



The impact of Foreign Direct Investment and Imports on Economic growth (In Egypt -from 1977 to 2019)

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Abstract:

The aim of this research is to study the impact of foreign direct investment on economic growth in Egypt from (1977 to 2019). The study measured the impact of foreign direct investment and imports on economic growth in Egypt since 1977. Econometric methods were used to analyze the relationship between foreign direct investment and imports on economic growth. Then an empirical investigation was conducted using regression analysis to address this relationship and causation between the variables.

The results of the regression analysis indicated that there is a positive relationship between imports and economic growth related to Egypt's imports of machinery and commodities necessary for production processing. And a negative relationship was found between foreign direct investment and economic growth, which indicates that foreign direct investment in Egypt did not increase production, but rather led to an increase in consumption. Foreign direct investment in Egypt was not directed towards building factories or supporting industries, but rather focused only on consumption.

Key words: Foreign Direct Investment, Imports, Egypt, Economic growth.

Introduction

FDI and imports has become an issue of great controversy where contradictory findings were documented in the related literature on their impacts upon economic growth. FDI is one of the important means of technology transfer and therefore plays a more important role in growth than domestic investment, nevertheless, an important component of financing domestic investment. Studies revealed that FDI that transcends government stability and law enhances GDP growth. FDI and imports help domestic markets to import capital goods necessary for domestic production thereby reducing imports. On the other hand, FDI and imports might increase foreign loans, if the country does not direct it towards increasing domestic production. Increasing consumption of specialist foreign goods and services causes negative effects on economic growth.

Literature Review:

Impacts of FDI have been an interesting topic for researchers, in particular, impacts of FDI on economic growth was tackled from different perspectives where varying results were concluded.

Using cross-sectional and regular data (OLS), Balasubramanyam, Salisu and Saps ford. (1996) concluded a positive relationship between FDI and economic growth of countries that are interested in exporting and not importing. Borensztein, Gregorio, and Lee. (1998) analyzed FDI flows and found that FDI is one of the important means of technology transfer and therefore an important component of growth more than domestic investment,

and therefore it is considered an important component of financing domestic investment.

Bertelemey and Demurger (2000) illustrated the negative impact of economic growth on foreign capital inflows. The simultaneous equation model based on a sample of twenty-four Chinese provinces is used, during the period from 1985 to 1996, and foreign technology is considered one of the main determinants of economic growth. While Konings (2001) showed that FDI weakened growth for Romania and Bulgaria, as these two countries are exposed to trade and monopoly imbalances, with no positive impact of FDI on the related growth of Poland during the period 1993-1997. By applying the Johansen complementarity test, the error correlation model, and the Granger causality test, Zhang (2001) studied real GDP data for eleven high-income developing countries. The results showed that FDI inflows in East Asian countries such as Taiwan enhanced their economic growth. Moreover, Alfaro et al. (2003) studied the effect of FDI on economic growth in three sectors, (primary, industrial, and services). The results showed the extent to which the benefits of FDI differ across sectors, where the effect was negative on growth in the primary sector, but was positive for the industrial and services sector.

Kim and Seo (2003) used an automatic regression model to illustrate the strength of the dynamic relationship between FDI, economic growth and domestic investment in Korea for the period (1959-1999). They concluded positive impacts for FDI on economic growth. However, Akinlo (2004) conducted an analysis in Nigeria using the error correction model (ECM). The results showed the absence of a relationship between FDI and economic

growth within the primary sectors, and the existence of a relationship within the manufacturing sector.

Caner and Hansen (2004) revealed that FDI that transcends government stability and law enhances GDP growth. It was found also that the institutions index is important for all groups except for the American group. According to Branstetter (2006) found that technical knowledge had effects resulting from FDI and has an important role in economic growth by applying to both (Japan and the United States of America), where it reached the spread of knowledge stimulated by foreign investment. Moreover, Hsiao and Hsiao (2006) described the relationship between economic growth, exports and FDI in many Asian countries, where it found significant differences in the causal relationships between the variables. Johnson (2006) found that FDI inflows positively contribute to economic growth in selected developing countries, using cross-section and board data in 90 countries for the period 1980-2002.

Wilson and Catcho (2007) showed that trade and FDI had a complementary relationship in the countries of the Organization for Economic Cooperation and Development. Cetintas, Barisik (2008) This study analyzes the relationship between exports, imports and economic growth. The results showed that there is a one-way causal relationship of economic growth and export, and these empirical results show that the hypothesis of exports responsible for growth, growth consists through increased demand for imports.

Then Hoang Wiboonchutikula, and Tubtimtong (2010) showed the extent of the impact of FDI on economic growth in Vietnam, by analyzing

data from the dashboard across 61 provinces in Vietnam during the period (1995-2006), and the results were summarized the presence of strong and positive relationship between FDI economic growth, and hence achieving an increase in the capital stock.

According to Samimi, Ariani, and Rezanejad (2010), FDI had an indirect effect on economic growth in these countries, and the application was on sixteen of the Organization of the Islamic Cooperation (OIC) countries. Adhikary (2011) confirmed the relationship between FDI, trade openness, capital formation, and economic growth rates in Bangladesh, from 1986 to 2008, and the results demonstrated the existence of a strong and long-term relationship. Agrawal and Khan (2011) built the modified growth model from the basic growth model, and the data used in the growth model were gross domestic product (GDP), human capital, labor force, FDI, and gross capital formation, through the period data (1993-2009), in China and India, by the OLS regression method and it was found that China's growth is affected by FDI more than India's growth. Farahi (2011) tried to measure the impact of FDI on economic growth in Algeria, using the "Minitab v1.5" program by employing the Cub Douglas function during the period (1991-2008). The result of the study was positive Relationship between them. Tiwari and Mutascu (2011) showed that there was a strong influence of FDI and international trade activity on economic growth during the period 1986-2008 for twenty-three Asian countries.

Behname (2012) illustrated the effect of FDI on economic growth in South Asia, by examining the unit root that showed the constancy of variables

(human capital, infrastructure), and therefore the researcher applied the random effects model, during the period (1977-2009). The study clarified the extent of positive foreign investment for economic growth. Koojaroenprasit (2012) used multiple regression during the time period (from 1980 to 2009) to study the extent of the impact of FDI on economic growth in Korea. The researcher found a positive effect of FDI on the economic growth of Korea, while the effect of capital became clear. Human capital, export and employment positively affect growth, and the same result is shown for Pakistan. FDI, domestic investment, employment, exports and human capital are considered among the internal variables of economic growth. Lautier and Moreaub (2012) revealed the importance of domestic investment, as the results indicated that it is considered as one of the strongest reasons that increase the value of foreign investment in developing countries, by attracting investors. The study, Pilbeam and Oboleviciute (2012) also showed that there is no negative impact of FDI on the domestic and that for the new member states of the European Union.

According to Shaari, Hong, and Shukeri (2012), FDI greatly affected Malaysia's economic growth, and there was also a positive relationship between FDI and the real GDP in Malaysia. While Also Wasal (2012) clarified the absence of a relationship between FDI and economic growth in Arab countries, and clarified the importance of focusing on the quality of FDI and not on the quantity. This became clear after conducting much sensitivity analyzes, using data for 16 Arab countries during the period (1970-2008). According to Leitao and Rasekhi (2013), there was convergence between

Portugal and its trading partners, by investigating the relationship between FDI and economic growth, and thus they recommended maximizing the role of FDI and bilateral trade in economic growth. Sulaiman, Kaliappan, and Ismailc (2013) confirmed the existence of a positive and significant impact of FDI on the economic growth of the countries of the Union of South Africa (SACU), by using the dashboard data and the use of dynamic ordinary least squares (DOLS) during the period 1980-2010.

Flora and Agrawa (2014) applied the methodology of co-integration and causation analysis at the panel level, as the purpose of the study was to examine the relationship between FDI and economic growth in the five BRICS economies, namely Brazil, Russia, India, China and South Africa, during the period 1989-2012. The results confirmed the interdependence of the long-term relationship between FDI and economic growth at the level of the board of directors. Dritsaki and Stiakakis (2014) found that there was little effect on economic growth in Croatia, and they explained the importance of the link between exports and economic growth. Melnik, Kobatko, and Pisarenko (2014) illustrated the impact of FDI on the economic development of post-comeson economies in transition. It uses a neoclassical growth theory model to analyze the effects of FDI on economic growth. The results represented the significant impact of FDI on the economic growth of host countries. Szkorupova (2014) also confirmed the existence of causal links between FDI, exports and economic growth in Slovakia.

The study of Tabassum and Ahmed (2014) dealt with clarifying the correlation between FDI and economic growth in Bangladesh, using the

multiple regression method by looking at the relationship between real GDP, FDI, domestic investment, and system openness during the period (1972 to 2011). The results indicated that domestic investment has a positive impact on economic growth, while FDI and trade openness is less important.

Ullah, Shah, and Khan (2014) established a dynamic relationship between domestic investment, FDI and economic growth in Pakistan, by applying the Phillips and Perron (PP) test to evaluate the unit root in the data chain, Johansen's co-integration to study the long-term relationship, and used the Toda-Yamamoto causal approach to assess causal links. Hence, the results revealed the existence of a long-term relationship between domestic investment, FDI and economic growth, as the causation was stronger support for this relationship. The researcher revealed a two-way causal relationship between FDI and domestic investment. The study of Hajjati (2015) showed the existence of a negative relationship between FDI and economic growth, and the aim of this study was to prove the existence of the relationship between economic growth and the flow of FDI in sub-regions, Saharan Africa. Secondary data from organizations and institutes were used to examine whether there were other factors that might influence the overall output. The variables used in the regression were FDI, property rights, level of corruption, logistics performance index, education level, basic GDP and life expectancy using panel data for forty-one sub-Saharan countries, during the time period from 2005 to 2005. 2013, and the result of the analysis was that FDI has a positive impact on economic growth in host countries.

It was evident from the study of Munteanu (2015) that FDI has an impact on the determinants of growth such as the quality of the workforce; however this was not clear with regard to measures of productivity. Where the researcher discovered that despite the technology available through FDI, the negative impact outweighs the competitiveness of domestic companies. Petre (2015) aimed at clarifying the extent of the impact of FDI on Romanian economic development, and its impact was related to capital flows, in both the political and academic environment to achieve the desired goal, and this was by analyzing the relationship between FDI and GDP, using the Country Performance Index (CPI) for the 2003-2014 data series. This indicator represents the ratio between FDI inflows into global flows and GDP in global GDP.

Awolusi and Adeye (2016) showed that there was no effect of total capital, human capital, and international technology transfer in the Central African Republic, as the study took into account the variables (GDP, human capital, international technology transfer). Labor force, FDI and gross capital formation), and it used the rate growth model by applying the ordinary least squares and the general moment method as estimation techniques among all the results during the period (1980 to 2013).Trojette (2016) examined the impact of FDI on economic growth and its adoption at the institutional level for five regions, namely: (Sub-Saharan Africa, the Middle East, North Africa, Europe, Asia and America), using the GMM system during the period from 1984 to 2013, The results revealed the role of institutional development in mitigating ambiguities of FDI on GDP growth.

Bakari, Mabrouki (2017) This paper examines the relationship between exports, imports, and economic growth in Panama. To achieve the desired purpose, annual data for the periods between 1980 and 2015 were tested using Johansen's Cointegration Analysis of the Vector Auto Regression model and Granger-Causality tests. The results showed that there is no relationship between exports, imports and economic growth in Panama. It was also found that there are indications of a bidirectional causal relationship from imports to economic growth and from exports to economic growth. Based on these results, exports and imports are the source of economic growth in Panama.

As for Asian economies, the study of Goh, Sam, and McNown (2017) showed that there was no long-term relationship between FDI and trade in some Asian countries, through a pre-test for joint integration. Then Rahal (2017) examined the impact of FDI on economic growth in Algeria, using the (eviews8) program, during the period (1970-2015). The results showed a positive impact of FDI on economic growth in Algeria, taking into account that the volume of investment was small during that period. Uddin and Mst. Jamia Khanam (2017) Through this research, the relationship between imports and GDP growth of Bangladesh through 32 years (1981-1992) of time series data is known. The requested data were collected from the Bangladesh Bank website and the World Bank database. After conducting the necessary analyzes, the researcher concluded that import is negatively related to the growth of GPD, and the growth rate of GDP is negatively related to import.

Carbonell and Werner (2018) clarified that FDI supports economic growth in Spain, as it was one of the largest countries that received FDI,

during the period (1984 to 2010), the results showed a positive period between FDI and economic growth, with a marked increase in FDI and ideal opportunities for it, as it became clear that there was no impact on growth as a result of Spain's entry into the European Union and the euro. The study of Susilo (2018) studied the effect of FDI on economic growth in the United States by applying the multiple linear regression models and estimating it using the regular least squares (OLS), during the period (2000 to 2017), and the results showed a positive correlation with economic growth, with a negative effect on some of them.

Ashraf et al. (2019) illustrated the importance of FDI in the country's development. It aimed to follow long and short-term analysis between FDI, GDP, gross national income (GNI) and imports (IMP) of Pakistan during the period (1987 to 2017), and the researcher used the ADF unit root test, Johansen, Cointegration approach and causation methods. The results were indicative of the insignificance of the causal relationship between FDI and growth in Pakistan. Baiashvili and Gattini (2019) concluded the extent of the importance of absorptive capacity in guiding the effects of FDI, as there was a positive effect by institutional factors on FDI, and the study was specific to one hundred and eleven of the more developing countries, in relation to developing and emerging markets. Robust GMM plate techniques were applied to the sample size.

According to Kenny (2019), the effect of FDI and the exchange rate on economic growth in Nigeria from 1971 to 2013. The study used trend lines and percentage to analyze the impact of both FDI and the exchange rate on the

country's economic growth, and this study discovered that the exchange rate has a greater impact on economic growth than FDI in Nigeria. Thanh, Canh, and Schinckus (2019) discussed the role of economic institutions and economic openness in the growth of the Vietnamese economy, using GMM estimates of the system, during the period (2005 to 2015), through sixty-three Vietnamese provinces, to be studied the implications of institutional quality on internal FDI, trade and growth. They concluded positive impact of internal FDI with trade openness, and great influence of economic institutions on the combined effects of FDI and trade openness in improving economic growth.

Consequently, a negative relationship between FDI and economic growth, might be inferred from reviewing the above literature. Bertelemy and Demurger (2000) illustrated the negative impact of economic growth on foreign capital inflows. And Konings (2001) showed no positive impact of FDI on the related growth of Poland, Moreover, Alfaro et al. (2003) studied the effect of FDI on economic growth in three sectors, (primary, industrial, and services). The results showed the extent to which the benefits of FDI differ across sectors, where the effect was negative on growth in the primary sector, but was positive for the industrial and services sector. Akinlo (2004) showed the absence of a relationship between FDI and economic growth within the primary sectors, and the existence of a relationship within the manufacturing sector.

On the other hand, Hoang Wiboonchutikula, and Tubtimtong (2010) concluded a strong and positive relationship between FDI economic growth. Adhikary (2011) confirmed the relationship between FDI, trade openness,

capital formation, and economic growth rates in Bangladesh. Sulaiman, Kaliappan, and Ismailc (2013) confirmed the existence of a positive and significant impact of FDI on the economic growth. Carbonell and Werner (2018) the results showed a positive period between FDI and economic growth. Thanh, Canh, and Schinckus (2019) great influence of economic institutions on the combined effects of FDI and trade openness in improving economic growth.

These contradictory findings triggered the researcher's motivation to conduct the current study, since no research (according to the best of the researcher's knowledge) was found studying these variables empirically on the Egyptian economy. Therefore, the objective of this research is to study the impact of FDI and imports in Egypt on the Egyptian economy for the period of 1977 to 2019.

Research Methodology

There are a number of studies that have been conducted on the relationship between FDI and economic growth in the case of Egypt. A difference between this study and the previous ones is that other studies include data up to 2015, which makes this study more up-to-date than earlier ones. The data for this paper are annual figures that cover over the period between 1977–2019 in order to examine cointegration relationship between GDP and FDI in the long run for the case of EGYPT. It would have been more valuable to use monthly or quarterly data due to rise the number of observations in the study, nevertheless, quarterly and monthly data do not exist for most variables. The dependent variable of the study is gross domestic

product and the independent variables are foreign direct investment, domestic investment, which is combination of export and import. Also, the data is taken from World Bank Development Indicators. This study examines the relationship between economic growth and FDI based on the following equation:

$$Y = a + a_1FC + a_2IMP + UI$$

Y = economic growth.

FC = foreign direct investment.

IMP = imports.

a, a₁, a₂, = The parameters.

UI = Random variables.

Variable type	source	definition	Variable
dependent	World bank	economic growth	y
independent	World bank	foreign direct investment	FC
independent	World bank	imports.	IMP

Variables of study 1977-2019

- Unit Root Test

The most commonly employed test of the unit root in time-series is the Augmented Dickey Fuller (ADF) test. On the other hand, the test p-values or a critical value for dissimilar small sample size has to be estimated asymptotically through simulation techniques.

Because of including the vital effect of time series, all data are stated in logarithms, represented by L preceding the respective variables name. When these variables share the first different and common stochastic trend they are stationary though they have to be cointegrated. In addition, in econometrics studies the use of first differences simplifies the results analysis, subsequently the rate of change of initial variables represented by the first differences of logarithms of these variables. The ADF unit root test is used due to the analysis of the multivariate time series and also for intention to prepare evidence about when the variables are integrated. In addition, Dickey and Fuller (1979) illuminated that the null hypothesis representing a unit root can be rejected when the series is stationary, despite the fact that the null hypothesis representing a unit root cannot be rejected if the series is non-stationary. Therefore, we have to take the first difference or greater differencing due to eradicate the unit root. Additionally, the stochastic properties of the series will be tested due to avoid estimating spurious regression. One of the main measures is the Augmented Dickey-Fuller (ADF) test. In The Augmented Dickey-Fuller test that the series are non-stationary, the test depends on rejecting a null hypothesis of unit root.

- Time-series of variable Y, it was not stable at the level, and not stable at the level1, and stable at level2 it is a good indicator to complete a form estimate.
- Time-series of variable FC, it was not stable at the level, and stable at the level1, it is a good indicator to complete a form estimate.

- Time-series of variable IMP, it was not stable at the level, and not stable at the level1, and stable at level2 it is a good indicator to complete a form estimate.

Augmented Dickey-Fuller

Variable	ADF					
	level		1st difference		2nd difference	
	T-statistic	Prob	T-statistic	Prob	T-statistic	Prob
y	3.2	1	-2.7	0.025	-5.07	0.000
FC	-2.7	0.07	-4.2	0.000		
IMP	4.6	1	-3.5	0.01	-3.9	0.00

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This paper has attempted to explore a relationship between foreign direct investment, domestic investment and trade import with economic growth (GDP). It has employed annual data over the period of 1977–2019.

the results of regression indicate a positive relationship between imports and economic growth, and negative relationship between foreign direct investment and imports on economic growth $GDP = 40422608996.1 - 0.008FC + 2.79IMP$

The explanatory power of this model is high, and this is evidence that the independent variables explain more than 87%.

From the change in the dependent variable, and this is what Adj R-squared = 0.87indicated, and the value of , DW = 0.57 indicates the integrity of the model to a large extent.

Also, the values of P-value the study variables indicate the validity of the model statistically and the reliability of its results significantly

Result

Variable	coefficient	S. E	T -statistics	P-value
y	4.4	6.63	6.09	0.0000
FC	-0.008	0.01	-0.06	0.4901
IMP	2.79	0.19	14.2	0.0000
R-squared = 0.88, Adj R-squared = 0.87, DW = 0.57				

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Conclusion:

This research aimed at examining the relationship between FDI, imports, and economic growth in Egypt since 1977. A negative relationship was found between FDI and economic growth. Such results in line with Hajjati (2015) showed the existence of a negative relationship between FDI and economic growth, and the aim of this study was to prove the existence of the relationship between economic growth and the flow of FDI in sub-regions, Saharan Africa . the time period from 2005 to 2005. 2013, and the result of the analysis was that FDI has a positive impact on economic growth in host countries,

On the other hand, such negative association contradicts with Thanh, Canh, and Schinckus (2019) findings which concluded a positive impact of internal FDI with trade openness, and great influence of economic institutions on the combined effects of FDI and trade openness in improving economic growth. Carbonell and Werner (2018), showed a positive period between FDI and economic growth, with a marked increase in FDI and ideal opportunities.

Rahal (2017), showed a positive impact of FDI on economic growth in Algeria, taking into account that the volume of investment was small during that period. Koojaroenprasit (2012), who found a positive effect of FDI on the economic growth of Korea.

Results also showed a positive relationship between imports and economic growth. Such result conforms to; Uddin and Mst. Jamia Khanam (2017), who concluded that import is negatively related to the growth of GDP, and the growth rate of GDP is negatively related to import, Cetintas, Barisik (2008) who found a one-way causal relationship of economic growth and export, and these empirical results show that the hypothesis of exports responsible for growth, growth consists through increased demand for imports. Nevertheless, Bakari, Mabrouki (2017) showed that there was no relationship between exports, imports and economic growth in Panama and indications of a bidirectional causal relationship from imports to economic growth and from exports to economic growth.

Based on our empirical findings and analyses, through using Auto regression model, this paper has concluded that there is no long run relationship between foreign direct investment and economic growth in Egypt. This paper has inferred that there is no relationship between FDI and economic growth, which might be attributed to that FDI in Egypt did not increase production, but rather it increased consumption. FDI in Egypt was not directed towards building factories or supporting industries but focused solely on consumption.

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أثر الاستثمار الأجنبي المباشر والواردات على النمو الاقتصادي
(في مصر - من 1977 حتى 2019)

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ملخص البحث

الهدف العام من هذا العمل البحثي هو دراسة تأثير الاستثمار الأجنبي المباشر على النمو الاقتصادي في مصر. تقيس الدراسة تأثير الاستثمار الأجنبي المباشر والواردات على النمو الاقتصادي في مصر منذ عام 1977 ، وحللت مناهج الاقتصاد القياسي العلاقة بين الاستثمار الأجنبي المباشر والواردات على النمو الاقتصادي في مصر منذ عام 1977 ، وتم إجراء دراسات تجريبية باستخدام معادلة تحليل الانحدار لتبرير تلك العلاقة.

تشير نتائج الانحدار إلى وجود علاقة إيجابية بين الواردات والنمو الاقتصادي ، ونجد أن السبب لهذه النتيجة هو أن استيراد الآلات والسلع في مصر مهم جدًا لعملية الإنتاج، ووجود علاقة سلبية بين الاستثمار الأجنبي المباشر والنمو الاقتصادي، والسبب المهم لهذه النتيجة أن الاستثمار الأجنبي المباشر في مصر لا يزيد الإنتاج بل يزيد الاستهلاك، فالاستثمار الأجنبي المباشر في مصر لا يستخدم في بناء المصانع أو دعم الصناعة بل يستخدم في تدبير الاستهلاك فقط.

الكلمات الدالة: الاستثمار الأجنبي المباشر، الواردات، مصر، النمو الاقتصادي.