Accomplishes Foreign Direct Investment Affect Private Investment In Arab Nations In The Period Between (2000 – 2021)?

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Abstract: The article desires to examine the impact of FDI on PI with a sampling of 10 selected Arab countries from 2000-2021. For further analysis, the study used OLS. Test method with fixed and random effects model, and after making Haussmann's test and accepting the Alternative Hypothesis (H1), the study used the fixed effects model. The results confirm the presence of crowding in reality, which indicates that FDI encourages PI in only one model. Aside from this, the delayed PI has a positive and essential impact on herself in the coming period reflecting stagnation in the direction of PI in the beneficiary nations. In the complete panel sample, thither is a significant negative effect between inflation and PI, there are some macro elements that as per capita GDP, electro, domestic credit, and labor force, which were positive and not statistically significant, while trade openness was negative and not statistically significant.

Keywords: Foreign Direct Investment, Private Investment, Arab Countries, Full Panel Data, Fixed Effects Model.

1 Introduction

Economic growth is enhanced by a large number of indicators, foremost of which is foreign direct investment [1]. (FDI, which contributes greatly to alleviating poverty [2]), especially in the third world countries, as it is with the spread of modern technologies and skills Administrative and completely new business knowledge, which led to a reversal of the important roles of foreign direct investment [3], where foreign direct investment has increased in recent years, by about 958 billion dollars in the third world countries in 2020, and the barrier of one and a half trillion dollars jumped in the year 2021 [4]. This and the Arab countries were able to receive about $53 billion, equivalent to 3.3% of the total global foreign investment. This comes at a time when the world is witnessing many crises, whether with the ongoing repercussions of the Covid-19 epidemic, or Russia's war in Ukraine, which led to an even worse crisis of global economic activity. After the top five countries (UAE, Saudi Arabia, Egypt, Oman and Morocco) accounted for more than 96% of all new foreign direct investment significantly. In 2021, it was There are 754 foreign investment projects, with a 20% annual increase, with costs dropping 8% to about $32 billion [5].

However, FDI contains a negative effect on investment-exporting countries, as it is an external financial flow that does not benefit at the local level. Despite this, some serious discussions have emerged about the importance of foreign direct investment on some macroeconomic variables for the countries in which these investments are pumped [6], sees that foreign direct investment is a reason for increasing environmental pollution, and also reinforces inequality between local and foreign investors, as developing countries pay them as they bring hard currency into the country [7]. Many developing countries have succeeded in developing the level of private investment, which helped them to form a great economic power gradually, which revived the economies of these countries in light of the period of global recession in the economy and the decline in foreign investment due to the Corona pandemic [8]. Policies in countries that host foreign investment around the world about the importance between PI and FDI as it is an important topic and has a clear impact on the macroeconomic variables difference [9].

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In the last decade, a numeral of studies focused on clarifying the relation amidst PI and FDI, but it was strangely contradictory, as some studies indicated a positive effect between FDI and PI or private capital in countries such as studies [10], [11], [12], [13]. In complete contrast, there have been some studies that confirm a negative relationship between FDI and PI on steward nations [14], [15], [16], [17]. On the other hand, some studies have found that foreign investment competes with the private economy [18], and some studies reject the impact of competition [19].

These conflicting results make it difficult for policymakers to effectively handle FDI invrushes to steward nations. In addition, Arab countries give high priority to FDI in regions with low labour costs and abundant natural resources, such as the Arab region, in demand to supply more proof to fill this observed study gap. Our study will include several new contributions Firstly; we need an Arab study looking at the extent of the impact of FDI on PI, given the importance of the subject and its impact on the economies of the selected countries. Secondly, our results go further than what was presented by previous studies by dividing the study data into a complete panel sample for some selected Arab countries and providing a statistical method. Distinguished was not presented in the majority of Arab studies, which gave us a broader result that allowed our analysis to conduct a comprehensive and comparative discussion of the selected Arab countries in terms of their attractiveness to FDI. Third, our findings contain more recent data than previous studies. Fourth, in addition to the effect of FDI, some macro variables were included in our econometric model to quantitatively estimate the interaction between other economic factors and PI in recipient countries. Fifth: It will work This study aims to provide a lot of information to help decision-makers in Arab countries to identify how to exploit the available resources, which enables them to improve their private investment by attracting foreign investments to their countries. This article is organized into 5 divisions. Division 2 provides a summary of the literature. The Econometrics method and study data are offered in Division 3. Division 4 then defines the estimated outcomes and argumentation. Finally, Division 5 is conclusions and some policy implications.

2. Literature Review

There are several former studies that talked about FDI and its effect on private investment in developing nations, where it is noted [20] that thither is a positive effect of FDI on private investment, but it was also found that stimulating private investment is through foreign direct investment, Therefore, by achieving an increased retrieval on the principal in the local market, in addition, [21] concluded that thither is a positive impact of FDI on PI as well as economic growth, for an emphasis at the result of the competition hypothesis between FDI and private investment in countries Africa, which is agreed with [22] that FDI has a negative effect as it contributes to the reduction of local investment, who sustains the hypothesis of the effect of overcrowding out in this areas, as researched [23] in the indirect effect of FDI domestic investment in India in the years 1991-2007. The writer points out that FDI inflow indirectly and positively affects local investment by raising the commission of exports in India. [24] it studied the determinants of PI in Malaysia, and the results confirmed that FDI has a related effect on the private sector, a passive impact on private investment in this economy.

[25] Analysed the effect of FDI on private and public domestic investment. The conclusions tick that thither was no long connection between FDI, public investment, and private investment in Turkey from 1970-2009, indicating weak assistance of FDI to the Turkish local investment path [26], discovered that aggregate investment (FDI and the private sector) is major in well-governed nations, and thither is a guide of exclusion (FDI replaces local private investment), and the spell of exclusion correlates with governance for 46 developing countries covering 1996-2009. While [27], located that FDI has a positive relationship with domestic investment in the Middle East and North Africa from 1990 to 2010, which confirms its supportive effect in this region [28], indicates that there is a conflicting point in the association between FDI and local investment in farming in Ghana in 1976-2011, which indicates the exclusion hypothesis in this case study [29] they found that FDI in Chinese joint ventures has a positive impact on local investment, but, while FDI as 100% FDI companies has a crowding-out effect [30], stated FDI has a short-term overcrowding-out impact on local investment, nonetheless, it is observed by a long-dated crowd-out effect in a selection of 10 Mid and Eastern European nations from 1995-2015. While [31] reached the same conclusion that foreign direct investment positively influences private investment not just in the shortened but also in the long-dated in Vietnam.

3. Data and methodology

Based on former studies, the most important of which are [32], [33], [34], [35], [36], where these studies set several variables that were used in this paper then our econometric model will be built. Our quantitative research model to study the impact of foreign direct investment on private investment for some Arab nations is as pursues the table shows 10 selected Arab nations shown in Table No. 1 inventory of developing nations in the research example. Table 2 presents descriptive statistics for the variables.

\[
PI_{it} = \phi_1 + \phi_2 PI_{(-1)} + \phi_3 FDI_{it} + \phi_4 GDPPer_{it} + \phi_5 DC_{it} + \phi_6 IN_{Fi} + \phi_7 LBF_{it} + \phi_8 ELEC_{it} + \phi_9 OPENNESS_{it} + \varepsilon_{it}
\]

Where:
PI: Private investment calculated as a percentage of GDP, which is the dependent variable in the study.
PI (-1) is the first lag in the study in the PINV variable.
FDI: is the foreign direct investment (unit is $ billion).
CGDP: GDP per capita calculated from real per capita income (measured in $1,000).
DC: Domestic credit, which we calculate from GDP as a percentage.
INF: inflation.
LBF: is the labour force, which is the total number of people able to work in countries (the unit is a thousand people)
ELEC: the population's access to electricity in percentage (unit %),
OPENNESS The trade openness of countries, which is the sum of exports and imports divided by GDP (unit %).

<table>
<thead>
<tr>
<th>List of Country</th>
<th>Qatar</th>
<th>Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Arab Emirates</td>
<td></td>
<td>Iraq</td>
</tr>
<tr>
<td>Kuwait</td>
<td></td>
<td>Tunisia</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td></td>
<td>Palestine</td>
</tr>
<tr>
<td>Lebanon</td>
<td></td>
<td>Egypt</td>
</tr>
</tbody>
</table>

Table 1: The list of growing countries in the study sample

There are 10 Arab nations in our study sample, collected straight from the World Bank data [37]. These countries are selected based on the volume of foreign direct investment in them according to [38], where the highest and lowest five countries where there is foreign direct investment were selected.

Table 2: Descriptive statistics of the variables

<table>
<thead>
<tr>
<th>V</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI</td>
<td>3.802</td>
<td>3.1783</td>
<td>16.225</td>
<td>0.037</td>
<td>3.101</td>
</tr>
<tr>
<td>FDI</td>
<td>3.170</td>
<td>1.320</td>
<td>3.951</td>
<td>-1.021</td>
<td>5.960</td>
</tr>
<tr>
<td>CGDP</td>
<td>17150.71</td>
<td>4672.79</td>
<td>85075.99</td>
<td>854.82</td>
<td>20377.56</td>
</tr>
<tr>
<td>DC</td>
<td>57.519</td>
<td>58.643</td>
<td>140.246</td>
<td>1.217</td>
<td>30.745</td>
</tr>
<tr>
<td>INF</td>
<td>5.049</td>
<td>2.567</td>
<td>154.756</td>
<td>-10.067</td>
<td>13.170</td>
</tr>
<tr>
<td>LBF</td>
<td>6987373</td>
<td>4000715</td>
<td>29254321</td>
<td>353270</td>
<td>7455716</td>
</tr>
<tr>
<td>ELEC</td>
<td>3.129</td>
<td>0.104</td>
<td>19.736</td>
<td>0</td>
<td>4.538</td>
</tr>
<tr>
<td>OPENNESS</td>
<td>65.805</td>
<td>66.773</td>
<td>165.286</td>
<td>4.781</td>
<td>32.672</td>
</tr>
</tbody>
</table>

In order to be able to deviate the effect between FDI and PI, the OLS method will be used through the two fixed effects models (FEM) and random effects (REM) and one of them will be chosen through the Haussmann test. If the null hypothesis is rejected, we use the fixed effect model and if we accept it, we use the random effect model when the probability value is (0.05) and the results of the Haussmann test indicate the rejection of the null hypothesis and thus the use of the fixed effect model, and Table No. (2) Displays the descriptive statistics of the sample variables.
In order for get results about the effect from FDI on PI in the Arab countries, we made a graph (see Figure 1) where the vertical axis indicates the values of FDI and the horizontal hub is the values of PI. The results obeyed in the chart show that there is no clear significant correlation between the study variables, with reference to the apparent graph, where we expect that there is no impact of FDI on PI in the estimated results.

### 4. Results and Discussion

First, we shall employ the complete panel data (10 nations) to guess the econometric function. Furthermore, to thoroughly analyze the impact of FDI on PI in Arab nations, we shall use four types of models to estimate our standard economic function. Different combinations of variables help to investigate whether signs and statistical significance have changed. According to our regression strategy, we will use both FEM and REM models to estimate econometric functions. Then the Hausman test shall aid us to select the best one. Nonetheless, the whole Hausman test effects assure that the FEM effects are reasonable, as we have probability (F=0.0026) < 0.05 at all test times. Therefore, only the FEM results are presented in the table (see Table 3). The estimation effects display that FDI and other explanatory variables like (PI (-1), FDI, CGDP, DC, LBF, ELEC, OPENNESS, and INF) have no impact on PI.

#### Table 3: The full-panel estimated result

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>V</td>
<td>0.838**</td>
<td>0.656**</td>
<td>1.050**</td>
<td>0.477**</td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PI(-1)</td>
<td>0.823*</td>
<td>0.783*</td>
<td>0.802</td>
<td>0.782*</td>
</tr>
<tr>
<td>FDI</td>
<td>2.278</td>
<td>2.805***</td>
<td>2.412</td>
<td>2.742</td>
</tr>
<tr>
<td>CGDP</td>
<td></td>
<td>4.535</td>
<td></td>
<td>2.660</td>
</tr>
<tr>
<td>DC</td>
<td>0.008</td>
<td></td>
<td>0.0068</td>
<td></td>
</tr>
<tr>
<td>LBF</td>
<td>2.116</td>
<td></td>
<td>0.036</td>
<td></td>
</tr>
<tr>
<td>ELEC</td>
<td></td>
<td>0.0319</td>
<td>3.113</td>
<td></td>
</tr>
<tr>
<td>OPENNESS</td>
<td>(-0.0023)</td>
<td>(-0.008)</td>
<td>(-0.009)</td>
<td>(-0.007)</td>
</tr>
<tr>
<td>INF</td>
<td>0.014**</td>
<td>0.015**</td>
<td>0.014**</td>
<td></td>
</tr>
<tr>
<td>R2</td>
<td>0.907</td>
<td>0.907</td>
<td>0.907</td>
<td>0.908</td>
</tr>
<tr>
<td>Obs</td>
<td>210</td>
<td>210</td>
<td>210</td>
<td>210</td>
</tr>
<tr>
<td>Countries (n)</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

* *, **, *** represent 10%, 5% & 1% significance levels, respectively

Table No. (3) Shows the regression of the results of the fixed effect model, since it can be seen from the results that there is a significant effect at 10% between foreign investment and private income in the second model, in which each. The share of
GDP and electricity are removed, but they did not do we did not find results in other examples, and the researcher shows this result to the health of the selected Arab countries, since 4 countries from the sample enjoy different incomes. Countries, which means that the citizens of these countries do not use their money to improve their standard of living, unlike other countries. It explains the presence of a positive phenomenon in the second model and emphasizes the difference between (FDI) and (PI) in the case of full panel data, which agrees with both [39], [40], [41], [42]. Where we can explain this result is because of the need to improve technology and the great opportunities that create citizens and improve supply chains from abroad, which led to the spread of electronic commerce, for example, and marching. Of citizens to improve their income due to the increase of foreign investment in these countries, and we see that the initial delay in Private investment, indicated by PI (-1), is useful and important in itself in the future. And in many forms, and this makes sense because it shows the stagnation and reluctance to create individual financial businesses since this result means an increase in each investment in the following year and the spread of the principle of fear to open investment businesses that can cause great loss to residents, but this result confirms that personal income grows over time, which was shown by [43].

We also find negative values at 5% in all models, which explains the inverse relation, inter inflation and PI, since inflation is the enemy of investment. It creates an unsuitable investment environment for new investors. When inflation goes up, money goes down and vice versa. Nonetheless, the counted results too show the non-significance of other explanatory variables for each currency including electricity, per capita GDP, labor force, domestic debt, and trade liberalization. The regression coefficients do not have statistical significance, which leads to an unclear conclusion about the directive of these variables for each income throughout the study time.

5. Conclusions

For decades, foreign direct investment has played an essential position in stimulating economic growth in growing nations. Nonetheless, the effect of foreign investment on investment in host nations is the subject of much debate. Our article aspires to study the impact of foreign investment on individual investments with a sample of ten Arab countries during the period 2000-2021 and to deepen the concept of foreign direct investment and its impact on private investment since this study is one of the few that link these two changes due to the lack of new studies, which makes this study Distinctive. Our research findings show that FDI has a positive and significant impact on PI in host countries. Therefore, our evidence in all estimated outcomes confirmed the convergence hypothesis. In addition, the deferred main indicator had a significant positive impact on it during the coming period, which indicates a halt in the direction of private investment in the host countries. This is similar to the results of the current study with several previous studies in terms of objectives and results, the most important of which is the study of both [44], [45], [46], [47], [48], [49] where these studies concluded that there is a direct positive relationship to foreign investment.

However, the results of this study differed with [50]. that foreign direct investment has a negative impact because it contributes to reducing local investment, which supports the hypothesis of the effect of overcrowding in these areas. [51]. he studied the Determinants of PI in Malaysia, and the results confirmed that foreign direct investment has an impact related to the private sector, which is a negative impact on private investment.

After what we found, policymakers in the Arab world must attract foreign direct investment with various incentives and supportive policies, and an increase in foreign investment can lead to an increase in private investment and improve the performance and demand of local companies. Work to educate people to earn their money and grow them by conducting campaigns to publicize the importance of investment, in addition to the fact that Arab countries must follow a balanced monetary and monetary system to reduce inflation and control prices to find a place for investment. In the countries of the Arab countries and achieve greater prosperity for their citizens, as well as for the central banks to encourage banks to provide local loans for the purpose of investment and try to focus on the production of local products as an alternative to foreign trade, with the opening of the economy and even if it is beneficial. It has an economic impact in the future, helping to improve market conditions and support free trade that can be done by force to encourage private investment. Finally, infrastructure development solutions must be noted because infrastructure systems are a necessary area for attracting foreign direct investment as well as creating a good business environment for the development of private industry and private investment in Arab countries.

Accordingly, we can come up with some practical effects, the most important of which is that foreign investment is the main incentive to gather the local investor to invest in his homeland by virtue of being more aware of its nature and need, as foreign investment focuses on sectors that do not need penetration into the Arab market, such as investing in restaurants, companies and hotels, unlike the investor The local that can achieve companies with the government sectors and thus achieve profitable returns, and that countries want to expand the volume of foreign investment in their desire to reduce unemployment, increase their tax revenues and develop their local economy, and finally these policies will inevitably lead to more intervention by the government and other public agencies To promote private investment when requirements and opportunities are revealed, as it will be an attractive factor not only to increase foreign direct investment, but also to foreign direct investment destined for
areas with relatively high added value.

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References


