\( I \)), and foreign direct investments (\( F \)) will be employed in this paper as proxies for \( K_t^D \) and \( K_t^F \). Also, since measures of labor input are not available for all countries in the sample, it is replaced by the growth rate of population (\( dP \)). With these alterations, the model may be written as follows:

\[ dY_t = \beta_0 + \beta_1 dI_t + \beta_2 dF_t + \beta_3 dP_t + \beta_4 dG_t + \beta_5 dX_t + e_t \]  (3)

Since the data set used in the study has both cross-sectional and time series dimensions (pooled), equation (3) can be modified to count for country specific effect by the inclusion of a set of dummy variables. When we introduce a number of dummy variables equal to the number of countries in the sample, we should not include the intercept. As a result, equation (3) can be rewritten in the form

\[ dY_t = \beta_0 + \beta_1 dI_t + \beta_2 dF_t + \beta_3 dP_t + \beta_4 dG_t + \beta_5 dX_t + \gamma_1 D_1 + \gamma_2 D_2 + \gamma_3 D_3 + \gamma_4 D_4 + e_t \]  (4)

where \( (D_1 = 1 \) for Egypt and 0 otherwise; \( D_2 = 1 \) for Morocco and 0 otherwise; \( D_3 = 1 \) for Oman and 0 otherwise; \( D_4 = 1 \) for Tunisia and 0 otherwise). The coefficients of the dummies represent the fixed country specific effects.

Equation (4) can be estimated using Least Squares...
H0: e

Thus, the null and alternative hypotheses are these specification errors produce a non-zero mean vector will be invalid. Ramsey (1969), showed that any or all of such specification errors, LS estimators will be biased

between explanatory variables and error term (e). Under variables, incorrect functional form, and correlation one equation may influence estimates for other equations. This is only possible if all of the equations are estimated jointly.

On the other hand, there are potential disadvantages to system estimation that one should be aware of. In single equation estimation, if one of the equations of a system is misspecified, only the misspecified equation will be

system estimation that one should be aware of. In single equation estimation, misspecification of one equation may influence estimates for other equations.

In general, specification error may result from omitted variables, incorrect functional form, and correlation between explanatory variables and error term (e). Under such specification errors, LS estimators will be biased and inconsistent, and conventional inference procedures will be invalid. Ramsey (1969), showed that any or all of these specification errors produce a non-zero mean vector for (e). Thus, the null and alternative hypotheses are

H0: e~ N(0, σ²I) vs. H1: e~ N(μ, σ²I), μ ≠ 0 (5)

The test is based on the augmented regression

dY = Xβ + Za + ε. (6)

The test of specification error evaluates the restriction α = 0. The crucial question in constructing the test is to determine what variables should enter the Z matrix. Ramsey’s suggestion is to include powers of the predicted values of the dependent variables in Z:

Z = [ỹ², ỹ³] (7)

where ỹ is the vector of fitted values from the regression of Y on the X. The first power is not included since it is perfectly collinear with X matrix. Output from the test reports the test F-statistic and log likelihood ratio for testing the hypothesis that the coefficients on the powers of fitted values are all zero. The Ramsey test is applicable only to an equation estimated with least squares. Most of the studies suffer from this shortcoming as the general empirical literature on growth.

Finally, an important issue to be mentioned here is that the regression model involving nonstationary time series can induce statistical distortions. As an example, the F-statistics in the regression model involving nonstationary regressors has a substantial rightward shift under the null hypothesis of no causality. Thus, the significance of the test is overstated and a spurious regression result is obtained (Chang, 2002).

Tests for nonstationarity of a time series (Xt) involve testing for the presence of unit root. In this study, unit root is tested using Augmented Dickey-Fuller (ADF) (1979) test. The test is the t-statistics on 0 in the following regression:

\[ \Delta X_t = \delta_0 + \delta_1 t + X_{t-1} + \sum_{j=1}^{n} \varphi_j \Delta X_{t-j} + \eta_t \] (8)

where \( \Delta \) is the first-difference operator, \( X_t \) is the series under consideration, \( \eta_t \) is a stationary random error, \( \delta_0, \delta_1, \varphi, \) and \( \varphi \) are parameters to be estimated. The hypothesis of non-stationarity is rejected when 0 is significantly negative. Here \( n \) must be selected large enough to ensure that \( \eta_t \) is a white noise. In this study, the Akaike Information Criterion (AIC) (1974) is used to determine the appropriate lag length \( n \) that will be enough to ensure the stationarity of the error term \( \eta_t \). The AIC is defined as

\[ \text{AIC} = T \ln (\text{ESS}/T) + 2k \] (9)

where \( T \) is the sample size, ESS is the sum of squared error of the regression in equation (8), and \( k \) is the number of parameters, \( k = n + 3 \). The appropriate lag length selected by estimating equation (9) over a selected grid of values of \( n \) and finding that value of \( n \) at which AIC attains its minimum (Engle and Yoo, 1987).

An alternative test for a unit root was developed by Phillips and Perron (PP) (1988). Like the ADF test, the Phillips-Perron test is a test of the hypothesis \( \rho = 1 \) in the equation:

\[ \Delta X_t = \mu + \rho X_{t-1} + \eta_t \] (10)
### Table 1.: ADF and PP Unit Root Tests.

<table>
<thead>
<tr>
<th></th>
<th>Test</th>
<th>Intercept and/ or Trend</th>
<th>Lag Order(n)</th>
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a ADF refers to Augmented Dickey-Fuller test
b refers to the Phillips-Perron test
***(**)(*) denotes rejection of the hypothesis of nonstationarity at 1%(5%)(10%) significance level, respectively.
c (d) (e) denotes inclusion of No intercept (Intercept) (Intercept and Trend), respectively.

### Table 2.: The Estimates of Equation (3).

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<th>No weighing</th>
<th>Cross-section weights</th>
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### Summary

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<th>Morocco</th>
<th>Oman</th>
<th>Tunisia</th>
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</table>

*(**) denotes significance at 5% (1%) level.

1. FE refers to fixed effects which are 0.010 for Egypt, -0.16 for Morocco, -0.007 for Oman, and -0.009 for Tunisia. They are all insignificant.

Unlike the ADF test, there are no lagged difference terms. Instead, the equation is estimated by ordinary least squares (with the optional inclusion of constant and time trend) and then the t-statistic of the coefficient is corrected for serial correlation in t.

### 3.2 Data Description

The variables used in estimating equation (4) are annual data for four Arab countries: Egypt (1991 - 2002), Morocco (1990 - 2001), Oman (1990 - 2001), and Tunisia (1990 – 2001). Historically, these countries continue to be the most leading among all Arab countries in attracting FDI. The FDI patterns before 1990 were volatile and, thus resulted in nonstationarity of the data.

The variables used are Gross Domestic Product (GDP), GDP deflator (1995=100), government expenditure, gross fixed capital formation, foreign direct investment in the reporting economy, exports, foreign exchange rate, and population size. The variables are measured in terms of domestic currencies. These variables are obtained from the IMF International Financial Statistics Yearbook (2002). Direct investment represents the flows of foreign direct investment into the reporting economy. It includes equity capital, reinvested earnings, and other capital and financial derivatives associated with various inter company transactions between affiliated enterprises. Excluded are flows of direct investment capital into the host economy for exceptional financing, such as debt-for-equity swaps (IMF, 2003). As suggested by UNCTAD, foreign investment is usually recorded as a direct investment when the foreign investor gains 10 percent or more of the enterprise in which the investment is made.

With the exception of FDI which is given in terms of US million dollars, while the remaining variables are given in terms of domestic currencies. These variables are converted into US nominal dollars by using the average period market exchange rate per US dollar. Then these variables are deflated by the price index, DEF(US$), which links domestic GDP deflator with the foreign exchange rate using 1995 as the base year. This index is constructed as

\[
\text{DEF(US$)} = \frac{\text{DEF}_0 \times \text{EX}_0}{\text{EX}}
\]

where \(\text{DEF}\) denotes GDP deflator (1995 = 100), \(\text{EX}_0\) denotes the market exchange rate of US dollar using 1995 as the base year, and \(\text{EX}\) denotes the country's exchange rate per US dollar.

### 4. Empirical Findings

The first step in the empirical analysis begins by testing the stationarity of data series for all countries, using the Augmented Dickey-Fuller (ADF) or Phillips-Perron (PP) (1988) test. Three choices are used in running the ADF test regression. One is whether to include a constant term in the regression. Another is whether to include a linear time trend. The third is how many lagged differences are to be included in the regression. The test-statistic is investigated for all data series over a grid of 1 and 2 lag orders to select the optimal lag structure that minimizes the AIC. This criterion has proved its strength and efficiency in selecting the appropriate lag length. The stationarity properties are reported in Table (1). According to the applicable ADF or PP test statistics, nonstationarity can be rejected for all the data series studied.

To infer the impact of the FDI on economic growth, the system of equation (3) is estimated using least squares, cross-section weights, and SUR (see table 2). In general, the results based on the different weight options turn out to robust. The Durbin-Watson statistic is consistent with no autocorrelation in the regression residuals. The explanatory power of the regression model is fairly good in LS and SUR, and is excellent in cross-section weights. One important point to be mentioned is that the results based on LS and SUR are very much the same. This finding is compatible with the hypothesis of no correlation between errors and explanatory variables.

With no exception, the signs of the coefficients are consistent with those hypothesized, and provide no
Does Foreign…

support for the FDI-led growth hypothesis. The empirical results emerge from this study turn out to support the hypothesis that the Arab world as a group does not currently seem to be benefiting substantially from FDI. From the viewpoint of Krogstrup and Matar (2005), FDI may not have a positive effect which is statistically significant on growth in a host country due to negative crowding effect offsetting potentially positive externalities.

Table 3.: Ramsey's RESET Test.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Statistic</th>
</tr>
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<tbody>
<tr>
<td>Intercept</td>
<td>0.004</td>
<td>0.227</td>
</tr>
<tr>
<td>dF</td>
<td>0.002</td>
<td>0.210</td>
</tr>
<tr>
<td>dG</td>
<td>0.365</td>
<td>3.251</td>
</tr>
<tr>
<td>dI</td>
<td>0.121</td>
<td>1.683</td>
</tr>
<tr>
<td>dP</td>
<td>0.339</td>
<td>0.653</td>
</tr>
<tr>
<td>dX</td>
<td>0.384</td>
<td>4.531</td>
</tr>
<tr>
<td>ŷ²</td>
<td>-1.148</td>
<td>1.890</td>
</tr>
<tr>
<td>ŷ³</td>
<td>-0.760</td>
<td>0.284</td>
</tr>
</tbody>
</table>

Summary Statistics

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
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<tbody>
<tr>
<td>R²</td>
<td>0.848</td>
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<tr>
<td>adj. R²</td>
<td>0.819</td>
</tr>
<tr>
<td>DW</td>
<td>2.341</td>
</tr>
</tbody>
</table>

Figures in Parentheses are significance levels.

Table 3.: Ramsey's RESET Test.

5. CONCLUSIONS

The purpose of this study is to examine the impact of foreign direct investment on economic growth using pooled data from four Arab countries (Egypt (1991-2002); Morocco (1990-2001); Oman (1990-2001); Tunisia (1990-2001). This study has two advantages over most of the previous studies conducted on the Arab countries. The first advantage is that it uses the most recent data available for the most leading four countries in attracting FDI and political stability. The second is that it employs an advanced methodology in testing for stationarity properties of the data, and employing seemingly unrelated regression approach. If the disturbances of the equations are correlated, the SUR estimator is more efficient, because it takes account of the entire matrix of correlations of all the equations.

The relationships between the growth rate of real GDP and a set of conventional variables (gross fixed capital formation, foreign direct investment, population, government spending, and exports) were estimated. The results support the dominating effects of government spending and exports in affecting economic growth.

The results reveal no empirical support for the hypothesis that the relationship between FDI and the host country's economic growth seems generally positive. This result must not be surprising, because FDI inflows to the Arab world have not increased during the 1990's, as has been the case for other developing regions. In more specific words, Arab countries receive only a small fraction of total flows to developing countries, both in absolute terms and relative to GDP. As concluded by Krogstrup and Matar (2005), the insignificance of the relation between FDI and growth can be interpreted as a result to the Arab world failure to build up absorptive capacity to be benefiting from FDI inflows.

The poor FDI performance of the Arab world could be attributed to the large public sectors, the associated limited room for private initiative, and the slow pace of...
privatization in the Arab world. Reasons should also be sought outside the traditional economic literature, in a region plagued with geopolitical tension and instability. Arab countries should implement policies to improve on and upgrade their absorptive capacity to be benefiting from FDI flows. An upgrade of the human capital stock through an improvement in the quality and quantity of education, an improvement of the functioning of the financial sectors, strengthening the quality of business regulation, good governance, and the implication of asymmetric information are all policies that fall into this category.

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هل محفز المبادر الأجنبي الاستثماري للنمو؟

لمشيد زكية

تهدف الدراسة إلى دراسة العلاقة بين العلاقة القلبية المشتركة في الشرق في العربة الدول ومنطقة غرباً مع الحوار الاستعماري، ونستعمب الدولة الأشهر في مجموعتها، حيث أن الخسائر الاستعمارية الأشعة الإقتصادية تعزز العلاقة المشتركة في ثالثة الاستخدام، ونستعمب القرار الإقتصادي الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعماري، ونستعمب الاستخدام الاستعمари...