PalArch's Journal of Archaeology of Egypt / Egyptology

Foreign Direct Investment Influence on Gross Domestic Product of Kuwait from The Year 2010 to 2018 – A Study

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Dr. N. ARUNA RANI[1], Dr.RAJITHA RAMACHANDRAN[2], Dr.SMITHA B NAIR[3], Foreign Direct Investment Influence on Gross Domestic Product of Kuwait from The Year 2010 to 2018 – A Study,-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 18(9). ISSN 1567-214x

Keywords: FDI, GDP, Kuwait.

ABSTRACT
The Foreign direct investment is considered to be a boon to growth of an economy to a country. FDI are actively utilized in open market rather than a closed market for investors. FDI is said to be fast growing factor for any country. Financially development of any country is based on the enhancement of FDI flow in the country this is proved in the research. The research was carried to understand the trends of FDI and its impact on the economy. The major FDI inflows are from United States and China and due to decline in oil prices and disinvestment the government bodies and policy makers need to concentrate on other sectors by granting FDI laws of 100% of foreign ownership and other tax relaxation, subsidies to improve the growth of the economy .We need to understand and check how much GDP and financial progress of Kuwait being impacted by FDI. Various Statistical methods has been incorporated that are Correlations, ANOVA and Regression. The outcome reveals tremendous influence FDI towards on GDP growth.
JEL Classifications: C23, F21, F43, O11.

1. Introduction
Kuwait is more predominantly a source of Investment than a destination of FDI because of its wealth. The policy of the past governments in Kuwait was also to attract more FDI's on key economic sectors. The government has made itself a road-map-vision to be achieved by 2035. In order to attract FDI, the government has in recent times made legislative changes like giving full ownership on the Project enforced not only of Special Economic Zone anywhere in Kuwait with incentives,

but also the custom duties are exempted for such projects. In terms of doing business Kuwait ranks within 100 spots, which is highest among GCC Countries. The State of Kuwait is encouraging investors to join in projects in the following key sectors like Communications, Renewable energy, Tourism, Education, Housing and natural gas, and Healthcare. The country is more concerned on high quality investments, which will add value based knowledge for the economy. Kuwait's economy needs foreign investment to diversify economic avenues from fossil fuels to information technology and other non-fossil avenues. As per global standards, foreign direct investment in Kuwait economy is not up to the mark. Foreign direct investments provide huge capital investments on stocks and technology and further it provides the avenues in knowledge base. In host country by enhancing skill development, Training enhancement abrest of state of art of Technology in all areas of development of country in field of Health and Research,education,Telecommunication,Travel and tourism, Infrastructure development and knowledge based Industry. The rule of thumb for Every FDI is Level in which FDI is pumped towards its home country is to be Lesser than Percentage growth in GDP .If FDI of a country is more than the Percentage growth of GDP, it will accomplish to impact adversely towards the financial wellbeing of the country and its growth as the country would be fully dependent on the FDI and would lead to less negotiating capability. It is noted that FDI influence growth only in shorter time span in comparison to longer time frame due to diminishing return of scale in influx of Capital. Foreign Direct Investment impacts the growth of an economy on having investment from different companies abroad bringing in their culture and investment on the Kuwait .The Currency value of the country is impacted by the pumping of more FDI in the economy shown by the study. It is observed in Kuwait. Foreign Direct Investment flows can be increased if the country allows Open and transparent conditions for all types of businesses, and allow them to have ease of doing their business. If given an opportunity to Kuwait firms to imports, flexible working conditions of labour markets will have a direct impact on Kuwait's Economy. The country can be benefitted by taking advantage of emerging opportunities of markets, which in turn can have an influence in profits as well as in developing relationships with other countries, thereby increasing productivity and creating employment opportunities .Presently we can analyse that Kuwait needs to focus on high quality FDI investments which will enhance a knowledge based economy rather than on quantity.

1.1 Trends in FDI Kuwait

Year	FDI
2010	1.13
2011	2.116
2012	1.65
2013	0.823
2014	0.299
2015	0.248
2016	0.267
2017	0.094
2018	-0.015

Kuwait has always opened to FDI . The Source of income from FDI has impacted widely on the Financial wellbeing of the country. It helps in building sophisticated infrastructure of the economy by enabling Job opportunities, Technology know how ,creation of Job, Investments in Local companies etc. The investments are basically on the oil and gas sector, Real estates and financial services. If we analysis the Trends of FDI 2010 it was 1.13 but 2011 it has attained 2.11.There is a downward trend where the FDI started declining from 2012 onwards and reached to a negative value . This could be due to lack of diversity and sudden fall in oil prices. In 2014 and in 2018 FDI recorded a negative value of -0.015 % In order to overcome the deficit, the Kuwaiti government has come across an FDI Law stating 100% foreign ownership that includes the infrastructure, Information Technology, Tourism, housing development, urban development and investment management to name a few. This in return will attract more FDI.

1.2 Trends in GDP of Kuwait

Year	Trends in GDP Growth in %
2010	-2.37
2011	9.63
2012	6.63
2013	1.15
2014	0.50
2015	0.59
2016	2.93
2017	-4.71
2018	1.25

GDP growth rate indicates the development of an economy. Kuwait being the world's sixth proven oil reserves which accounts for 40% of the GDP has earmarked to 9.63% in 2011 prior to that there was a negative growth of GDP in 2010.it further cascaded to 6.63 in the year 2012 and thereafter there was a slump in the GDP % till 2015.there was a recovery in GDP Growth in the year 2016 with 2.93 % earmarked an improvement. In the Year 2017 there was a decline in oil production due to the policy of OPEC which led to negative Growth of GDP and Crude oil prices of OPEC in global market has receded due to slash in the demand leading to slow GDP growth in Kuwait.

2. Review of Literature

Behbehani(2011)1,explains that it is not the inward foreign Direct Investment but outward FDI that made direct influence towards its economic development, as the Technology Transformation is from Developed countries to developing Countries .Authors felt that a country can follow Vertical foreign Direct Investment Strategy wherein the regions can be divided into blocks according to its comparative advantages which will help Kuwait get an opportunity to absorb benefits from its investment abroad according to Price and its efficiency. Rashid (2015)2 had observed the influence of Foreign Direct Investment towards Arab nations, where he used endogenous growth model and empirical study to analyse the influence of Foreign Direct Investment towards economic development. The researcher is of the opinion that the Foreign Direct Investment Inflows have declined due to various factors like institutional constraints, Political and Economic frame work of the Country due to which the economic growth has declined. Wahib Elayah(2019) Created a model on economic growth convergence aligned to FDI with Established Quality in Converging Economic that results revealed that there is economic growth converge in Kuwait compared to other GCC Countries.Abdulmajeed(2019)felt that the Kuwaiti investors need to know the internal information of finance markets in order to make right decisions to Invest in Financial markets, the time limit of each investment as well as any credit facilities given to foreign investors to encourage them to Invest in Jordan Country. He concluded that Tax rebate need to be given for First Two years in order to encourage foreign Investors.

Sabah(2019)examined that Foreign Direct Investment will have a Positive as well as Negative Impact on the Economy of a Country. Positive impact could be in having ample Employment opportunities, Technology Transfer, Direct relationship between Foreign Countries and Domestic countries. Laura Alfaro at el (2003) analysed the linkage between FDI and GDP.They also examined stating countries with Good financial facilities could take advantage of FDI effectively and efficiently. Almfraji (2014) observed and conclude that FDI and GDP has both negative and positive outcome between them, the reasons for negative impact is due to various economic factors viz dependency on foreign investments and less advanced technology . Alessia(2017) Examined that inward foreign direct investment (FDI) can accelerate investment in developing countries based on firm –level data which will lead to positive impact of FDI on Total Investment only if Multinational enterprise engage in Manufacturing Production. Country can benefit more extensively from foreign investors of developed countries rather than developing countries. Gory and Greenway(2006) had analysed the wages, Productivity and export spillovers restricting FDI in developing and developed countries. further they add that the export spillovers when mixed give best results. The reason for having a negative impact of FDI , could be usage of inappropriate econometric methods and in adequate data's taken for calculation like sector wise data wherein only few sectors are taken into consideration.Ewang and Yang (2009) Focused on the influence of Foreign Direct Investment on manufacturing sector where they took 48 states in U S region and studied on various factors like human capital ,investments as a share on Gross state Product, employment where FDI was an Independent Variable and Gross state product as Dependent variable, and the OLS(ordinary Least Squares) estimation Method was used .The analysis showed that FDI promotes growth impact on Gross state product and it is not the same in every region but it was concluded that human capital gives a positive impact . Munir Hassan (2017) studied on the determinants of FDI in GCC nations he took various factors affecting FDI inflows like the investments made by Non Residents Investors which influences the economy of a Country.

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1. Mariam Behbehani & Said Sami Al Hallaq Asian Journal Of Business And Management Sciences Issn: 2047-2528 Vol. 3 No. 03 [19-33], Impact Of Home Country Outward Foreign Direct Investment On Its Economic Growth,2011

Abumangosha (2014) analyzed the factors of FDI of MENA region (Middle East and North Africa) done an empirical analysis on three stages like Gulf cooperation council countries and found that the FDI Inflows are different in different region as it is based on the country's economic as well as Infrastructure. They also focused on the factors affecting FDI for MENA at three different levels i.e., intra-regional level, country-level and firm-level. The study shows that FDI inflows differ between MENA countries according to their economic and institutional structure like the policy makers and the government organisation, political situtations.If a country is resource rich, like Kuwait in oil, FDI to resource rich countries have on an average an impact whereas to resource poor countries has a negative impact to the available natural resources but positively to the quality of the resources. It can be concluded that more prominence is given for the quality not the quantity. Bonojour (2003) was in the opinion of the spill over of Technological transfer and he stated that a country can be benefit from FDI only if there is an increase in home country productivity as the purpose of FDI need to make sure that multinational company help in gaining competitive edge to the home country. Asiedo (2003) studied over 22 countries in Africa for a period of 16 years to analyse the factors having influence on FDI flows like Political risks, Country's Institutional framework and the government policy on FDI flows. Economic instability, Market volatility Infrastructural development and policy of the government on the FDI flows. He concluded macroeconomic & political stability, policy framework had a positive impact on FDI.

Jabri (2013)2 explored the factors of FDI inflows in MENA Countries for a Period 40 years (1970-2010) using this panel data to study the influence of macroeconomics on FDI. His studies resulted that market openness like free market activity with no barriers on market activity and no restriction on licensing, absence of taxes, tariffs will have an impact on the economic growth of a country resulting a positive influence on FDI inflows and variation in foreign exchange rate and political instability has an adverse influence on FDI inflows. Kariuki (2015)3 examined that the performance of any developed country is a predetermined condition for FDI outflow. He also explored the factors affecting the inflows taking 35 African Countries for a period of 16 years (1984-2010) and found that a good performance of the home country stock markets have a an impact on FDI outflows and the country which spend more on infrastructural facilities and believe in the concept of open market philosophy has FDI inflows in the country. Economic risk like exchange rates, political instability and government regulations of a country, financial risk of having more debts which the country is not able to pay to its investors and political risk like change in policy makers, military control or change in any legislative bodies will have an negative impact or decrease country's FDI inflows.

2. Jabri, Abdelkarim, et al .Determinant of foreign direct investment in MENA region: panel cointegration analysis. The Journal of Applied Business Research, 2013

3. Kariuki, Caroline. The Determinants of Foreign Direct Investment in the African Union. Journal of Economics, Business and Management, 2015

3. Objectives of the Study

- To Study Trends of GDP and FDI in Kuwait
- To Analysis the Foreign Direct Investment influence on Gross Domestic Product in Kuwait.

4. Hypotheses of the Study

H0: No correlation between GDP and FDI. H1: correlation between GDP and FDI.

5. Methodology

5.1 Design of the Study: The Numerical analysis was done by the researcher in the following study as Statistical tools were used to find the relationship between these two variables.
5.2 Data Source: Secondary data was used by Researcher data for the study .The data was collected from s sources like economy report of Kuwait, IMF,World bank.
5.3 Research Tools: Different statistical tools were applied using SPSS package.

6. Output and Conclusions

INPUT BY FDI TO GDP OF KUWAIT
TABLE 1: Correlations

Correlations

		GDP	FDI
GDP	Pearson Correlation	1	.720*
	Sig. (1-tailed)		.014
	N	9	9
FDI	Pearson Correlation	.720*	1
	Sig. (1-tailed)	.014	
	N	9	9

*. Correlation is significant at the 0.05 level (1-tailed).

The Correlation analysis showed a positive correlation (0.720) between GDP and FDI which implies that there is significant difference between GDP and FDI .Hence we reject H0(null) as shown in the Table .The p value of correlation is .014 which is greater than
0.05. We accept Null Hypothesis.

TABLE 2: Model Summary Model Summaryb

					Change Statistics	

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.720[a]	.519	.450	3.20612	.519	7.546	1	7	.029	2.288

a. Predictors: (Constant),FDI
b. Dependent Variable: GDP

Model summary gives us the information regarding the changes taking place in Variable scores.The R value is the simple correlation which is .720 . It can be concluded that there is a high degree of correlation between these two variables. The R2 value Signifies the total variations of the GDP which is Dependent Variables is due to Independent variables FDI. The correlation Coefficient(r)is .720.and R-squared is a statistical measure of how close the data are to the fitted regression line.519 indicating that variations are there when the standard Error is 3.20612.Since the Durbin test values are between 2.288 we reject the null hypothesis.

TABLE 3:ANOVA

ANOVAb

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	77.568	1	77.568	7.546	.029[a]
	Residual	71.954	7	10.279		
	Total	149.523	8			

a. Predictors: (Constant), FDI
b. Dependent Variable: GDP

Here we can see in case of Regression it is 77.56 and Residual value is 71.954 .The Total shows 149.52(77.56+71.954) and the sum of squares corresponds to the numerator of the variance ratio. The third column shows the degree of freedom for each estimate of variance which is 8-7=1.The fourth column gives the estimate of variance (mean squares77.568/1=77.568 and (71.954/7=10.279).F ratio is displayed in the fifth column is arrived at(77.568/10.279= 7.546).The significance level is .029 as displayed in the Table. The significance value is less than (α) alpha 0.05,Hence there is significant difference we reject null hypothesis.

TABLE 4: Coefficients (Regression analysis)

Coefficientsa

	Unstandardized Coefficients	Standardized Coefficients		

Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	-1.307	1.539		-.850	.424
	FDI	4.139	1.507	.720	2.747	.029

a. Dependent Variable: GDP

The Above Table reveals that the constant value(-1.307) with FDI values (4.139) and the P value(.029) was done in order to know their significance. We reject Ho as it is less than 0.05 Due to which we can state that there is significant relationship to make predictions the regression equation (Y=a+bx) GDP= -1.307+4.139*FDI the Alpha term is -1.307 (insignificant P value),the beta term is 4.139 and significant @ 0.05 level of significant it can be therefore concluded that null hypothesis is rejected and FDI has got an Impact on GDP. For example for every 1 million of FDI inflow coming to the country will increase the GDP by 4.14 million.

7. Conclusion:

The Result shows that there is significant correlation between FDI and GDP and the reasons could be innumerable such as Changes in regulations of the country, Fluctuations in Monetary Conditions, and Competitive labour Markets.

Trends of FDI 2010 it was 1.13 but 2011 it has attained 2.11 then FDI started declining from 2012 onwards and reached to negative value this could be due to lack of diversity and sudden fall in oil prices.in 2014 and in 2018 FDI recorded a negative value of -0.015 % In order to overcome the deficit the Kuwaiti government had come across a FDI Law stating 100% foreign ownership. According to UNCTAD the reasons were sudden fall in oil prices and due to lack of diversity in the economy .When we compare the GDP of Kuwait, GDP trend in 2011 decreased to 6.63 % and then the rate was constant in 2013,2014 and 2015 then there was an increase in the growth rate in 2016 and then the economy went on recession with a negative GDP and there was a slight improvement in 2018 The reason for high and low rates could be due to downfall of oil prices and improvement shown in 2018 is due to increase in consumer spending and government spending on infrastructure. Government has taken initiatives to Improve its GDP by announcing the Northern Gulf Gateway project, which aims to connect Kuwait and its hinterland countries.This would lead more growth opportunities if Gulf Gateway projects are implemented.

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