

The factors affecting the relationship between foreign direct investment and economic growth in selected OPEC countries

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Article Info	Abstract
<p>Original Article</p> <p>Main Object: Economics Scope: Selected OPEC Countries (Algeria, Ecuador, Iran, Iraq, Kuwait, Nigeria, Qatar, United Arab Emirates, Saudi Arabia)</p> <p>Received: 31 May 2023 Revised: 17 June 2023 Accepted: 20 June 2023 Published online: 21 June 2023</p> <p>Keywords: economic prosperity, financial markets, foreign capital attraction, Ordinary Least Squares (OLS), panel data approach.</p>	<p>In classical models, one of the important factors of economic growth is capital accumulation. Since developing countries, including Iran, need to accumulate capital for economic growth, as a result, the use of foreign direct investment in these countries is considered. The present research examines the effects of foreign direct investments and the financial development on the economic growth in a panel data of OPEC countries (Algeria, Ecuador, Iran, Iraq, Kuwait, Nigeria, Qatar, United Arab Emirates, Saudi Arabia) over the period 1987-2017. The estimation of the model estimation shows that the effect of FDI index on economic growth of the countries under study was positive and significant. The effect of the financial ratio of private sector credit to GDP on the economic growth of the countries studied was negative and significant. The effect of the financial ratio of cash debt to GDP on the economic growth of selected OPEC countries has been positive and significant.</p>
<p>Cite this article: Nemati M, Jabalameli F. (2023). "The factors affecting the relationship between foreign direct investment and economic growth in selected OPEC countries". <i>Countries Studies</i>. 1(3): 83-87. doi: https://doi.org/10.22059/jcountst.2023.360023.1036. Creative Commons Attribution-NonCommercial 4.0 International License Website: https://jcountst.ut.ac.ir/ Email: jcountst@ut.ac.ir EISSN: 2980-9193 Publisher: University of Tehran</p>	

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Extended Abstract**Background**

The term of foreign direct investment did not have an independent and self-reliant theory until the 1960s, and its concept was presented as a part of the international trend, and many of its important features and dimensions were neglected. But, from the 1960s onwards, due to the increase in the volume of foreign direct investment, the theoretical literature of this field became stronger in order to explain the causes and motives of foreign direct investment, the time and places of its occurrence. According to Dunning's theory, two basic problems happened from these years onwards, that foreign direct investment could no longer be studied as a part of the neoclassical theory of capital: First, foreign direct investment was something more than capital transfer and included the transfer of technology, organizational and management skills; Secondly, unlike the flow of capital, where the transfer of materials and funds took place between two independent sectors in the market, in foreign direct investment, the transfer occurred mostly within a company.

Aim

We will try to investigate the impact of foreign direct investment on economic prosperity through the financial development indicator channel in selected OPEC member countries (Algeria, Ecuador, Iran, Iraq, Kuwait, Nigeria, Qatar, United Arab Emirates, Saudi Arabia) between 1987-2017.

Method

The panel data econometric analysis is employed to evaluate the impacts of the independent variables on the dependent variable.

Results

In classical models, one of the important factors of economic growth is capital accumulation. Since developing countries, including Iran, need to accumulate capital for economic growth, as a result, the use of foreign direct investment in these countries is considered. The issue of the relationship between the development of financial markets and the influence of foreign direct investment on growth has been discussed by many experts.

According to scholars, the wider and more efficient the financial markets in the host country are, the easier financial and monetary transactions will be done at a lower cost rate, which is the reason for the greater desire of foreign investors in the economic projects of the host country will be. The fact is that without a developed financial platform, economic institutions and enterprises will not be able to make successful financial and monetary transactions, and therefore achieving economic growth and prosperity will be complicated and even impossible.

In fact, an effective financial mechanism provides the possibility of creating transparency of information and building trust in the mind of the audience, which is the investor. Meanwhile, the risk of investing in countries with developed financial markets is controlled and low. Therefore, countries can create the mental trust of investors and facilitate the access of economic enterprises to financial resources through the creation of a wider financial market. Since most of the underdeveloped and developing countries suffer from the lack of appropriate financial institutions and there are not enough savings and financial resources for economic entrepreneurs, this can affect the impact of foreign direct investment in the host country.

According to the stated purpose of the research, the main question is whether financial development indicators can explain the effect of foreign direct investment on the economic growth of the countries in question? The innovation of the upcoming research can be expressed from several perspectives. First, the development of financial markets has been investigated as a mediating variable in the relationship between economic growth and foreign direct investors. Second, OPEC member countries that have an oil structure and attract foreign direct investment is an important challenge for them have been studied in this article.

Conclusions

The estimation of the model shows that the effect of the foreign direct investment index on the economic growth of the studied countries is positive and significant, and the effect of the financial index of the ratio of credits granted to the private sector to the GDP on the economic growth of the studied countries is negative and significant. Also, the effect of the financial index of the ratio of cash debts to the GDP on the economic growth of the member countries has been positive and significant. One of the important applied policies of the OPEC countries in the field of dynamizing the effects of foreign direct investment on economic growth is the expansion of the digital financing market. The development of the application of cryptocurrency and blockchain in the financing of economic projects, and the adjustment of regulations for attracting foreign direct investment.

Conflict of interest

The authors declared no conflicts of interest.

Authors' contributions

All authors contributed to the original idea, study design.

Ethical considerations

The author has completely considered ethical issues, including

informed consent, plagiarism, data fabrication, misconduct, and/or falsification, double publication and/or redundancy, submission, etc.

Data availability

The dataset generated and analyzed during the current study is available from the corresponding author on reasonable request.

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