An Overview of Foreign Direct Investment and Green Growth in OIC Countries

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ABSTRACT

The firstly purpose is to critically evaluate the impact of trade, labor force and capital establishment and foreign investment (FDI) upon eco-friendly green growth in OIC nations. The available theoretical and empirical literature on the subject is examine and summarize in this work. Secondly, the literature is identified by drawing on the hypothetical theoretic and pragmatic perceptions found in broadcasted literature. Furthermore, this analysis paper clarified theoretical approaches that explain the workings of these approaches. Thirdly, this paper suggests three productive areas for more study. First, export earnings represent a significant source of foreign exchange, which is essential when local savings are insufficient to enable capital goods imports. Second, an increase in exports may also indicates an upsurge in the market’s size, bringing significant economies to fasten the pace of technological advancement on capital formation. At third, policies that are focused outward are thought to boost economic growth because they may boost an economy’s total productivity and efficiency through productivity spillovers from importing more sophisticated technology or by drawing foreign direct investment.

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1. Introduction

Numerous studies have demonstrated that the current rate of economic expansion is unsustainable due to the major environmental issues it causes, such as air pollution, contaminated water, biodiversity loss, and climate change (Huang, Rahman, Meo, Ali, & Khan, 2024; Song, Anees, Rahman, & Ali, 2024). Governments have begun to look for a suitable strategy for sustainable economic growth in light of the severity of these environmental issues. In addition, it became vital to investigate a new growth paradigm due to recurring failures in international policies. And so the worldwide conversation on sustainable economic growth began. In order to attain a sustained economic path, environmental sustainability is deemed necessary through the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP). So, as a consequence “green economic growth”—a new paradigm for growth—has been presented. An expansion of the economic development concept, green economic growth promotes social sustainability and environmental conservation to further economic advancement (Shahzadi, Ali, Ghafoor, & Rahman, 2023; Zhao, Rahman, Afshan, Ali, Ashfaq, & Idrees, 2023). Enhancing productivity and maintaining macroeconomic stability can create new avenues for economic growth when green economic growth is implemented. Also, it lowers the risk to growth posed by a lack of resources, advances social progress, and protects the environment (Dawood, ur Rehman, Majeed, & Idress, 2023). Current Sustainable Development Goals (SDGs) indicate the issues of environmental sustainability (SDG 13), accountable manufacture and expenditure (SDG 12), employing and growth (SDG 8), hygienic water and cleanliness (SDG 6), fitness and well-being (SDG 3), accountable manufacture and expenditure (SDG 12) pose the supreme
encounters to evolving nations) which can be resolved by putting green economic growth ideas into practice (Zahra, Nasir, Rahman, & Idress, 2023). Thus, it's thought that among the mandate to attain sustainable development goal (SDGs), green growth is essential. It is also a reputable strategy for minimizing climate change and promoting energy efficiency (Ullah, ur Rahman, & Rehman, 2023) and is a generally acknowledged remedy for environmental issues (Hafiza, 2023). Although green economic growth is another name for sustainable development which has been documented historically, researchers have only explored theoretical frameworks for this concept. Therefore, green economic growth policies need to be implemented in order to resolve environmental problems and achieve the Sustainable Development Goals. According to the current study, green growth devours a major optimistic and affirmative impact on both sustainability and economic advancement.

Since the early 1980s, the majority of emerging economies have strengthened their trade openness through the implementation of trade liberalization measures and policies. This was partly brought on by the debt crises of the 1980s in emerging nations that adopted policies focused on the outside world and saw faster rates of real GDP development. As a result, policy makers and scholars started to concentrate the relationship between the openness and growth. A financial liberalization component was included in the economic policies that were implemented among the several emerging nations throughout the 1980s. But according to Chaudhary, Nasir, ur Rahman, and Sheikh (2023), liberalization initiatives in developing economies have usually began with trade liberalized concept and afterward usually tracked with financial liberalization. Although there is literature specifically addressing the measuring of outward-oriented economic growth, The trade openness which commonly measured as the proportion of GDP to the total transfers i.e., all the imports and exports, is a useful indicator subsequently it could be used to approximate how easy it is to exchange ideas, capital, labor, and products and services across national borders. Khan and Saif-ur-Rehman (2023), for example, categorized trade openness by way of an indicator of external coordination in a recent review. It's also critical to remember that increased trade openness and further integration of the global financial systems are correlated. According to economic theory, there are multiple ways in which greater trade openness could result in faster rates of economic growth. The latter aspects, according to Usman, Rahman, Shafique, Sadiq, and Idrees (2023), are the effective use of limited resources, technology spillover effects from industrialized to developing nations, and the learning-by-doing effect, which shows a connection between creativity and imitation.

Furthermore, One of the main drivers of the modern economy is financial development (FD), which enables countries to effectively alter banking intermediaries and economic systems, thereby developing their financial markets (Shahid, Gurmani, Rehman, & Saif, 2023). Notwithstanding this, low- and developing-income economies face numerous obstacles to financial development. For instance, one of the most urgent obstructions to fiscal advancement in short- and mid-income nations is the inefficient distribution of capital among producers and the slow pace of capital allocation (Ilyas, Banaras, Javaid, & Rahman, 2023). This was made clear in 2008–2009, when squat- and mid-revenue countries felt effects of the global fiscal crisis more than other countries. This was because of non-functioning financial systems that led to resource waste, a decline in security and investment, on the embezzlement of limited sources (Ilyas-Lecturer, Awan, Kanwal-Lecturer, & Banaras, 2023). It is essential to take into account the mechanisms and distinctions between extreme- and little-income nations in order to further clarify the association among financial advancement and economic progression. Innovation drives productivity growth in high-income countries, but financial development mostly results in capital accumulation in low-income ones (Awan, Rahman, Ali, & Zafar, 2023). There are two main distinctions in the techniques used by each of these two income levels. First, there is a greater motivation among developing nations with technological limitations to link investment-based solutions to financial development, i.e., financing the capital enlargement activities. Secondly, its emphasis is on funding innovation-based initiatives that boost productivity in industrialized nations without technological barriers. This suggests that developed economies pursue a growth strategy centered on innovation (K. Fatima, Jamshed, Tariq, & Rahman, 2023). Empirically speaking, some studies either corroborate the claim i.e., financial development hinders the expansion of the economy or show no discernible relationship at all, primarily due to the emergence of a non-linear interaction or a spike in the financial crisis (Shahzadi et al., 2023). Financial development, according to some scholars, is what drives economic progress (Javaid, Noor, Hassan Iftikhar, Rahman, & Ali, 2023). According to empirical data, financial development
may only stimulate economic growth in a positive way up to a point at which it starts to have an adverse effect (For Example, the partnership resembles an inverted U) (Mukhtar, Mukhtar, Mukhtar, Shahid, Raza, & Razzaq, 2023). Thus, there is a continuing discussion over this between researchers. More precisely, the research looks at how trade openness and the foreign investment (FDI) on the different outcomes on green growth among high- and low-income countries. Based on data from 57 OIC nations collected over a 22-year period (18 low revenue and 46 highly excessive revenue countries), thus empirical evidence is presented. While the growth literature extensively discusses the individual effects of each of these elements, far less work has been done in predicting the combined effects of these components. The study's conclusions would give decision-makers enough knowledge to assess the effectiveness of the country's present trade policies and establish suitable development strategies for the future. This paper's remaining content is as follows: The literature on growth that examines the relationship between the factors is reviewed in the section 2, comprehended by an argument of the data and methods in the section 3, a performance presentation and argument conversation of the outcomes in the Section 4, and a result with the policies implications in Section 5.

1.1. Problem Statement

According to a number of studies, the current rate of economic expansion is unsustainable since it is causing major environmental issues such as air pollution, water contamination, climate change, and biodiversity loss. Given that the scope of these eco-friendly issues, administrations are beginning towards looking intended for a suitable strategy for sustainable economic growth. Moreover, it became imperative to investigate an alternative growth paradigm due to recurring shortcomings in global policy. Thus, the global conversation about long-term economic growth has begun. The furthermore challenges problems facing by the mounting countries are those associated with the green sustainability (SDG 13), employment chances and the growth (SDG 8), fresh water and cleanliness (SDG 6), healthiness and well-being (SDG 3), and liable productions or utilization (SDG 12). These problems can be concluded through the adoption of green economic growth policies. Thus, it is thought that the accomplishment of the Sustainable Development Goals (SDGs) depends on green economic growth. Scholars pinpoint instances of green growth in history, then they debate discussion of the green growth which is another name for sustainable growth—remains confined towards theoretic structures. Recent years have seen a number of academics examine the effects of trade openness upon the environment. However, authentic outcomes on the association between trade and the environment is remains disputing, the hypothetical works has identified a number of different paths through which openness can have an stimulus on the environment. Due to the negative effects of climate change and global warming on individuals, an increasing number of people are becoming concerned about these issues. This has led to a significant research priority on the reasons and stimulus of ecological deprivation. The study looks at how labor force participation, capital creation, trade openness, and foreign direct investment (FDI) all impact green growth in OIC member countries.

2. Literature Review

The active relationship of the trade openness on the environmental worth in the 57 OIC republics was examined by Ali, Yusop, Kaliappan, Chin, and Meo (2022). The paper used "quantile" estimation for covering the years 1991 to 2018. The findings showed that nations at the upper and lowest quantiles for the data division varied among the asymmetric strength of openness-induced environmental quality, and that these countries require special consideration while negotiating trade and environmental policy within the Organization of Islamic Cooperation. The findings showed that nations at the top and bottom quantiles for the data distribution varied in the asymmetric strength of openness-induced environmental quality, and that these countries require special consideration while negotiating trade and environmental policy within the Organization of Islamic Cooperation. The OIC countries' environmental quality is positively impacted by these policy implications. The dynamic mutual supplementary outcomes of institutional performance, openness, and foreign direct investment upon the ecological value in all Organization of Islamic Cooperation (OIC) nations were studied by Ali, ur Rahman, and Anser (2020). Cross-sectional dependency among the cross-sectional elements has been measured using the novel econometric method dynamic communal correlated influences (DCCE). The study's conclusion, based on DCCE estimation, indicated that while institutional performance and ecological footprint are found to be significantly and negatively correlated, trade openness, foreign direct investment, and suburbanization have a positive significant connections with environmental footprint. Encouraging green technologies, clean manufacturing, and enhanced organizations are essential for sustainable ecological growth and improved quality in the 57 OIC.
member countries. The relationship between openness, financial improvement, environmental sustainability, and the foreign investment (FDI) was studied by Huo, Ullah, Zulfiqar, Parveen, and Kibria (2022). Data for this study were gathered using the ARDL approach between 1996 and 2019. The results demonstrated the beneficial contributions of financial progress, trade openness, and foreign investment (FDI) to the promotion of environmental sustainability. In order to promote environmental sustainability, the 57 Organization of Islamic Cooperation (OIC) nations should promote trade by lowering taxes and boosting opposition in the fiscal markets by global and national liberalization and privatization. It is recommended that activities that degrade the quality of the environment be subject to hefty fees and penalties.

Liberalization of trade and the economic presentation of OIC member nations were studied by Ghani (2011). The study used FMOLS, ARDL, ADF, and UECM methodologies to cover the years 1970–2001. The outcome demonstrated that the impacts vary from nation to nation. On the whole, nonetheless, the process of liberalization takes the raised in the medium-term GDP of the nation. The GDP-to-trade ratio did not lead to better trade liberalization, in contrast to the effects on GDP. Policy makers considering trade liberalization as a means of raising national GDPs should take note of this study conclusions. The relation between trade openness and the macroeconomic factors on the Saudi Arabian economy was determined. The study estimated the long- and short-term models for the Saudi Arabian economy for the period of 1990 to 2017 using a mixed method and techniques based on Auto Regressive Distributed Lag (ARDL). The findings showed that trade openness in this economy is impacted by the short-term importance of financial markets' inclusion. Financial inclusion and trade openness are two factors that economic and financial decision makers can rely on to achieve stronger economic growth. Zhuang, Yang, Chupradit, Nawaz, Xiong, and Koksal (2021) looked into the effects of inflation, trade openness, real production, legal origin, and institutional factors on the expansion of the monetary sector, the elaboration of the financial sector, and capitalization of the stock supply market. Using GMM, sargen test, serial correlation test, and panel econometric approach, the study examined the years 1995 to 2016. The findings shown that financial depth is positively and significantly impacted by trade openness, institutional characteristics, legal origin, and real gross domestic product (GDP). It has been discovered that the inflation rate, however, adversely affects it. The fact that a weak institutional framework contributes to the underdevelopment of the financial sector should be recognized by policy makers. Therefore, institutional complementary effects must be taken into account prior to implementing financial sector reforms and openness policies to strengthen the financial industry. In its conclusion, this will enhance the advancement of the stock marketplace and the efficiency for the industries of banking investment.

S. Fatima, Chen, Ramzan, and Abbas (2020) inspected the function of the human capital accumulation to ascertain the association between the trade openness and GDP. By using two robustness tests, GMM, and the fixed affect technique, the study examined the period from 1980 to 2015. The outcomes of the study suggested that there is an interesting non-linear relationship in GDP growth and trade openness when the accumulation of human capital is taken into account. The growth of a nation's GDP may be negatively impacted by trade if its human capital accumulation is poor. Trade, on the other hand, manifestly leads to increased economic growth as soon as a nation demonstrates a minimum HCA threshold. The integration of technological advantages gained from trade with industrialized nations will be supported by this implementation. It is recommended that emerging nations adopt policies aimed at promoting macroeconomic stability, as this will enhance their competitive advantage in the international market. It is also recommended that governments in developing nations strengthen their ability to obtain financial flows that facilitate knowledge transfers in order to increase trade-growth outcomes.

Islam, Alsaif, and Alsaif (2022) examined Saudi Arabia's relationship between commercial liberalization, government consumption, and economic growth. This study used the ARDL, TY Granger casualty, unit test, diagnostic exam, and TD casualty test to span the years 1985 to 2019. The findings demonstrated that, over the short and long terms, trade openness significantly improves the kingdom's growth presentation. As the economy of the nation lacks labor, the labor force has a significant impact on its growth. The results have policy implications for increasing trade openness in order to reap its benefits and boost economic growth. The impact of energy consumption and trade openness on environmental sustainability in Turkey was examined by Akhayere, Kartal, Adebayo, and Kavaz (2023). Using a variety of quantile
techniques, including quantile cointegration (QC), quantile-on-quantile regression (QQR), nonparametric causality-in-quantiles (NCQ), and quantile regression (QR), the study covers the years 1965 to 2018. The outcome showed that the load capacity factor is negatively impacted by the majority of quantiles, primary energy use, trade openness, and financial development. Furthermore, all primary energy usage, trade openness, and financial development can foretell LCF in most quantiles, according to the findings acquired from the quantile causation. Policies that could help address the negative environmental effects of primary energy use, trade openness, and the development of Turkey's financial sector are suggested based on the findings of the research. The global drivers of sustained economic development—FDI, trade openness, financial development, capital stock, and labor force—were evaluated by Radmehr et al. (2022). Using ARDL, pearson correlation analysis, cross-sectional dependence testing, unit root testing, panel co-integration testing, Granger causality testing, and Hausman testing, the study examined the years 1995 to 2016. The study's findings demonstrated that the impact of financial development on economic growth varies depending on the income category. Additionally, this study's data demonstrated that wealthy nations' economic growth is unaffected by financial development. Wealthy nations have experienced "financial trilemma," a situation in which national financial policies, financial integration, and stability are incompatible. To achieve more favorable economic growth, this group of countries must embrace policies that enhance their banking and financial systems.

3. Methodology

In order to gather and critically evaluate the pertinent literature for this study, the author followed the organized literature evaluation tactic as edged by Lacey, Matheson, and Jesson (2011). The emphasis of the paper, bibliographic particulars, technique used (where appropriate), research philosophy (Zikmund, Babin, Carr, & Griffin, 2000), strategic outcomes, procedures, explanation of FDI, its territory, framework, locality, hypothetical and applied appraisal, auxiliary wind up, and reported restrictions are all examined in detail by the author in a critical review form for the comprehensive and serious examination of antecedent studies/work. Since, the November 2017 towards the April 2018, the writer explored literature for the analytical analysis of the efforts. In mandate to discover the utmost appropriate FDI papers, the scholar paramount identified the papers and then carried out a thorough search by assessing the significant papers from (a) Economics bulletins enumerated in the Clarivate analytics (The Directing Journal listing 2017 and JCR significance reporting 2016); and (b) inclusive Comprehensive databanks (Business Source Premier by means of Scopus and Ebsco). (c) website of The Google Scholar; (d) a wide-ranging, multidisciplinary directory among the foreign direct investment that embraces frequent suggestions from numerous periodicals. The author established the assortment principles for the literature for this assessment by considering the subsequent aspects: books, commentaries, summations of seminars/conferences, synopsis and keywords, managerial extracts, literature reviews, newspaper/magazine articles, and so forth. For illustration, FDI-related papers as well as those that lacked empirical or conceptual support were disregarded. The author discovered roughly 600 entries overall after removing duplicates. The author examined each paper's methodology, title, and abstract as needed to see whether it applied.

4. Conclusion

The critical review of the literature leads to the conclusion that, when FDI is compared to its entire value, both its positive and negative effects are apparent. The remarkable thing about both findings is that they each fill a gap in the literature. As a result, there is ongoing discussion over the inference of the foreign direct investment (FDI) on green growth, and a number of studies have been conducted to look at FDI's overall effects on the economy. Due to the particular environmental, fiscal, and technological circumstances of the nations, some have identified a significant and affirmative impact on economic growth, whereas others have take a look at a major negative influence. This review study aims to enhance the existing literature on foreign direct investment (FDI), trade openness, and green growth. Specifically, it investigates the effects of the FDI and openness on factor productivity in green growth. This research endeavor aimed to establish a connection between relevant contributions and literary ideas. Moreover, the variables in this study are not sufficiently examined. Thus, the initial object of the work is to present the understandable and in-depth summary of previous exploration study upon trade openness and FDI, taking into account specific methods and attempts/practices.
4.1. Future Recommendations

This evaluation of the literature raises three points that need further research. Most studies use the RDL model, GMM approach and OLS regression methods to investigate FDI. It has been observed that during the literature analysis, only few research have conducted the investigation using the ambiguous “the vector error correction model” (i.e., VCEM). This VCEM technique helps ensure that the time series under discussion are properly documented while endogeneity and connection or causation issues are being addressed simultaneously. Moreover, feedback and any possible indirect effects are also documented through the VECM procedure. Secondly, the host country's GDP and growth expansion have been the primary subjects of most previous FDI studies; very few studies have looked at manufacturing growth in this context. As a result, Further investigation is recommended to ascertain the optimal approach for implementing manufacturing expansion in the host country during significant foreign direct investment inflows. Thirdly, research has been done in the past and is compared to less developed nations while taking into account the economies of Organization of Islamic Nations—like Saudi Arabia and the Turkey—as well as the capital and expansion of the industrial sector in Qatar, Cameroon, Kuwait and the UAE. However, studies in South Asia, including Pakistan, have been scarce.

References


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