

## ГРОШІ, ФІНАНСИ І КРЕДИТ

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**Foreign Direct Investment and Economic Growth:  
Literature Review on the UAE Example****Abdulla Alrashdi**Phd Student of Department of Finance and Credit  
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This paper explores the relationship of FDI and economic growth by examining the role FDI inflows play in promoting host country economic growth. Author analyzes and reveals the essence of basic research of this problem in the UAE and other countries in Asia and Africa. In his analysis, the author identifies previously unsolved scientific problem of FDI issue and outlines the prospects for further research.

**Keywords:** foreign direct investment, economic growth, literature review, globalization, UAE experience.

У статті досліджується взаємозв'язок прямих іноземних інвестицій та економічного зростання шляхом вивчення ролі ПІІ у сприянні економічному зростанню приймаючої країни. Автор аналізує і розкриває суть фундаментальних досліджень цієї проблеми в роботах провідних вчених ОАЕ та інших країн Азії і Африки. У своєму аналізі автор виявляє раніше не вирішені частини наукової проблеми і намічає перспективи подальших досліджень.

**Ключові слова:** прямі іноземні інвестиції, економічне зростання, огляд літератури, глобалізація, досвід ОАЕ.

В статье исследуется взаимосвязь прямых иностранных инвестиций и экономического роста путем изучения роли ПИИ в содействии экономическому росту принимающей страны. Автор анализирует и раскрывает суть фундаментальных исследований этой проблемы в работах ведущих ученых ОАЭ и других стран Азии и Африки. В своем анализе автор обнаруживает ранее нерешенные части научной проблемы и намечает перспективы дальнейших исследований.

**Ключевые слова:** прямые иностранные инвестиции, экономический рост, обзор литературы, глобализация, опыт ОАЭ.

**Introduction.** Under the globalization impacts on the financial markets, the volume and value of Foreign Direct Investment FDI had been significantly increased, it is also strengthens the connections between the different financial markets either it is developed or developing markets, Seenivasan [23]. Moreover Lordina et al., [18] indicate the effect of financial stability on economic growth in Africa by using a dynamic fixed-effect model, and they found that the financial stability, which has been representative in capital adequacy, liquidity, and asset quality, and the results shows that financial stability have a positive effect on the economic growth in Africa.

Recently in Gulf Countries Council (GCC) markets become more open for the FDI, those countries try to increase the inflow of FDI, in order to achieve that they start improve their policies and regulations, establish excellent infrastructure, beside to the availability of raw

material as petrol and gas, that's proved by Hussein [12] when she stated that the FDI inflows increased in recent years to GCC due to many factors such as the country's economy is strong, reduction of tax rates and trade barriers, improve policy to attract FDI, and expediting the issuance of visas.

Such a significant expansion of foreign capital flows has captured the attention of both policymakers and researchers. So this research it aims to investigate whether FDI and financial stability have impact on the economic growth or not in United Arab Emirates. The importance of this research comes from the critical rules that UAE plays in the economy of middle east and gulf region, according to United Nations Conference on Trade and Development (UNCTAD) report of (2012) has indicated that the UAE is the largest Arab capital importer, it has attracting nearly \$85.4 Billion, which put the UAE in the second recipient of FDI in the region.

In the same time due to the visionary leadership's in the UAE, it becomes economically sustainable, politically stable and socially dynamic and united, since it independence it achieve unprecedented economic and social growth, and the stupendous is that all sectors participate in this growth. That mean the UAE doesn't depend on the petroleum industry to achieve this huge economic growth, so I believe there is others factors that strongly participate in accomplishing this economic growth, which I think that the implemented financial policy works in attracting foreign capital, in addition to suitable infrastructure and financial stability provided by the UAE.

#### **Motivation and Importance of the Study.**

United Arab Emirates considered as attractive market for the foreign direct investment due to many factors, Groh and Wich [9] concluded that the UAE is best fourth economic performing countries beside to Singapore, Hong Kong, Luxembourg, they also indicates that the UAE is very attractive market size and potential and outstanding profit and gains taxes. That supported from the report issued in (2008) from the Business Intelligence Unit which says that the UAE has a huge surpluses mainly due to the oil and gas production, this surpluses lead UAE up to has a vast sovereign wealth funds, this economic situation could be floats UAE in beside to other factors as good and attractive market to directly invest in.

Many authors as Kastrati [15; 16], Vahter and Masso [27] and others disclose that the FDI may has a lot of benefits and advantage to the country, this advantages as technological spillovers development, human capital developing, enhancing competitive environment, moreover improvement of environment and social condition.

The important of this study is to answer many questions that literature not answered, these questions including how the FDI could affect the economics of host country and to what extent the FDI could affect the host country economy, that is consistent to Hussein [12] says that there is conflicting evidence in literature regarding to how, what extent, FDI affect the economic growth.

Both of academics and public debates on the effect of FDI on the hosting country economy, all developing countries is seeking to attract FDI as its considered factor positively affecting the economic growth; in addition to other factors as the domestic investment. May the positive effect of FDI is indirect to the local economy, but we can mention here the technological development and human capital, which is consistence with study when they argued that the FDI may increase

the tax revenue, improve human capital, technology and labor skills. So we can agree with Hayami [10] when he stated that FDI helps the host country to break the evil of un-development.

Sure FDI has good and positive effects on host country economy as previously mentioned, but the overstating of FDI benefits rather than its negative effects could float an interjection in our mind. The undesirable results obtained from some of the literatures which is gloomy and was not able to justify the huge public funds spent to attract FDI. All of that drive me to conduct this study to measure the effect of FDI on host country economic growth.

**Research Objective.** This paper explorer the relationship of FDI and economic growth by examining the role FDI inflows play in promoting host country economic growth. The effect will be divided to direct and indirect. Indirect such as transfers of technology, management and labor skills, which mentioned by many researchers as the study of Findlay [8] and Wang and Bloomstrom [28] when they clarify that FDI considered as a conduit for transferring technology and other benefits to the host country. In addition, the direct effect will affect to the GDP of hosting country, GDP could be used as parameter for the economic growth as it's used in many papers such as Hussian [12], Al-Iriani [4], and Carkovic and Levine [6], Akinlo [2], Ray [21], and Nahidi and Badri [19].

Consequently, the research objectives include first, establishing a relationship between the inflow of FDI and the economic development in economic growth framework for the research, then the researcher will describe the UAE economic resources, including human, natural and other related aspects, third will discuss the FDI in general and particularly for UAE investment climate by assessing the literature review related to the UAE market and economy, then I will investigate and explorer the effect of FDI on economic growth in UAE, even its direct or indirect effect. Finally, will evaluating the results and discuss it and provide recommendations regard the results and the investigation.

#### **Research Methodology and Hypothesis.**

The methodology for this study will be empirical and will use economic models will be used to evaluate and answer the main question which is the effect of FDI on the economic growth of the host country, based on analysis of data will be collected from international organization such as World Bank, World Investment Reports of UNCTAD, the GCC governments official publications and reports, ESCWA (United Nations Economic

and Social Commission for Western Asia), and Central banks publications.

**The research. Foreign Direct Investment and Economic Growth in Pakistan: A Sectoral Analysis, (M. Khan and S. Khan, 2011) [14].**

The main purpose of this study was to examine empirical relationship between industry-specific foreign direct investment (FDI) and output under the framework of Granger causality and panel co integration for Pakistan over the period 1981-2008. It was found that FDI has a positive effect on output in the long run. The result also supports the evidence of long-run causality running from GDP to FDI. In addition the study found that the FDI causing growth in the primary and services sectors, while growth causes FDI in the manufacturing sector.

**Trend and Role of FDI in India: An Empirical Investigation, (Kochar, 2014) [7].**

The paper tries to study the trend and pattern of flow of FDI from 2000-2013. The author collected data to for the year 2000-2013 to analyze and find out the degree of correlation and relationship between FDI and GDP in manufacturing sector. The paper finds that that there is no significant relationship between FDI and GDP in manufacturing sector.

**Foreign Ownership and Local Firms' Capital Labor Ratio: Case of Abu Dhabi (Parcerro, etl., 2014) [20].**

This paper explored the effect of foreign ownership local firms' capital deepness in the resource-rich economy of Abu Dhabi. The authors use a novel dataset of more than 15,000 local firms registered in the Emirate of Abu Dhabi.

The evidence indicates that the foreign ownership local firms' capital in Abu Dhabi has a positive effect on the capital labor ratio for the local firms, which is helping to update the technology and participates in knowledge transfer to the local firms. In addition the firms which involve in international trade also positively affect the labor ratio of local firm. Overall, the results clearly show that the economy of Abu Dhabi may get advantage and obtain benefits from foreign ownership and the openness to trade.

**Locational Drivers of FDI in MENA Countries: A Spatial Attempt, (Hisarciklilar, etl., 2006) [11].**

This paper aimed to analyze the drivers of FDI in Middle East and North Africa (MENA) countries. The authors used a sample from 18 countries covering the 1980-2001 time periods to specify countries regional and trades market relation in attracting the FDI. The results displayed that FDI in the MENA region is market

oriented; and the market in MENA countries is considered as host economy; it also utilizes trade opportunities within the region.

**Impacts of Foreign Direct Investment on Economic Growth in the Gulf Cooperation Council (GCC) Countries, Muawya (Hussein, 2009) [12].**

This study have been identified the effect of FDI on the economic growth in Gulf Cooperation Council (GCC), by covering six countries including (Kingdom of Saudi Arabia, United Arab Emirates, Oman, Qatar, Kuwait and Bahrain). The author tried to see the effect of FDI on the economic growth and what are polices taken by GCC countries to attract the FDI, in order to achieve the purpose of study the author used recent growth theories and statistical techniques to empirically test. The result showed that the GCC countries has low portion from the FDI for the developing countries, and during 1990s the FDI in GCC have not increased comparing to other developing countries, only the Kingdom of Saudi Arabia and United Arab Emirates have been notice that they are performing well and attracting FDI above the ratio.

**Foreign Direct Investment and Economic Growth in the GCC Countries: A Causality Investigation Using Heterogeneous Panel Analysis, Mahmoud Al-Iriani and Fatima Al-Shamsi, 2007 [4].**

The paper used the imperial test to explorer the relationship between the FDI and economic growth, the targeted area is the in the six countries comprising the Gulf Cooperation Council (GCC), and the study indicates a strong causal relationship between FDI and GDP and vice versa, which have been drove the author to conclude that FDI could be considered as an important factor that positively affect the GDP in the tested area. And they recommended the GCC countries to adopt more polices that attract more FDI inflow to the GCC markets.

**GCC economic integration challenge and opportunity for malaysian economy, Asmak Ab Rahman, Mohd Abu-Hussin, 2009 [1].**

The paper aimed to analyze the GCC economic situation from the Malaysian perspective and pointed the cooperation at the regional level between GCC and Malaysian. In order to reach the result the authors looked to the trend, level, and others factors of its trade and economic relation of Malaysian and the GCC. The paper devoted that the growing of trade between GCC and Malaysia is due to the economic tie among the Organization of Islamic Conference countries (OIC), and the GCC is

looking to expand their economic and strategic relation with Asia, so the Malaysian market is considered as potential market to GCC to explore and expand its trade with, in order to diversify its trade partner.

**Conclusion and further research perspective.** This research argues that the development of economic growth in host country is associated and affected by the volume of FDI inflows, in particular, more FDI inflows could mean more economy growth, this positive effect could be direct as increase the Gross Domestic Product (GDP) or indirect as technology transfer, improve management and labor skills.

As I noticed from the literature review and previous studies, the effect of FDI could be direct to the GDP or indirect as technology transfer, employment increase, improve management and labor skills. The main question is broken into three questions.

First Question is does FDI contribute positively to economic growth, and will be measured

by exploring the effect of FDI on the GDP of host country which is UAE. This effect will be measured by using panel data, the regression tools in SPSS for time series will be from 2000 to 2013. This tool used by researchers in many studies as Hussien [12], Al Irani [4].

Second question is does FDI affect positively to management skills, final question is does FDI contribute positively in technology transfer to UAE, the second and third question represent the indirect effect of FDI on the hosting country economy, the answer for question two and three will be obtained by using the qualitative research techniques, and consist of questionnaire modes of data collection. According to the newest statistics from the UAE economic ministry the total of foreign companies registered in UAE in 2011 is 2212 companies as mentioned in details in table 1 and graph 1, the questionnaire will be distributed to the study sample which is chosen by using random sampling technique as a total of 10% (221 companies).

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