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A STUDY ON IMPACT OF FOREIGN DIRECT INVESTMENT ON GROSS DOMESTIC PRODUCT IN SULTANATE OF OMAN

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Abstract

This present study is about to examine the impact of Foreign Direct Investment (FDI) on Gross Domestic Product (GDP) growth of Sultanate of Oman. The relationship between these two variables is tested by using multiple regression (simple linear equation) models. FDI is considered as independent variables whereas the changes in GDP growth are taken as dependent variable. Secondary data have been used for the purpose of analysis ranging from year 1980 to 2014 of Oman by using simple linear equation and hypothesis has been tested. The required data have been collected from Muscat Security Market (MSM) and Central Bank Oman (CBO) for the study period. The result of the analysis shows that the overall model is significant. There is a positive and significant relationship between GDP and FDI.

Keywords: FDI, MSM, GDP, CBO

Introduction

Foreign Direct Investment refers to net inflows of investment from one country to another country. It is the amount of equity capital, reinvestment of income, purchasing income yield assets, long term and short term capital. Normally it involves participation in management, joint ventures, transfer of innovative and new technology, skills and experience of skilled workforce. Gross Domestic Product refers that the market value of goods & services of the products produced within a country in a particular period. Moreover it is considered as an indicator of growth and standard of living for a country.

FDI is one of the key factors of attracting and drawing more fund inflows from external sources and helps to build sound capital structure in developing countries around the globe. The impact of FDI is more popular among the developing countries and is considered as a key tool for their economic growth and development. Moreover, it increases employment opportunities, productivity, and greater outflow of exports and transfer of technological advancement between the countries. The benefit of having FDI enables the employment and evading human resource exploitation and added value to the human capital by providing on the job training. Normally, growth proportion is slower when the countries are facing a scarcity of capital and technical expertise.

The economic growth and development is purely depends on the countries' capital formation and infrastructure. So FDI plays an important role in overall capital formation of the country. Sultanate is oil based country and considered foreign direct investment is a key tool for the economic growth. To grab the FDI and also boost up young Omanis' entrepreneurs, Oman is ready to provide tax exemption, low corporate tax, easy immigration clearance, low interest loan and well planned serviced industrial plots and also allow up to 70% to 100% FDI in free zone regime to attract FDI according to Oman's foreign direct investment law.

Sultanate of Oman is actively looking for FDI and still under the process of improving the regulatory framework to encourage such investments. The Public Authority for Investment Promotion and Export Development is aimed to attract foreign investors and smoothing the way for business formation and private sector development. The Omani Government has been giving a due consideration of FDI reforms to strengthen the business environment and attract higher FDI inflows, including new tax and privatization laws. The improved investment climate has resulted in a considerable increase in FDI flows to Oman in the years. Starting from a baseline of less than USD 1 million in 1990, a recent UNCTAD survey projected Oman is one of the most important FDI destinations in GCC. As per the statistical data, the sectors which attracted higher inflows were Oil and Gas, Manufacturing, Telecommunication, Construction, Financial Intermediation, and computer software and hardware. Singapore, UK, China, Brazil, UAE, France, US and India were among the leading sources of FDI to the Country.

REVIEW OF LITERATURE

Over the last decade a few studies relating to the impact of FDI on the GDP in developing and developed countries were conducted. Nuzhat (2009) has collected the data of FDI from the Pakistan Economy Handbook (2005) published by the State of Pakistan and the World Bank Development indicators (2008) from 1980 to 2006 with the variables of domestic capital, work force, and foreign owned capital to example the impact of FDI on GDP growth of Pakistan. The researcher concluded that FDI has negative impact and insignificant relationship between GDP and FDI inflows in Pakistan with the help of endogenous growth theory and applying the regression models.

Qaiser Abbas, Salman Akbar, Ali Shan Nasir, Hafiz Aman Ullah, Muhammad Akram Naseem (2011) suggested that there is positive and significant relationship between FDI & GDP. The growth of any country depends on its infrastructure, capital investments, increasing trends of assets. In an economy FDI shows that there is a good trend of investment which at last results in enhancing the GDP and growth of the country

Dunning &Hamdani (1997) According to him, foreign direct investment can serve as a tool of transfer of new and innovative technology, skills and knowledge. Alfaro at el (2003) examined the various links among Foreign Direct Investment and Gross Domestic Production growth. They explore whether countries with better financial systems can exploit FDI more efficiently.

Aitken and Harrison (1999) argued that due to multinationals increased local competition caused may crowd out domestic firms. Boyd and Smith (1992) argued that FDI misrepresents resource allocation to the various fields and slowdown the growth when other misrepresentations are present in the financial sector, prices and trade. This would denote that FDI does not contribute for necessary growth, and countries could be harming their economies with provisions that in favor of FDI

Chinweobo Emmanuel Umeora (2013) investigated that the effect of FDI on selected macro-economic variables of inflation, GDP and Exchange Rate. He concluded that inflation GDP and Exchange Rate are affected severely by FDI in Nigeria. FDI does not contribute the GDP to grow whereas it leads for inflation and has negative effect on exchange rate. Though he concluded with contradictions of FDI, he suggested that FDI is essential for the growth of the country but government should take some precautionary measures and give due consideration for FDI.

Bhavya Malhotra (2014) found that FDI policy, in India, has been gradually liberalized to make the market more investor friendly and the results have been encouraging. Due to the above reason, India is consistently ranked the top three global investments among the destinations by all international bodies according to a United Nations report. He concluded that FDI has had a positive impact on GDP and also fond that FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy.

Dondeti and Mohanty (2007) strongly suggested that FDI provides ready access to the world markets and act s as a channel for the host country to participate in the globalization process. Bezuidenhout (2009)Though, FDI is seen as a dynamic factor in persuading growth rate, FDI will only lead to growth if its inflows are properly and effectively managed or else the result will be negative. Chadee and Schlichting (1997) discuss some aspects of foreign direct investment in the Asia-Pacific Region and conclude that FDI has made a positive contribution to all the economies in that region.

Gaurav Agrawal &MohameddAamir Khanfound that in their study, FDI promotes economic growth. Further it provides an estimate that 1% increase in FDI would result in 0.07% GDP growth in China whereas 0.02% GDP growth in India. They also found that China's growth is more affected by FDI than India's growth. Moreover, FDI is not as much significant as other variables to predict growth.

SafetKurtovic, Boris Siljkovic, Milos Milanovic (2015) investigated and the results showed that there is a long-term relationship and co-integration between FDI and unemployment. Moreover, they found FDI positively influence the reduction of unemployment in most of the countries while the results showed that FDI did not contribute much to the reduction of unemployment in Turkey. Changes in GDP did not reduce the unemployment rate as well.

Objectives of the Study:

- To evaluate the impact and cause & effect of FDI on GDP in Oman by using linear regression model
- To understand the impact of FDI on GDP in different nations through review of literature
- To find the relationship between FDI and GDP

Hypothesis:

Ho = There is no significant relationship between foreign direct investment and gross domestic Product

H1 = There is a significant relationship between foreign direct investment and gross domestic Product

Analysis and Interpretation:

To analysis the impact of foreign direct investment on gross domestic products' growth, secondary data have been used during the period of 1980 – 2014. All the required data have been collected from MSM and CBO. The hypothesis has been tested by using simple linear equation model. The results of the regression analysis are presented below.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.354[a]	.125	.097	.85016	1.204

a. Predictors: (Constant), FDI

b. Dependent Variable: GDP

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.215	1	3.215	4.448	.043[a]
	Residual	22.406	31	.723		
	Total	25.621	32			

a. Predictors: (Constant), FDI

b. Dependent Variable: GDP

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.962	.253		3.802	.001
	FDI	.070	.033	.354	2.109	.043

a. Dependent Variable: GDP

The above table shows that, R square is .125 which means the independent variables is influencing the dependent variable around 12.5%. The probability significance of F score is 0.43, which is less than 5% and it is concluded that the model is fit and valid. The P value of independent variable is .043, which is less than 5%. Therefore, the variable FDI is considered to be significant and null hypothesis is rejected. Though the model is valid, the capturing power of the independent variable is not adequate.

Conclusion:

FDI plays a predominant role in GDP growth of the countries especially in developing country like Oman. In this regard, the researcher investigated that the impact of Foreign Direct Investment on Gross Domestic Products' growth and relationship between these two variables. The present study has analyzed empirically by using linear regression model. Based on the results, the researcher concluded that the existence of positive relationship between foreign direct investment (Independent Variable) and gross domestic product (Dependent Variable) during the study period. Though the model is valid and fit, the capturing power of the independent variable is not adequate.

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