

Globalization, FDI and the Links with Economic Growth: An Empirical Investigation from the MENA Countries

Abstract

The present paper analyzes the impact of globalization and FDI inflows on economic growth in 14 MENA countries over the period 1995-2011, through the use of panel data analysis. The fixed effects specification reveals that globalization and FDI inflows seem to play a substantial role in explaining economic growth of the selected MENA countries. Likewise, governance and economic freedom act as catalysts for the MENA region's economic growth.

Based on these results, it can be concluded that MENA countries can improve their growth performance by opening their doors more widely to the process of globalization and stabilizing political situation. Moreover, the MENA region's decision-makers are committed to pursue investment-friendly policies and ensure well-functioning political and economic institutions. Further, contemporary and more comprehensive educational policies should be designed to emulate several technological trends.

Key words: Globalization, FDI, Economic Growth, MENA Countries

JEL Classification Numbers: F15, F21, O43, O50.

1. Introduction

A borderless World is the mantra of globalization which dictates the need for a substantial liberalization through the dismantling of all restrictions in economic, political and cultural arenas, inspiring a greater cohesion and convergence. The global economy has been undergoing a sweeping process of mergers and acquisitions in recent years. Moreover, globalization has given developing countries a much greater stake in the world trade and FDI, opening up entirely new doors for these countries to maximize their growth potential; it has enabled countries around the globe to move ahead with economic development by removing trade and FDI barriers and inducing industrialization. By contrast, countries that were completely isolated from the world economy have missed prominent opportunities to improve growth prospects and failed to keep pace with modern technological advances (*Abdolmajid Arfaei Moghaddam and Ma'rof Redzuan, 2012; Rasaki .O. Kareem et al., 2013*). Indeed, the influx of FDI also reflects the competitiveness of host countries and indicates how far behind high-performing globalizers they are (*Hlaváček Petr and Petra Olšová, 2011*). Therefore, measures that restrict market access tend to scare away foreign capital and inhibit FDI inflows, and thus fuelling poverty and worsening living standards (*Akinmulegun, Sunday Ojo, 2012*). Additionally, advocates of globalization believe that the more the countries' involvement in globalization process, the more likely these countries are to enjoy affluence,

democracy and peace (*Adams Samuel, 2010*). It is also worthwhile to note that the large gains emanating from globalization require fundamental economic and institutional reforms.

More specifically, the MENA region has begun to open their doors a bit more widely to the process of globalization as compared to the past. Economic reforms have been initiated with the hope of magnetizing FDI inflows, increasing production efficiency and stimulating exports, but most MENA countries have partially failed to undergo structural transformation and strengthen institutional platform, thence, the liberalization attempts have not had the desired results; however, the rapid pace of globalization reflects the inadequacy of efforts made, as well as, modest economic growth in most MENA countries can be traced to the failed attempts to cope with several facets of globalization. Another obvious fact is that the oil sector attracts the bulk of FDI inflows in most oil-rich MENA countries, whereas the non-oil sectors remain relatively less competitive, and it is worth noting that insecure property rights and burdensome business regulations continue to be a nightmare that terrifies foreign investors (*Nwankwo Odi G. Ademola Olukotun and Kehinde Olorunfemi, 2013*). In spite of some deficiencies, the MENA region is endowed with substantial untapped natural resources which require high levels of technological capabilities to be fully and effectively exploited. Hence, FDI is considered the best solution that can serve this need and boost the region's growth prospects. Thus, the present study aims to test the impact of globalization and FDI inflows on economic growth in 14 MENA countries (Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Syria, Tunisia, Turkey, United Arab Emirates and Yemen) over the period 1995-2011. For this purpose, the remainder of this paper is organized as follows:

Section 2 presents a theoretical and empirical review on globalization and FDI inflows and the links with economic growth, section 3 discusses the levels of economic growth, globalization and foreign direct investment inflows in the MENA region, section 4 introduces the data and analyzes the empirical results and finally section 5 concludes the paper.

2. Theoretical and Empirical Review on Globalization and FDI Inflows and the Links with Economic Growth

Academicians, researchers and scholars have increasingly devoted their attention to the new wave of globalization which is doing its utmost to abolish all boundaries; this tremendous phenomenon has been variously defined in the literature. Giddens, A. (1990) defined globalization as "the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice-versa". Similarly McGrew and Lewis (1992) define globalization as "the multiplicity of linkages and interconnections between the states and societies, which make up the present world system". Robertson, R., (1992) Asserts that "globalization as a concept refers both to the compression of the world and the intensification of consciousness of the world as a whole". According to Harris (1993), globalization is "the increasing internationalization of the production, distribution, and marketing of goods and services", it is also defined by the Organization of Economic Cooperation and Development (OECD, 1993) as "the phenomenon by which markets and production in different countries are becoming

increasingly interdependent due to the dynamics of trade in goods and services and the flows of capital and technology". Waters (1995) states that globalization refers to the "social process in which the constraints of geography on social and cultural arrangements recede and in which people become increasingly aware that they are receding". In a similar vein, Thomas Friedman (1999) contends that "globalization is not a phenomenon. It is not just some passing trend. Today it is an overarching international system shaping the domestic politics and foreign relations of virtually every country, and we need to understand it as such". Furthermore, Axel Dreher (2006) sheds light on the three following dimensions of globalization:

- Economic globalization which reflects the long distance flows of goods, capital, services as well as information and perceptions that accompany market exchanges.
- Political globalization which indicates to the diffusion of government policies.
- Social globalization that represents the spread of ideas, information, images and people.

Following from the above, it can be said that globalization has broken down all national boundaries and increased interconnectedness of the world. Admittedly, this stretching process has greatly facilitated cross-border movement of goods and services, international division of labor, transcontinental and intercontinental transport and reduced the costs of connectivity. The rapid growth in Internet use has further extended the scope of globalization by accelerating information flows (*Henryk Gurgul and Lukasz Lach, 2014*). In general, the global movement of goods, services, labor, capital and information has shaped the innumerable facets of globalization (*Atrayee Ghosh Roy and Hendrik F. Van den Berg, 2006*).

Globalization emphasizes that there is no self-sufficient country in the world and reveals the mutual interdependence between developing countries that need funds and technology and developed nations which lack raw materials (*Nwankwo Odi G. Ademola Olukotun and Kehinde Olorunfemi, 2013*). In fact, international organizations have praised the merit of increasing access to the world economy through the prism of foreign direct investment (*Akinori Tomohara and Sadayuki Takii, 2011*). Multinational companies are the main driver of FDI influx and are at the core of the new wave of globalization (*Singh, Ajit, 2005*), they seek to expand abroad and initiate new business or even relocate their operations for exploiting location-specific advantages such as resources, labor, market, etc. (*Hlaváček Petr and Petra Olšová, 2011*). Additionally, cross-border mergers and acquisitions can foster the development of domestic companies which have been lagging behind in the developing host countries, by diffusing managerial skills, R&D, marketing and technical know-how (*Dunning, John H. and Lundan, Sarianna M., 2008*).

The FDI-growth nexus has been extensively investigated in the globalization era; neoclassical and endogenous growth models have highlighted the prominent role played by FDI in the growth process through its associated technology spillover effect (*Solow 1956, Romer, 1986; Lucas, 1988*). Further, endogenous growth models contend that FDI is more productive than domestic investment, since it can sophisticate the production function of the host countries by adding the effect of new technologies (*Ram N. Agarwal, 2012*). Indeed, FDI

represents one of the major sources of external finance for developing nations and entails dissemination of advanced technology (*Singh, Ajit, 2005*); it can boost the potential growth rates by increasing productivity and stimulating domestic investments. It also provides local firms with an opportunity to expand the scope of their work through the created ancillary services (*Nwankwo Odi G. Ademola Olukotun and Kehinde Olorunfemi, 2013*). These striking features of inward FDI make it more beneficial than domestic investment (*Caves, R. E, 1996*). Especially that FDI's potential role in the development process may limit the host government's ability to pursue reckless policies (*Adams Samuel, 2010*). As well as, the entry of MNCs may arouse governments to strengthen the rule of law and modernize infrastructure, it can also stimulate a race to the top in terms of labor quality (*Mosley Layna and Saika Uno, 2007*). Thus, it is widely recognized that FDI is often deemed a key engine for economic development and growth, and it can enrich or accelerate the transition process (*Sarbabpriya Ray, 2012; Hlaváček Petr and Petra Olšová, 2011*).

While FDI may contribute to growth in developing countries, benefits also may not always be equally distributed. The distribution of gains from FDI is also linked to some degree to the sectors in which FDI is directed (*Dushni Weerakoon, 2004*). FDI flows destined for unskilled- labor-intensive manufacturing processes entail different employment and income effect than on FDI directed to more capital- and skill-intensive activities, for example, FDI in financial services requires skilled labor and offers relatively high wages (*Dushni Weerakoon, 2004*), export-oriented FDI generates more positive economic consequences; it improves the balance of payments position, employment rates and tax receipts (*Nwankwo Odi G. Ademola Olukotun and Kehinde Olorunfemi, 2013*). Whereas, positive spillover effects typically fail to occur with resource extractive FDI especially in the oil sector, where technology spillovers remain minimal or non-existent due to the use of capital- intensive technologies (*Penalver, M., 2002, Adams Samuel, 2010*). It is sobering to note that much attention is devoted to the past industrialization experience of the recipient country, especially in the case of FDI skewed towards the manufacturing sector (*Ayca Sarialioglu-Hayali, 2009*). In addition, the greater the technological lacuna between the host countries' local firms and those MNCs, the easier the foreign technology will be absorbed. Thus, it can be said that the impact of FDI inflows differ greatly within and between economies.

The controversy surrounding the globalization discourse remained a contentious one; some oppositional ideas imply that globalization has spurred global plunder (*Brecher, J., and Costello, T., 1994*). Globalization opponents have unmasked MNCs' thirst for resources of developing countries and argued that the self-interest of these companies breaks down the development process (*Akinori Tomohara and Sadayuki Takii, 2011*). Moreover, skeptics contend that globalization leads to massive capital flights and large emigration of skilled workers and hence severely undermines the growth potential of countries concerned, further, it contributes enormously to the spread of ideas which can bring tangible institutional changes, and this could harm economic growth prospects through the blind copying of institutions without taking into serious consideration the adaptation concerns (*Joseph E. Stiglitz, 2004*). Indeed, the sense of community and urban power structure were corroded by the powerful forces of globalization (*Mele, 1996*). As well as, this growing worldwide

integration has lowered wages, exacerbated poverty, inequality and social tensions, and led to environmental degradation (*Rodrik, 1997; Wood, 1998*). FDI also has some adverse effects on domestic firms such as crowding out effects via local market competition, and the palpable unemployment resulting from more capital-demanding manufacturing operations (*Hlaváček Petr and Petra Olšová, 2011*). However, the major caveat is that the developing countries should realize that the footloose FDI is not a magic stick or even a panacea for all economic problems; instead, it plays a crucial complementary role (*Penalver, M., 2002*). Furthermore, many countries have been plagued with crisis problems resulting from fast and excessive financial liberalization, because such a devastating crisis imposes enormous instability and overwhelming costs, thereby hurting economic growth (*Joseph E. Stiglitz, 2004*). It is a well known fact that the episodic collapses in growth rates often coincide with global financial crises and economic downturns (*Eswar S. Prasad et al., 2007*). Many developing countries like Argentina, Brazil and Indonesia suffered bitter results due to the wide range of openness in the penultimate decade of the 20th century (*Akinmulegun, Sunday Ojo, 2012*).

Nevertheless, trade restrictions both at home and in host countries such as tariff and nontariff barriers, capital controls and exchange controls, etc. serve as impediments to trade and FDI flows, because they inexorably raise costs, thus, the powerful globalization wave has induced the capitalist class to exert pressure on their governments to open up wider to the outside world, but the infant sectors of the economy insist on keeping these restrictions due to their inability to withstand foreign competition. However, the balance is tipped towards coping with globalization that leaves no room for introversion (*Syed H. Akhter, 2004*). Globalization's advantages per se are critically dependent on how governments are able to strengthen domestic policies and institutions (*Eswar S. Prasad et al., 2007*), and it is worthwhile to note that the large gains emanating from FDI depend heavily on the recipient country's conditions such as the availability of well educated and skilled human capital, adequate infrastructure, sound institutions and reliable business environment, because these factors determine the host country's FDI performance, the level of absorptive capacity and the growth effects of FDI (*Penalver, M., 2002*). In this context, it is pertinent to note that economic freedom by enforcing property rights, ablating of asphyxiating controls and dismantling of all exchange restrictions, stimulates economic activity and thus contributes to human resource development (*Syed H. Akhter, 2004*). More specifically, host countries should invest further in human capital development for reaping the fruits of FDI (*Borensztein et al., 1998*).

In general, the widening growth gaps across countries can be largely explained by differences in their degree of openness to international trade, capital and business, or rather their willingness and ability to cope with globalization (*Saibu, M. O. and Akinbobola, T. O., 2014*). In other words, globalization provides unparalleled opportunities for developing countries to attain fast and sustained economic growth (*Sarbapriya Ray, 2012*), for example, China has benefited tremendously from globalization and associated FDI flows. It is not only a noteworthy example of a successful experience in the globalization discourse but also a perfect amalgamation of huge FDI inflows and partial capital market liberalization, and the whole secret lies in the wise management of the globalization process which is the most

effective way to reap the maximum benefits from globalization and use them effectively to accelerate economic growth. In contrast, globalization under the auspices of international organizations such as the IMF and the WTO has shown its inefficacy (*Joseph E. Stiglitz, 2004*).

The quantitative impact of globalization and FDI inflows on economic growth has received a great deal of research attention, and the table below summarizes the empirical studies that have investigated this topic.

Table n°01: *Empirical Evidence on the Impact of Globalization and FDI Inflows on Economic Growth*

<i>Authors</i>	<i>Sample</i>	<i>Empirical Approach</i>	<i>Results</i>
<i>P. C. Nwakanma and R. C. Ibe (2014)</i>	Nigeria 1981-2012	OLS Technique, Johansen and Juselius Cointegration Test	There is a positive long- run relationship between globalization and economic growth.
<i>Mohammad Amin Almfraji et al., (2014)</i>	Qatar 1990-2010	The VAR Impulse Responses, the Granger Causality Test	Qatar's economic growth is more sensitive to the fluctuation of FDI inflows.
<i>Henryk Gurgul and Łukasz Lach (2014)</i>	10 new EU members in transition from the CEE region 1990-2009	AR-Based Models	Economic growth is significantly positively affected by the globalization process.
<i>Saibu, M. O., and Akinbobola, T. O. (2014)</i>	12 African countries 1986-2004	VAR Technique	Both FDI inflows and globalization contribute positively to economic growth.
<i>Olusanya, Samuel Olumuyiwa (2013)</i>	Nigeria 1970 – 2010	Granger Causality Test	There is a causal relationship between economic growth and FDI inflows.
<i>Delfim Gomes Neto and Francisco José Veiga (2013)</i>	139 countries 1970-2009	System-GMM Estimation	Foreign direct investment has a positive and significant impact on economic growth.
<i>Rasaki .O. Kareem et al., (2013)</i>	Nigeria 1970-2008	OLS Estimation	Globalization index exerts a positive influence on economic growth.
<i>Roberta Capello and Ugo Fratesi (2013)</i>	27 European countries 1999-2005	OLS Estimation	The inward FDI has a growth effect in the globalization era.
<i>Sarbapriya Ray (2012)</i>	India 1990-91 to2010-11	OLS Estimation, Johansen Cointegration Test	There is a positive long-run relationship between FDI inflows and GDP growth.
<i>Nuno Carlos LEITÃO</i>	Portugal	The OLS Estimator,	Foreign direct

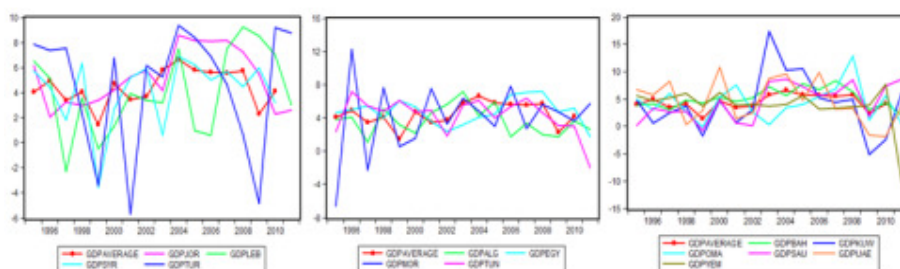
(2012)	1990- 2008	Random Effects (RE), Fixed Effects (FE), GMM System Estimator	investment and globalization index positively affect economic growth.
<i>Samrat Roy (2012)</i>	9 Asian economies 1981-2008	Granger Causality Test	There is a bidirectional causal relationship between FDI and GDP growth in Thailand.
<i>Ram N. Agarwal (2012)</i>	Malaysia 1980-2008	ARDL Model	FDI inflows and economic globalization are found to be positively and statistically significantly related to economic growth.
<i>Basem Mohammed Louzi and Abeer Abadi (2011)</i>	Jordan 1990-2009	Cointegration Test	There is a long-run relationship between economic growth and FDI inflows.
<i>Adams Samuel (2010)</i>	29 SSA countries 1970-2008	OLS Estimation, FE, RE, SUR	Economic growth is positively associated with higher levels of FDI inflows and globalization.
<i>Sjoerd Beugelsdijk et al., (2008)</i>	44 host countries 1983–2003	Two Stage Least Squares (TSLS), GMM Dynamic Panel Estimation	Horizontal and vertical FDI inflows have a positive and statistically significant effect on growth rates.
<i>Atrayee Ghosh Roy and Hendrik F. Van den Berg (2006)</i>	USA 1970-2001	3SLS Estimation	The inward FDI displays a significant positive effect on U.S. growth.
<i>Axel Dreher (2006)</i>	123 countries 1970-2000	OLS Estimation, FE, GMM Dynamic Panel Estimation	The overall index of globalization appears to have a positive and significant impact on economic growth.
<i>Xiaoying Li and Xiaming Liu (2005)</i>	84 countries 1970-1999	3SLS Estimation	Economic growth is significantly and positively linked with FDI inflows.

Source: Constructed By Authors

3. Economic Growth, Globalization and FDI inflows and in the MENA Region

3.1. Economic Growth in the MENA Region

Figure n°01: Economic Growth (*The Annual Percentage Growth Rate of GDP*) in MENA Countries, 1995-2011.

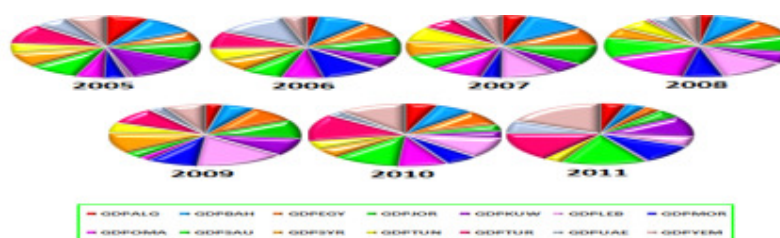


Source: World Bank, World Development Indicators, the data are available online at: <http://data.worldbank.org> (accessed 01/10/2014).

As seen in the graph above, the GCC countries are being perceived as the locomotive for growth in the MENA region due to their insistence on joining the developed world, and the large infrastructure projects continue to speed up economic growth, at this point, it is worth mentioning that UAE and Qatar will host major events like the 2020 World Expo and 2022 World Cup (Garbis, I. and G. T. Abed, 2013). In the last two years, the growth of MENA oil monarchies has witnessed a slight decrease due to the scaling back increment of oil production amid modest global hydrocarbon demand.

In contrast, the MENA region's oil importers still strive to revive their growth rates, especially in light of the vexing political, economic and social problems that created a severely frustrating environment, these countries are still plagued by rising unemployment and mounting inflation, and the long overdue reforms have made matters worse. More specifically, Egypt's growth has been impeded by myriad of barriers to private sector activity. Social and economic disparities continue to hinder the contribution of many areas to Tunisia's overall growth. Inadequate public services and facilities remain the major growth inhibitors in Lebanon. Whilst, the Syrian case that can be likened to an explosive volcanic eruption after a long lull has undermined economic activity in all sectors. On the other hand, Yemen and Libya have badly mismanaged their oil wealth, wasting an opportunity to uphold economic growth that still suffers deep-rooted economic and social problems (IMF, 2014).

Figure n°02: Economic Growth (*The Annual Percentage Growth Rate of GDP*) in MENA Countries, 2005-2011.



Source: World Bank, World Development Indicators, the data are available online at: <http://data.worldbank.org> (accessed 01/10/2014).

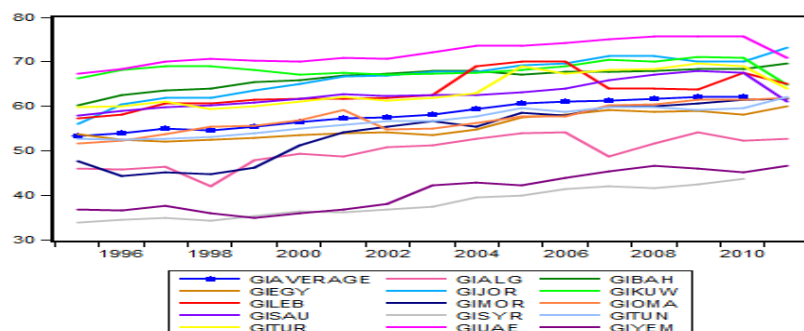
Furthermore, the inability of the oil-exporting MENA countries to diversify their economies, made them more vulnerable to predation by the 2008 financial crisis, as shown in

the figure above. It is also observed that the economic growth of GCC countries has been shrunk by the financial meltdown, because of these countries' close ties with global financial markets (*World Bank, 2010*). Over and above the serious infrastructure damage that has been inflicted on the Arab spring countries, this unexpected turmoil has engendered a mushrooming of informal activities. Moreover, the political uncertainty and abrupt drop in investment emanating from the tumultuous events of the Arab Spring have subdued the growth performance (*Garbis, I. and G. T. Abed, 2013*). In general, economic diversification and the broadening of export base are still the core challenges outweighing the MENA region's economic growth. Notwithstanding these facts, IMF (2014) claims that the MENA region's growth is projected to rise from 3.2 in 2014 to 4.5 in 2015.

It is worth to note that in order to boost the MENA region's long-term growth potential, close attention should be given to human capital improvement that provides the necessary backdrop for sustainable growth. MENA countries that depend on oil manna should enact wise policies to overcome the problems of economic diversification, and the first step is to ensure an effective government spending. As well as, the elimination of cumbersome regulations and the fundamental reform of governance framework will act as catalysts for economic growth. Additionally, greater trade integration into the global economy and broad access to finance will further boost the region's growth prospects.

3.2. The Level of Globalization in the MENA Region

Figure n°03: The KOF Index of Globalization in MENA Countries, 1995-2011.



Source: Based on The KOF Index of Globalization, the data are available online at: <http://globalization.kof.ethz.ch/> (accessed 01/10/2014).

According to the graph above, the globalization index reveals that the region's economies have begun to open their doors a bit more widely to the process of globalization as compared to the past. The MENA countries that occupy the foreground are UAE, Jordan, Kuwait, Bahrain, Turkey, Lebanon and Saudi Arabia, whereas, countries like Algeria, Yemen and Syria are at the bottom of the heap, whilst, the remaining countries are oscillating between the two groups, but they work hard to catch up with the first group of countries.

The GCC countries, Lebanon and Jordan enjoy higher levels of financial development, a modernized and efficient banking sector, because they have made significant strides forward in reforming and liberalizing their financial services, also some North African countries like

Egypt, Morocco and Tunisia have taken initial steps to improve their financial systems, while the other countries are still lagging behind in this field. What can be observed is that the high-income countries enjoy high levels of financial development and vice versa, since there is a great demand for good quality financial services in those countries.

Moreover, most non-GCC countries continue to impose constraints on foreign ownership of financial assets and repatriation of profits. Additionally, the obsolete nonbank financial sector and poor secondary markets had crucial roles to play in hampering growth prospects (*Susan Creane et al., 2004, 2007*).

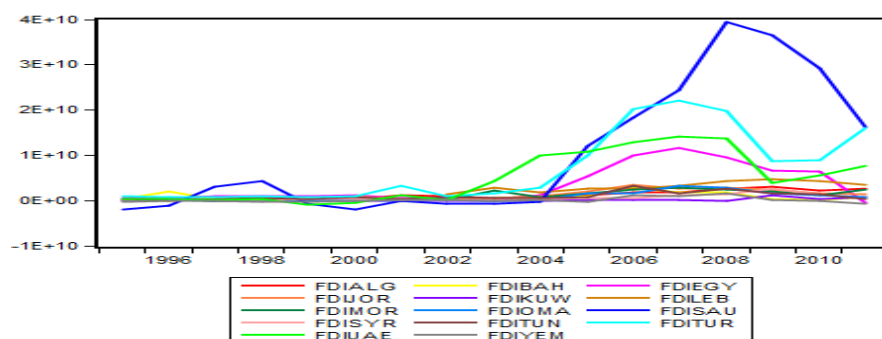
Most MENA countries have embarked on efforts to catch up with the world trend over the past three decades, but the rapid pace of globalization reflects the inadequacy of efforts made. Moreover, modest economic growth in most MENA countries can be traced to the failed attempts to cope with several facets of globalization.

Most MENA countries that began to move up the globalization ladder have adopted promising trade policies during last two decades, while, the other countries continue to enforce cumbersome restrictions on international trade, missing valuable opportunities to upgrade their economies. In fact, most MENA countries have partially failed to undergo structural transformation and strengthen institutional platform, thence, the liberalization attempts have not had the desired results. It is also worth noting that the use of information technology especially in the non-GCC countries has so far failed to live up to international standards, reflecting the slow take-up of new technologies.

In general, the MENA region is a latecomer to globalization; the main thrust of the liberalization measures was towards lowering barriers to international trade and investment such as tax reliefs and specific fiscal incentives, the ease of restrictions on profit repatriation, raising the allowance for foreign ownership, and the ratification of international convention on the settlement of investment disputes, etc. But these efforts were still not enough for a full integration into the global economy, and there are many challenges ahead.

3.3. Foreign Direct Investment Inflows in the MENA Region

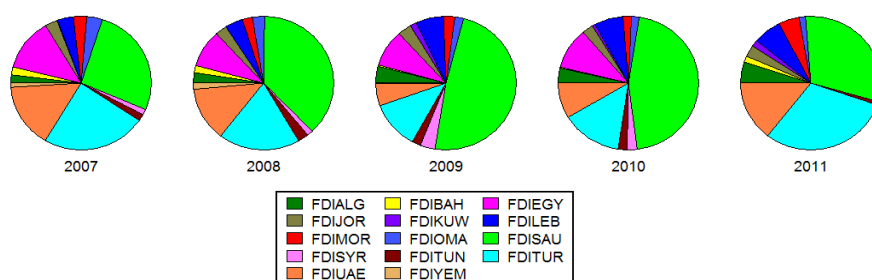
Figure n°04: FDI Net Inflows (BoP, current US\$) in MENA Countries, 1995-2011.



Source: World Bank, World Development Indicators, the data are available online at: <http://data.worldbank.org> (accessed 01/10/2014).

This graph clearly shows that the region's economies become more receptive to FDI inflows than in the past. In fact, a specific group of MENA countries including (Saudi Arabia, Turkey, UAE, Egypt, Jordan, Lebanon and Morocco) attract the bulk of FDI inflows; more specifically the first three countries receive the lion's share of inward FDI in the region, and it is worth to note that this group of countries has made valuable efforts to provide the necessary requirements for foreign investors' entry such as the promotion of business environment and private sector activity, these countries also enjoy a vital tourism sector that plays a substantial role in attracting FDI (*Lois Stevenson, 2010*), whilst the other MENA countries experience modest FDI inflows as compared to the previously mentioned countries due to restrictive business practices, inefficient financial system and slow reforms (*Nicolás M. Depetris Chauvin, 2013*). In general, there is a considerable difference between GCC countries and most of the remaining MENA countries as destinations for FDI inflows, and the main reasons for this gap are the various disincentives to openness in most non-GCC countries. Moreover, the MENA region enjoys substantial oil wealth; hence it receives large FDI inflows into the hydrocarbon sector, but the dependence on this fortune hampers economic diversification, hence, almost all MENA countries must develop their capital markets in order to attract more portfolio investments (*Looney, Robert, 2005; World Bank, 2013b*).

Figure n°05: FDI Net Inflows (BoP, current US\$) in MENA Countries, 2007-2011.



Source: World Bank, World Development Indicators, the data are available online at: <http://data.worldbank.org> (accessed 01/10/2014).

The 2008 financial crisis did not spare the MENA region, and it has led to a reduction in inward FDI. Furthermore, the political turmoil that began in Tunisia in 2010 swept across the MENA region and inflicted serious damage (associated with increased uncertainty and violence) on Egypt, Syria, Yemen and some surrounding countries. The dire consequences of the Arab Spring have made foreign investors more reluctant to invest in such an unsafe business atmosphere where their profit earning capacity became gloomy and mysterious.

Further, the severe political instability still devastates the institutional environment and destroys several MENA countries' image, and thus expelling foreign investors and depriving these countries of opportunities to improve their growth performance and catch up with the global trend (*World Bank, 2013a*). Therefore, most MENA countries' economic environment needs to be more stable, predictable and conducive to investment and growth.

In spite of some deficiencies, the MENA region enjoys many incentives that entice foreign investors, such as the enormous natural resource endowments and large domestic

markets, and it is important to highlight the hopeful signs of change and reform aimed at displaying a friendlier investment climate. Furthermore, the diversification of export and productive bases through well targeted policies, substantial human resource development, the provision of infrastructural facilities and good governance remains the MENA region's top priority, also, MENA countries that suffer a semi-paralyzed private sector need to launch an ambitious privatization programme on a high note.

4. Data and Empirical Results

A. Data

This study analyzes the effect of globalization and FDI inflows on economic growth in 14 MENA countries (Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Syria, Tunisia, Turkey, United Arab Emirates and Yemen) over the period 1995-2011 using the following variables:

GDP: GDP per capita (constant 2005 US\$) is used as a proxy for economic growth, from the World Development Indicators.

GI: The KOF Index of Globalization developed by Axel Dreher, and a positive sign is expected.

FDI: represents the foreign direct investment net inflows (% of GDP) from the World Bank's World Development Indicators (WDI).

EF: Economic Freedom introduced by Heritage Foundation, it is supposed to have a strong positive influence on economic growth.

GOI: The Governance Index which is calculated as a simple average of the six Worldwide Governance Indicators.

POPD: denotes the population density (people per sq. km of land area), from the World Development Indicators.

B. Data Analysis Tools

The panel data analysis is applied to examine the impact of globalization and FDI inflows on economic growth in 14 MENA countries using Eviews 8.0 software package. Because the panel data analysis has several advantages, such as controlling for both observed and unobserved heterogeneity, increasing the degree of freedom and reducing the collinearity problems, hence improving the efficiency of econometric estimates (*Cheng Hsiao, 2003*), and there are three main models as follows : *Pooled OLS Model, Fixed Effects Model, Random Effects Model.*

C. Analysis of Empirical Results

Table n°02: Descriptive statistics of the variables, 14 MENA countries, 1995-2011

	GDP	GI	FDI	EF	GOI	POPD
Mean	10019.02	59.32386	3.550803	60.59551	-0.240014	164.1281
Median	3771.011	60.80142	1.973611	60.60000	-0.203219	66.76083
Maximum	47081.16	75.72185	33.56602	77.70000	0.673526	1701.005
Minimum	711.9649	34.33654	-3.468654	36.30000	-1.371923	7.014976
Std. Dev.	11752.29	10.12614	4.728738	7.947702	0.476377	323.2886
Skewness	1.632860	-0.692715	2.582694	-0.333814	-0.311483	3.254297
Kurtosis	4.830467	2.706847	13.14861	3.291515	2.132556	12.99297
Jarque-Bera Probability	103.9485 0.000000	14.87303 0.000589	961.7605 0.000000	3.936081 0.139730	8.459054 0.014559	1054.808 0.000000
Sum	1783386	10559.65	632.0430	10786.00	-42.72246	29214.81
Sum Sq. Dev.	2.44E+10	18149.36	3957.890	11180.38	40.16753	18499244
Observations	178	178	178	178	178	178

Source: Author's Computation Using Eviews 8.0.

The table above presents the summary statistics of the variables used in the empirical analysis, covering 14 MENA countries over the period 1995-2011. As can be seen from the data, GDP has an average of 10019.02 and a maximum value of 47081.16, reflecting that specific countries in the region enjoy substantial economic growth. In addition, FDI have an average of 3.55 and a maximum value of 33.56, indicating that many countries in the region are less attractive for FDI inflows. Also the mean of globalization index (59.32) points out that the region as a whole has begun to open its doors to the process of globalization and partially abandoned isolation. While, the mean of economic freedom index (60.59) indicates that the region is classified as 'moderately free'. Whereas, the average of governance index (-0.24) means that almost all countries in the MENA region suffer from low-quality political institutions.

Table n°03: Regression Results for 14 MENA Countries

Dependent Variable: GDP			
Coefficient Estimates (P-value)			
Independent Variables	Pooled OLS Model	Fixed Effects Model	Random Effects Model
GI	366.0249 (0.0007) ***	394.1697 (0.0014) ***	66.11805 (0.2900)
FDI	570.4906 (0.0001) ***	773.1139 (0.0000) ***	33.42704 (0.5790)
EF	253.4289 (0.0707) *	322.6036 (0.0387) **	204.5677 (0.0017) ***
GOI	8428.045 (0.0001) ***	6819.011 (0.0037) ***	2604.948 (0.1098)
POPD	-1.885709 (0.4008)	-1.570491 (0.4522)	-2.353640 (0.3526)
R-squared	0.528101	0.558384	0.078434
Prob (F-statistic)	0.000000	0.000000	0.014562

Significant at 1% (***), 5 %(**), 10% (*).

Source: Author's Computation Using Eviews 8.0.

As is shown in the table above, the pooled OLS and fixed effects have revealed that all the explanatory variables display a highly significant positive impact on economic growth in the MENA region, except the population density which appears to have a significantly negative effect on GDP. While, the random effects model indicates that only economic freedom exhibits a statistically significant positive influence on economic growth in 14

MENA countries. The next step involves applying the Hausman test which is worthy in choosing between the fixed effects and random effects approaches.

Table n°04: Hausman test

Correlated Random Effects - Hausman Test			
Equation: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	12.542500	5	0.0137

Source: Author's Computation Using Eviews 8.0.

The Hausman chi-square test statistic is statistically significant at the 5% level of significance (Prob (0.0137 < 0.01), indicating that the fixed effects model is the most consistent one, so we focus on it in this empirical study.

Table n°05: Fixed Effects Model

Dependent Variable: GDP				
Method: Panel Least Squares				
Sample (adjusted): 1996 2011				
Periods included: 13				
Cross-sections included: 14				
Total panel (unbalanced) observations: 178				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-28273.38	9460.596	-2.988541	0.0032
GI	394.1697	121.3269	3.248824	0.0014
FDI	773.1139	160.6010	4.813880	0.0000
EF	322.6036	154.7284	2.084967	0.0387
GOI	6819.011	2313.637	2.947313	0.0037
POPD	-1.570491	2.083855	-0.753647	0.4522
R-squared	0.558384			
Prob(F-statistic)	0.000000			

Source: Author's Computation Using Eviews 8.0.

The fixed effects specification clarifies that the globalization index exhibits a significant positive impact on the MENA region's economic growth, and this is consistent with theory. As well as, the inward FDI has positive and highly significant growth effects in the selected countries. Moreover, economic freedom displays a positive and significant influence on GDP growth. Likewise, there is a statistically significant positive relationship between governance index and economic growth, because better governance and sound institutions designed to protect property rights and reduce uncertainty, are accountable for creating a viable and favorable economic environment that can boost growth prospects. However, unexpectedly, population density exerts an insignificant negative effect.

Furthermore, the R^2 value of 0.5583 denotes that 55.83% of the variation in economic growth is explained by the independent variables (GI, FDI, EF, GOI and POPD). Also, the F-value is significant at the 1% level, confirming the model's fitness and the joint impact of explanatory variables on FDI inflows in the sample under consideration.

5. Conclusion

This study examines the impact of globalization and FDI inflows on economic growth in 14 MENA countries (Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Saudi Arabia, Syria, Tunisia, Turkey, United Arab Emirates and Yemen) over the period 1995-2011, through the use of panel data analysis, including Fixed Effects Model, Random Effects Model and Hausman test. The fixed effects specification is the most appropriate one; it states that globalization and FDI inflows seem to play a substantial role in explaining economic growth of the selected MENA countries. Likewise, governance and economic freedom act as catalysts for the MENA region's economic growth.

Based on these results, it can be concluded that MENA countries can improve their growth performance by opening their doors more widely to the process of globalization. Moreover, the MENA region's decision-makers are committed to enact favorable investment policies that will hearten foreign investors and ensure well-functioning economic institutions. As well as, the total withdrawal of restrictions on import of technology products and material inputs is an irreversible policy decision. Further, contemporary and more comprehensive educational policies should be designed to emulate economic and industrial advancement and several technological trends. It is also worthwhile to note that the diversification of export and productive bases through well targeted policies, the provision of infrastructural facilities and good governance remains the MENA region's top priority, noticing that these policy implications will yield better results if more attention is paid to stabilizing political situation and reducing inequality and poverty.

References

- Abdolmajid Arfaei Moghaddam and Ma'rof Redzuan (2012), "Globalization and Economic Growth: A Case Study in A Few Developing Countries (1980-2010)", *Research in World Economy*, Vol. 3, No. 1, pp. 54-62.
- Adams Samuel (2010), "Globalization and Economic Growth in Sub Sahara Africa", in Kent G. Deng (ed), "Globalization - Today, Tomorrow", *Sciyo*, Rijeka, Croatia.
- Akinmulegun, Sunday Ojo (2012), "Foreign Direct Investment (FDI) Trends in Developing Nations: Nigeria Experience in a Globalization Era", *International Business and Management*, Vol. 4, No. 1, pp. 146-156.
- Akinori Tomohara and Sadayuki Takii (2011), "Does Globalization Benefit Developing Countries? Effects of FDI on Local Wages", *Journal of Policy Modeling* 33, pp. 511-521.
- Atrayee Ghosh Roy and Hendrik F. Van den Berg (2006), "Foreign Direct Investment and Economic Growth: A Time-Series Approach", *Global Economy Journal*, Volume 6, Issue 1, pp. 1-19.
- Axel Dreher (2006), "Does Globalization Affect Growth? Evidence from a New Index of Globalization", *Applied Economics*, Vol. 38, No. 10, pp. 1091-1110.

- 472 Ayca Sarialioglu-Hayali (2009), “Is It Possible to Develop within the MAI?”, *AKADEMİK*
473 *BAKİŞ*, SAYI No.17, pp. 1-28.
- 474 Basem Mohammed Louzi and Abeer Abadi (2011), “The Impact of Foreign Direct Investment
475 on Economic Growth in Jordan”, *International Journal of Research and Reviews in*
476 *Applied Sciences*, Vol. 8, No. 2, pp. 253- 258.
- 477 Borensztein, E., J. De Gregoria and J. Lee (1998), “How Does Foreign Investment Affect
478 Economic Growth?”, *Journal of International Economics*, Vol.45, No. 1, pp. 115-35.
- 479 Brecher, J., and Costello, T. (1994), “Global Village or Global Pillage: Economic
480 Reconstruction from the Bottom up”, Boston, MA: South End Press.
- 481 Caves, R. E (1996), “Multinational Enterprise and Economic Analysis”, 2nd Edition,
482 Cambridge: Cambridge University Press.
- 483 Cheng Hsiao (2003), “Analysis of Panel Data”, 2nd Edition, Cambridge University Press:
484 Cambridge, United Kingdom.
- 485 Delfim Gomes Neto and Francisco José Veiga (2013), “Financial Globalization, Convergence
486 and Growth: The Role of Foreign Direct Investment”, *Journal of International Money*
487 *and Finance* 37, pp.161-186.
- 488 Dunning, John H. and Lundan, Sarianna M. (2008), “Multinational Enterprises and the Global
489 Economy”, 2nd Edition, Cheltenham: Edward Elgar.
- 490 Dushni Weerakoon (2004), “Globalization and South Asia: The Role of Foreign Direct
491 Investment in Economic Development”, *South Asian Survey*, Vol. 11, No. 1.
- 492 Eswar S. Prasad, Kenneth Rogoff, Shang-Jin Wei and M. Ayhan Kose (2007), “Financial
493 Globalization, Growth and Volatility in Developing Countries”, NBER Chapters,
494 National Bureau of Economic Research, Inc, in: Globalization and Poverty, *National*
495 *Bureau of Economic Research*, Inc, pp. 457-516.
- 496 Garbis, I. and G. T. Abed (2013), “Arab Spring, Countries Struggle, GCC Prospects
497 Favorable”, IIF Regional Overview on Middle East and North Africa report, *Middle East and*
498 *Africa Department, Institute of International Finance (IIF)*, October, pp.1-41.
- 499 Giddens, A. (1990), “The Consequences of Modernity”, *Polity Press*, Cambridge.
- 500 Harris, R. G. (1993), “Globalization, Trade, and Income”, *Canadian Journal of Economics*,
501 Vol. 26, No. 4, pp. 755–776.
- 502 Henryk Gurgul and Łukasz Lach (2014), “Globalization and Economic Growth: Evidence
503 from Two Decades of Transition in CEE”, *Economic Modelling* 36, pp. 99–107.
- 504 Hlaváček Petr and Petra Olšová (2011), “Impact of Globalization and Foreign Direct
505 Investment on the Regional Economies: The Case of the Czech Republic”, In *The Scale*
506 *of Globalization. Think Globally, Act Locally, Change Individually in the 21st Century*,
507 70-75. Ostrava: University of Ostrava, 2011.

- 508 IMF (2014), “World Economic Outlook-Recovery Strengthens, Remains Uneven”,
509 Washington: International Monetary Fund, April 2014.
- 510 Joseph E. Stiglitz (2004), “Globalization and Growth in Emerging Markets”, *Journal of Policy*
511 *Modeling* 26, pp. 465–484.
- 512 Lois Stevenson (2010), “Private Sector and Enterprise Development: Fostering Growth in the
513 Middle East and North Africa”, *Edward Elgar Publishing, Inc.*: Northampton, MA,
514 USA and International Development Research Centre: Ottawa, Canada.
- 515 Looney, Robert (2005), “Why Has the Middle East Been So Slow to Globalize?”, *Review of*
516 *Middle East Economics and Finance*, Vol. 3, No. 3, pp. 173-. 202.
- 517 Lucas, R., (1988), “On the Mechanics of Economic Development”, *Journal of Monetary*
518 *Economics* 22, pp. 3 – 42.
- 519 McGrew, A and Lewis, P. G. (1992), “Global Politics”, Cambridge: Polity Press.
- 520 Mele, C. (1996), “Globalization, Culture, and Neighborhood Change: Reinventing the Lower
521 East Side of New York”, *Urban Affairs Review*, Vol. 32, No. 1, pp. 3–22.
- 522 Mohammad Amin Almfraji, Mahmoud Khalid Almsafir and Liu Yao (2014), “Economic
523 Growth and Foreign Direct Investment Inflows: The Case of Qatar”, *Procedia - Social*
524 *and Behavioral Sciences* 109, pp. 1040 – 1045.
- 525 Mosley Layna and Saika Uno (2007), “Racing to the Bottom or Climbing to the Top?
526 Economic Globalization and Collective Labor Rights”, *Comparative Political Studies*,
527 Vol. 40, No. 8, pp. 923–948.
- 528 Nicolás M. Depetris Chauvin (2013), “FDI Flows in the MENA Region: Features and
529 Impacts”, *IEMS Emerging Market Brief*, SKOLKOVO Business School - Ernst &
530 Young Institute for Emerging Market Studies (IEMS), Vol. 13-01.
- 531 Nuno Carlos LEITÃO (2012), “Economic Growth, Globalization and Trade”, *Management*
532 *Research and Practice*, Vol. 4, Issue 3, pp. 18-24.
- 533 Nwankwo Odi G. Ademola Olukotun and Kehinde Olorunfemi (2013), “Effects of
534 Globalization on Foreign Direct Investment in Nigeria”, *Lorem Journal of Business and*
535 *Economics*, Vol. 1, No. 1, pp. 11-18.
- 536 OECD (1993), “Intra-firm Trade”, OECD, Paris.
- 537 Olusanya, Samuel Olumuyiwa (2013), “Impact of foreign Direct Investment Inflow on
538 Economic Growth in a Pre and Post Deregulated Nigeria. A Granger Causality Test
539 1970-2010”, *European Scientific Journal*, Vol. 9, No. 25, pp. 335-356.
- 540 P. C. Nwakanma and R. C. Ibe (2014), “Globalization and Economic Growth. An
541 Econometric Dimension Drawing Evidence from Nigeria”, *International Review of*
542 *Management and Business Research*, Vol. 3, Issue.2, pp. 771- 778.

- 543 Penalver, M. (2002), “Globalization, FDI and Growth: A Regional and Country Perspective”,
544 *United Nations Department of Economic and Social Affairs*, Morocco, 10 – 13
545 Decembrie 2002.
- 546 Ram N. Agarwal (2012), “Economic Globalisation, Growth and the Environment: Testing of
547 Environment Kuznet Curve Hypothesis for Malaysia”, *Business & Financial Affairs*,
548 Volume 1, Issue 2, pp. 1-8.
- 549 Rasaki .O. Kareem, Hakeem .A. Bakare and Emmanuel .S. Ologunla (2013), “Globalization
550 and Economic Growth in Nigeria: Any Nexus?”, *Service Science and Management
551 Research (SSMR)*, Volume 2 Issue 1, pp. 9-17.
- 552 Roberta Capello and Ugo Fratesi (2013), “Globalization and Endogenous Regional Growth”,
553 in Crescenzi, R., Percoco, M. (eds) *Geography, Institutions and Regional Economic
554 Performance*, Springer Verlag, Berlin, pp. 15-37.
- 555 Robertson, R., (1992), “Globalization: Social Theory and Global Culture”, London: Sage.
- 556 Rodrik (1997), “Has Globalization Gone Too Far”, *California Management Review*, Vol. 39,
557 No. 3, pp. 29–53.
- 558 Romer, P.M., (1986), “Increasing Returns and Long-Run Growth”, *Journal of Political
559 Economy* 94, pp. 1002–1037.
- 560 Saibu, M. O. and Akinbobola, T. O. (2014), “Globalization, Foreign Direct Investment and
561 Economic Growth in Sub Saharan Africa”, *Journal of Economics and International
562 Finance*, Vol. 6, No. 3, 62-68.
- 563 Samrat Roy (2012), “Foreign Direct Investment and Economic Growth: An Analysis for
564 Selected Asian Countries”, *Journal of Business Studies Quarterly*, Vol. 4, No. 1, pp. 15-
565 24.
- 566 Sarbapriya Ray (2012), “Impact of Foreign Direct Investment on Economic Growth in India:
567 A Co integration Analysis”, *Advances in Information Technology and Management*,
568 Vol. 2, No. 1, pp. 187-201.
- 569 Singh, Ajit (2005) “FDI, Globalization and Economic Development: Towards Reforming
570 National and International Rules of the Game”, *ESRC Centre for Business Research*,
571 University of Cambridge Working Paper Series No. 304.
- 572 Sjoerd Beugelsdijk, Roger Smeets and Remco Zwinkels (2008), “The Impact of Horizontal
573 and Vertical FDI on Host’s Country Economic Growth”, *International Business Review*
574 17, pp. 452–472.
- 575 Solow, R.M., (1956), “A Contribution to the Theory of Economic Growth”, *the Quarterly
576 Journal of Economics* 70, pp. 65–94.
- 577 Susan Creane, Rishi Goyal, A. Mushfiq Mobarak and Randa Sab (2004), “Financial Sector
578 Development in the Middle East and North Africa”, *IMF Working Paper No. 04/201*,
579 (Washington: International Monetary Fund), pp. 26–48.

- 580 Susan Creane, Rishi Goyal, A. Mushfiq Mobarak and Randa Sab (2007), “Measuring
581 Financial Development in the Middle East and North Africa: A New Database”, *IMF*
582 *Staff Papers*, Vol. 53, No. 3, (Washington: International Monetary Fund), pp. 479-511.
- 583 Syed H. Akhter (2004), “Is Globalization What It’s Cracked Up To Be? Economic Freedom,
584 Corruption, and Human Development”, *Journal of World Business* 39, pp.283–295.
- 585 Thomas Friedman (1999), “The Lexus and the Olive Tree: Understanding Globalization”,
586 *Farrar, Straus and Giroux, LLC*, New York, USA.
- 587 Waters, M. (1995), “Globalization”, London: Routledge.
- 588 Wood (1998), “Globalisation and the Rise of Labor Market Inequalities”, *The Economic*
589 *Journal* 108, pp. 1463–1482.
- 590 World Bank (2010), “Middle East and North Africa Region: A Regional Economic Update:
591 Recovering from the Crisis”, April 2010, Washington, DC: World Bank.
- 592 World Bank (2013a), “MENA Quarterly Economic Brief”, *Office of the Chief Economist*,
593 Issue 1, July 2013.
- 594 World Bank (2013b), “Global Investment Promotion Best Practices 2012 Seizing the
595 Potential for Better Investment Facilitation in the MENA Region”, *the Investment*
596 *Climate Department of the World Bank Group* (which includes IFC, MIGA, and the
597 World Bank).
- 598 Xiaoying Li and Xiaming Liu (2005), “Foreign Direct Investment and Economic Growth: An
599 Increasingly Endogenous Relationship”, *World Development*, Vol. 33, No. 3, pp. 393-
600 407.
601