Growth Model in 21st Century: A SLR Approach (Study Case at Islamic Countries)

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Abstract

This article attempts to capture the economic development of Islamic countries in the past 30 years. The extent to which the Islamic State is able to utilize its resources with limited mastery of technology. Various obstacles that arise cause many Islamic countries in the position as developing countries that are still dependent on foreign direct investment. We presented a systematic literature review of relevant publications. We set the data range between 1981 to 2018 of Islamic countries. The aim of the intense paper is on the impact of foreign direct investment on economic growth in Islamic countries. Using empirical study methods try to compare and measure how foreign direct investment (FDI). We can also see how the pattern of FDI in several Islamic countries can help their economic growth go forward or backward. This phenomenon attracts the author to conduct an empirical study of the effect of foreign direct investment (FDI) on the economic growth of developing Muslim countries. What is funded by foreign direct investment (FDI) and which economic sector can be built from direct foreign investment (FDI).

Keywords : Foreign Direct Investment (FDI), Economic Growth

Introduction

This paper uses Islamic countries as samples. Most of them are developing countries. Developing countries are generally unable to exploit the benefits from their abundant natural resources due to inadequate human and physical capital and technological knowhow (Iamsiraroj, Ulubasoglu, 2015). Many of these countries are also typically constrained by weak protection of property rights, corruption, and severe civil, political and economic instability, such setbacks hinder their capital accumulation and become obstacles to using already existing resources, consequently, international sources of growth such as development aid assistance, loans, portfolio flows, and foreign direct investment (FDI), become highly pursued items on their economic agenda (Iamsiraroj, Ulubasoglu, 2015). The World Bank (2010) reports that the overall share of developing countries in global FDI inflows was 37% in 2010, representing more than a three-fold increase since 2000. Globally, FDI has grown from about 0.5% of the world's GDP in 1970 to over 3% in 2008, thus, the growth effects of FDI and the channels through which these effects operate are of great importance to understand (Iamsiraroj, Ulubasoglu, 2015).

The objective of this paper is to revisit the impact of foreign direct investment to economic growth in Islamic countries. Previous researches show that FDI has significant effect on economic growth (Chisagiu, 2015); Tahir et al, 2015; Iamsiraroj and Ulubasoglu, 2015; Su and Liu, 2016; and Sunde, 2017). We use just one variable which is foreign direct investment in this study. Previous studies' result were financial flows level but also their composition and volatility matter (Loayza et al., 2007; Ramey and Ramey, 1995). Despite a significant body of theoretical and empirical research exploring these connections, extant empirical literature does not offer a clear picture on the central issue of whether FDI has globally any effect on growth (Iamsiraroj, Ulubasoglu, 2015). Financial flows increase the level of domestic expenditure in a similar way to windfall gains from natural resources (Corden and Neary, 1982).

The impact of FDI mainly depends on the type of activities it finances. FDI in different forms, or in the same form but in different economic environments, is likely to affect economic growth differently (Borenztein et al., 1998; Wooster and Diebel, 2010). contrary, FDI concentrated in the manufacturing sector, as is the case in most Asian economies, can enhance growth by leveraging a low-cost skilled labor force. Failure to distinguish between different categories of FDIs has been interpreted by Stiglitz (2008) as a possible explanation for the difficulty in clearly identifying the role FDI plays in the development process. Using meta-regressions for 103 micro and macro studies, Bruno and Campos (2013) show that the number of studies where FDI supports growth is four to five times the number of studies where it does not.

Methodology

Data Sources And Literature Selection

Following established methods (Bergstrom, van Winsen, and Henriqson, 2015; Dorn, Shweiger, and Albers, 2016; Skrzek-Lubasinska and Szaban, 2018), we presented a systematic literature review of relevant publications. The population of this research is Islamic countries. The sample that used is the data range between 1981 to 2018 of Islamic countries (in this research, we use 10 Islamic countries that presented data between 1981 to 2018).

As a result of this process, we included 20 articles and then examined the bibliographical references to check the validity of the inquiry and to avoid any potential omissions (Conz and Magnani, 2019). According to IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise), the lasting interest implies the existence of a long term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter (Duce, 2003). Therefore, FDI investment in foreign country can take form of mergers and acquisitions (soleventure) or joint venture) or greenfield investment (Cro and Martins, 2020).

Table 1

Selection references and definitions listed according to FDI and economic growth

Author	Year	Definitions
Carlos Encinas-Ferrer, Eddie Villegas-Zermeno	2015	FDI, as a percentage of total gross fixed capital formation (GFCF), is so small that it has only a marginal influence in economic growth
Dalia M. Ibrahiem	2015	Renewable electricity consumption and foreign direct investment have a long-run positive effect on economic growth
Livia Chisagiu	2015	The FDI flows in GDP as being one of the determinants of the economic growth rate in Romania has a significant statistical influence
Muhammad Tahir,	2015	• Foreign remittances and foreign direct investment have

Imran Khan, and Afzal Moshadi Shah		a significant positive role in the growth process of Pakistan economy • It is found that foreign imports have adversely influenced the economic growth of Pakistan
Sasi Iamsiraroj and Mehmet Ali Ulubasoglu	2015	• FDI positively affects economic growth • Appropriate absorptive capacity indicators for positive growth are identified to be trade openness and financial development rather than schooling
Mohamed Abdouli, Sami Hammami	2016	The existence of unidirectional causality running from FDI stocks to economic growth; a bidirectional causality between economic growth and CO2 emissions; as well as a bidirectional causality between FDI stocks and CO2 emissions
Yaqin Su and Zhiqiang Liu	2016	FDI has positive effect on the per capita GDP growth rate and this effect is intensified by the human capital endowment of the city
D. Ciesielska and M. Kołtuniak	2017	The results demonstrate that in the considered period the growth processes of the Polish OFDI stock permanently preceded in the long term the home country's economic growth, as well as indicate the existence of the short term unidirectional causality running from the economic growth to the growth of the total outward FDI position stock
Keshmeer Kanewar Makun	2017	The government should pursue appropriate policy actions to reduce imports and draw remittances and foreign direct investment to improve economic growth
Rafael Alvarado, Maria Iniguez, and Pablo Ponce	2017	FDI is not an adequate mechanism to accelerate economic growth in Latin America, with the exception of high-income countries
So Khoon Goh, Chung Yan Sam, Robert McNown	2017	• No evidence of cointegration when GDP is the dependent variable • The absence of a long-run forcing relation from FDI and exports to GDP implies that FDI and exports were not the sole sources of economic growth in our selected

		Asian economies
Tafirenyika Sunde	2017	The FDI led growth hypothesis for South Africa
Zahid Latif, Yang Mengke, Danish, Liu Ximei, Zulfiqar Hussain Pathan, Shafaq Salam, Zeng Jianqiu	2017	• the long-runelasticities between ICT and economic growth, which suggests that ICT positively contributes to economic growth • bi-directional causality exists between GDP and FDI, globalization and economic growth, and trade and economic growth
Anita Kumari and A. K. Sharma	2018	Electricity consumption plays a vital role in GDP and high GDP attracts more FDI into India
Kamil Makiela and Bazoumana Ouattara	2018	FDI affects growth via inputs accumulation but not the total factor productivity growth channel. Factors other than FDI may have contributed to increase in productivity witnessed in developing countries in recent decades.
Abdelhafidh Dhrifi , Raouf Jaziri , Saleh Alnahdi	2019	There is a bi-directional causal relationship between FDI and poverty as well as CO2 emission and poverty
Amin Sokhanvar	2019	The high level of GDP shares of tourism receipts and FDI in seven European Union(EU) countries indicates that policy makers consider tourism receipts and FDI as critical factors in accelerating the economic growth
Jean-Louis Combes, Tidiane Kinda, Rasmane Ouedraogo and Patrick Plane	2019	Instability of market-oriented flows, such as FDI and portfolio investments, exacerbates instability of the economic growth rate
Simplice A. Asongu and Nicholas M. Odhiambo	2019	Internet and mobile phone penetration overwhelmingly modulate FDI to induce overall positive net effects on all three economic growth dynamics.

We summarize the multi studies in Table 1. Overall our literature suggests that there is linkage between FDI and economic growth. In this article, we addressed issue by searching FDI's effect on economic growth.

Empirical Result

Table 2

Regression result

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.375	.219		15.423	.000
	fdi	.168	.043	.163	3.934	.000

a. Dependent Variable: gdp

The empirical results are reported in Table 2. The results are based on 570 observations for the period 1981-2018. The result shows that FDI has significant effect on economic growth.

GDP = 3.375 + 0.168 FDI

Sig 0.000

t 3.934

Discussion

FDI's Direct Effect On Growth

The impact of FDI mainly depends on the type of activities it finances. Our result shows that FDI has significant effect on economic growth, like the previous research by Chisagiu (2015), Tahir et al (2015), Iamsiraroj and Ulubasoglu (2015), Su and Liu (2016), and Sunde (2017). FDI in different forms, or in the same form but in different economic environments, is likely to affect economic growth differently (Borenztein et al., 1998; Wooster and Diebel, 2010). For instance, in low-income African countries or natural-resource-rich economies where FDI is associated with natural resource extraction, it may hamper the diversification of the manufacturing sector and ultimately hurt growth, but on the contrary, FDI concentrated in the manufacturing sector, as is the case in most Asian economies, can enhance growth by leveraging a low-cost skilled labor force (Combes, 2019). Failure to distinguish between different categories of FDIs has been interpreted by Stiglitz (2008) as a possible explanation for the difficulty in clearly identifying the role FDI plays in the development process. Using meta-regressions for 103 micro and macro studies, Bruno and Campos (2013) show that the number of studies where FDI supports growth is four to five times the number of studies where it does not.

The structural composition of financial resources has also shifted over time towards a greater role of private flows, such as FDI and remittances, and away from official aid and at the beginning of the 1980s, regardless of the level of development, official aid constituted the bulk of inflows. It accounted for about 40 percent of total financing for MICs and 80 percent for LICs, more than remittances, the second largest category (Combes, 2019).

Conclusion

This study provides an empirical picture of how the different effects of FDI on Islamic countries. in low-income African countries or natural resource-rich economies where FDI is associated with natural resource extraction, it can inhibit the diversification of the manufacturing sector and ultimately damage growth, but conversely, FDI is concentrated in the manufacturing sector, as is the case in most Asian economies, can enhance growth by utilizing low-cost skilled labor (Combes, 2019). The failure to distinguish between various categories of FDI has been interpreted by Stiglitz (2008) as a possible explanation for the difficulty in clearly identifying the role that FDI plays in the development process. This shows that there are different perceptions in applying FDI patterns in the economic development of Islamic countries in Africa and Asia. In its definition there is also a lot of debate going on in understanding the effect of FDI on economic growth in general. Thus it can be concluded that FDI has a positive and negative influence on the economic growth of Islamic countries.

The excess of natural resources possessed by most Islamic countries was not followed by the development of adequate human and technological resources, so that it seemed that the country's economic growth was developing rather slowly. Developing countries in general cannot exploit the benefits of their abundant natural resources due to inadequate human and physical capital and technological knowledge (Iamsiraroj, Ulubasoglu, 2015). Many of these countries are also usually limited by weak protection of property rights, corruption, and severe civil, political and economic instability, such setbacks hamper their capital accumulation and become obstacles to using existing resources, consequently, sources of international growth, such as aid development, loans, portfolio flows, and foreign direct investment (FDI), are highly sought after items on their economic agenda (Iamsiraroj, Ulubasoglu, 2015). This is the focus going forward on how to examine the effectiveness and efficiency of FDI in the development of appropriate human resources and technology.

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