Growth and FDI in OIC Countries

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Abstract: This paper uses annual aggregate data for 16 countries in Organization of Islamic Conference (OIC) for the period 2000-2006 to determine the impact of foreign direct investment (FDI) on growth. The OIC countries are classified based on 4 geographical groups of region (Africa, Asia, Middle East and Western Hemisphere). We have used panel regression analysis and empirical result support that a FDI and openness has a positive impact on growth into the OIC countries. In addition study finds FDI caused GDP growth in these countries. These suggest that FDI has indirect effect on economic growth in OIC.

Key words: Foreign Direct Investment, Growth, panel regression, Granger causality OIC.

INTRODUCTION

Foreign Direct Investment (FDI) has gained significant importance over the past three decades or so as the tool for accelerating growth and development of economies in transition as well as OIC countries. The impact of FDI on economic activities have received attention in recent literatures. The relationship between foreign direct investment (FDI) and economic growth has motivated a voluminous literature focusing on both industrial and developing countries. Following the criticisms in recent studies Kholyd (1995) of the traditional assumption of one-way causal link from FDI to growth, new studies have also considered the possibility of two-way or non-existent causality among variable of interest. Balasubramanyam et al (1996) used cross-section data relating to a sample of 46 countries and supported the hypothesis of Bhagwati: the growth-enhancing effect of FDI is stronger in countries which pursue an outward oriented trade policy than it is in those countries following an inward oriented policy. De Mello (1999) attempted to find support for an FDI-led growth hypothesis when time series analysis and panel data estimation for sample of 32 OECD and non-OECD countries covering the period 1970-1990 were made. Nair-Reichert and Weinhold (2001) apply mixed fixed and random estimation to examine the relationship between FDI and growth in developing countries and find that there is a causal link between FDI and growth. Wang (2002) explores the kind of FDI inflows most likely contribute significantly to economic growth. Using data from 12 Asian economic over the period of 1987-1997, and found that only FDI in the manufacturing sector has a significant and positive impact on economic growth. Chowdhury and Duasa (2007) examined the causality between FDI and output growth in Malaysia. The study found no strong evidence of causal relationship between FDI and economic Growth. Prabirjit (2007) found positive relationship exists between the two irrespective of income levels, openness and FDI-dependence. Frimpong and Ahayie (2007) found FDI caused GDP growth in Ghana. Karimi (2009) examined the causal relationship between FDI and economic growth in Malaysia and concluded a positive and significance relationship between the two variables.

We have used an innovative and more robust ‘Granger causality test’ Method and Panel (EGLS) Method to find the impact of Foreign Direct Investment and openness influencing Growth in OIC countries.

2. Data & Model:

This article employs panel data for 16 countries over the period 2000-2006. All countries (OIC) for which data are available over this period are included in this study. Used FDI inflows measured in current U.S. dollars divided from the UNCTAD Handbook of Statistics On-line (United Nations Conference on Trade and Development, 2008). The dependent variable is the Growth of GDP. Our independent data include growth of FDI and Openness of the economy (computed as export plus import as a share of GDP). Comparison of these data in table (1) indicates that measure of average GDP growth, average Openness and FDI in OIC countries.
As it shown in Fig (1) the average of Foreign Direct Investment in Egypt is higher than other countries.

![Fig. 1: Average FDI in selected OIC countries 2000-2006 (Million US$)](source: UNCTAD)

We conduct the Toda-Yamamoto Granger causality test. Finally we will employ a Panel (EGLS) Method to find the factors affecting Foreign Direct Investment in OIC countries.

### Table 2: Granger causality test for GDP growth and FDI in OIC (2002-2006)

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>Obs</th>
<th>F-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI does not Granger Cause GDPG</td>
<td>80</td>
<td>0.96137</td>
<td>0.3870</td>
</tr>
<tr>
<td>GDPG does not Granger Cause FDI</td>
<td>4.17586</td>
<td>0.0191</td>
<td></td>
</tr>
</tbody>
</table>

The results of Granger Causality test reported in Table 2. The null hypothesis that FDI does not Granger Cause GDP growth has not been rejected.

The general form of the model is shown in the following equation.

\[
\text{GDPG}_{t,t} = \alpha_0 FDI_{t,t} + \alpha_1 \text{Openness}_{t,t} + U_{t,t}
\]

The estimation results using Eviews 6 are shown in table (3). As seen from Table (3), Foreign Direct Investment (FDI) and Openness have positive and significance impact on GDP growth.

### Table 3: Estimation of Model (sample 2000-2006)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>12.66659</td>
<td>7.974500</td>
<td>1.588387</td>
<td>0.1160</td>
</tr>
<tr>
<td>FDI</td>
<td>0.279492</td>
<td>0.022979</td>
<td>12.16288</td>
<td>0.0000</td>
</tr>
<tr>
<td>OPENNESS</td>
<td>0.546599</td>
<td>0.094981</td>
<td>5.754851</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

### Conclusion:

In this paper we investigated the impact of FDI and Openness on GDP growth in OIC countries for which the necessary data were available for the period 2000-2006. We found FDI caused GDP growth in these countries and the results based on the panel regression data analysis show FDI inflow and Openness are...
important to GDP growth in these countries. Therefore, policies to improve FDI and international trade in the region are suggested.

**REFERENCE**


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