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Impact of Foreign Direct Investment and International Financing recourses on economic growth case of Egypt from 1980 -2018: Review Article

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Abstract

Economic growth in Egypt was so spanking that observers alluded to the nation as 'the Tiger on the Nile.' However, political unrest—and the period during up to it— in 2010 slowed down development and sent the economy into a depression, from which Egypt is still rehabilitate. In 2016, Egypt marked on to a rebuilding on to a restructuring loan with the International Monetary Fund (IMF), which required the nation to float its currency, prioritize fiscal consolidation, increment charges (tariff), and execute deep structural reforms. Few macroeconomic indicators have trended positively since those austerity measures, counted nominal GDP growth, defecated reduction, and reduced inflation; yet Egypt's unemployment rate has been slow to decline.

This study aims to measures the impact of foreign direct investment and international financing resources on economic growth in Egypt and determines the relative importance of each component with economic growth during the study period from 1980 to 2018.trying to clarify the concept of economic growth, theories of economic growth, the major determinants of economic growth and how international financing and FDI affect the Economic growth in Egypt in the period 1980-2018. The objective of this research is trying to identify the significance of economic growth as means to increase the revenues and wealth of countries and how countries can overcome challenges of economic growth through attraction of FDI and seek the assistance of international economic institutions as well. Another objective is to clarify the role of international financing resources in the increase of economic growth in developing countries. This study also It also sheds light on the research method that will be applied to test the validity and reliability of correction of the hypothesis through the quantitative method depending on the ARDL (autoregressive distributed Lag) co-integration. It is a technique used in determining the long run relationship between series with different order of integration. The re-parameterized result gives the short-run dynamics and long run relationship of the considered variables.

Keywords: Foreign Direct Investment, Aids, Loans, Economic Growth, Saving Gap, Foreign Exchange Gap

INTRODUCTION

According to (Karamali 2020), economic growth in Egypt was so spanking that observers alluded to the nation as 'the Tiger on the Nile.' However, political unrest—and the period during up to it— in 2010 slowed down development and sent the economy into a depression, from which Egypt is still rehabilitate. In 2016, Egypt marked on to a rebuilding on to a restructuring loan with the International Monetary Fund (IMF), which required the nation to float its currency, prioritize fiscal consolidation, increment charges (tariff), and execute deep structural reforms. Few macroeconomic indicators have trended positively since those austerity measures, counted nominal GDP growth, defecated reduction, and reduced inflation; yet Egypt's unemployment rate has been slow to decline.

As reported by Pandey (2019), economic growth is considered as the central focus of economic theory, and perceiving its method is a crucial significance. A number of factors and a careful analysis of the determinants of growth that can assist a nation in achieving sustainable economic growth are affecting its wonder. Increases in wages or per capita income in the medium or long-term period are a challenge for economic development. It may be a dynamic mechanism which is affected by different variables like capital accumulation, population growth technological innovation, skill development, international trade,

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government spending and taxation policies, etc. It is really on a dynamic process, which many factors affect it, either economic or non-economic.

The most important tool for reducing poverty and advancing the quality of life in developing nations is economic development. Both cross-country research and country case studies provide overwhelming evidence that virtuous circles of wealth and opportunity can be created by rapid and sustained growth. Solid growth and employment opportunities improve incentives for parents to contribute in their children's education by sending them to school. This may evolve in a solid and developing group of entrepreneurs, which ought to generate pressure for improved governance (Pandey (2019).

Solid economic growth hence thrust human advancement, which, in turn, advances economic growth. Nevertheless, under diverse conditions, comparable growth rates may have a particularly distinctive effect on poverty and the job opportunities of disadvantaged and wider human improvement indicators. The degree to which growth reduces poverty depends on the degree to which the poor participates in the growth process and shares in its proceeds. Hence, both the pace and pattern of growth matter for diminishing poverty. An effective strategy of poverty reduction must have at its core measures to an advanced quick and sustained economic growth. The challenge for policy is to combine growth- advances approaches that allow the poor to take part in the opportunities unleash and thus contribute to that growth. This includes policies to enhance labour markets, remove gender inequalities and increase financial inclusion (Pandey (2019).

In the course of the last two decades, numerous correct examinations have endeavored to recognize the determinants of economic growth. It is not fundamentally the case that growth theories are of no utilization for that reason. Or possibly, the issue is that growth theories are utilizing a term due to Brock and Durlauf (2001). This suggests different growth theories that are regularly perfect with each other. For occurrence, a hypothetical view holding that exchange openness matters for economic growth is not coherently conflicting with another theoretical view that underscores the job of geography in growth. This assorted variety of hypothetical viewpoints makes it difficult to recognize the most successful improvement advancing approaches. Like numerous developing countries, the essential focus of economic policies is to have high and sustainable growth. However, to achieve and maintain a high growth rate, policy makers need to understand the determinants of growth as well as how policies affect growth. Since World War II, the trend growth of real GDP has become a key policy objective in almost all countries (Brock and Durlauf, 2001)).

Various studies have been carried out to discover the long-run growth path. The earliest studies were conducted by Solow (1956) and Swan (1956) based on the neoclassical theory. Its simple structure and assumptions - a well behaved neoclassical production function, a single homogenous good, exogenous labor-augmenting technical progress, full employment and exogenous labor force growth - have been utilized by economists for the past four decades. The Solow-Swan growth model predicts that in steady-state equilibrium the level of GDP per capita will be decided by the prevailing technology and the exogenous rates of sparing, population growth and technical advances. They conclude that different saving rates and population growth rates might affect different countries' steady-state levels of per capita income. That is, other things being equal, nations that have high saving rates tend to have higher levels of per capita income, and vice versa. However, recent growth scholars expel the Solow-Swan model in favor of an endogenous growth model that shows constant and increasing returns to capital.

Conforming to Abd El Wahab (2010), most of developing nations endure from a need of domestic resources needed to fund economic development, and appropriately, advancement finance and how to address the deficiency of resources needed to implement the required investment rates accounted for great interest in recent years, where capital failure is a constraint on the economic development process, and an obstacle against starting to the stage of self-growth that these countries seek. As a result , developing countries resort to outside sources of financing, which is represented in grants, aid, foreign loans and foreign investments, whether direct or indirect, to cover the gaps in domestic resources and foreign exchange. The requirements of developing countries to use foreign resources are compounded by the continuous and increasing deficit in their balance of payments, as well as the deterioration of the exchange rates of their foreign trade, and consequently, the decrease in their foreign exchange earnings in light of the increasing demand for imports, which limits the ability of developing countries to rely on their own sources in financing for development.

Given the limitations of grants and aid, and the economic, social and political considerations associated with them, as well as a result of the increased dependence on external borrowing in the developing countries during the seventies and eighties of the last century, and the consequent increase in the burden of both external debt and its service in developing countries that they have become obstacles to the process of economic development in it, most of the developing nations have tended to form the appropriate climate and take numerous policies, and parcel a lot of incentives, advantages and guarantees for these investments in order to attract more of them. It is essential noticing that many economists believe that foreign direct investment represents the best form of external financing for economic development in developing countries, given that it is not limited to the transfer of capital to developing countries, but - it is expected - to be accompanied by productive arts and administrative methods.

Importance of international financing resources for economic development

The financing problem is one of the major problems facing developing countries in their way of achieving economic development especially in its early stages, this problem resulted from the decrease in actual savings from the level required to finance the appropriate level of investment necessary to achieve high rates of economic growth until the economy reaches the stage of self-growth. This happens due to the low levels of incomes, which happens due to the decrease in labor productivity caused by insufficient capital and capital equipment, which in turn is due to lower savings and these roles represent what is called the vicious circle of poverty (Pursuant and Nurkes,1966).

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In addition to economic development today, production methods and modern productive arts must be used depending on the capital intensity of the investor's money in the production process, which confirms the magnitude of capital expenditures for the countries that need to develop.

Low Real incomes and savings are weak due to consumption pressures in developing countries, which confirm that national savings are generally deficient to meet the massive investment financing required by rapid economic development. These countries endure from lax growth rates in their proceeds from foreign currencies or a decline in these proceeds in some circumstances due to several factors, including the deterioration of the terms of their foreign trade in their disadvantage and fluctuations in prices and markets in the short term, in addition to the economic conditions experienced by developing countries .This required the economic development programs and plans to be tremendous and progressive , and even fast in order to cut short the stages that other more advanced countries had taken in order to reduce the gap of underdevelopment between them and the developed countries. All of these conditions outline the significance of using external financing in order to reach greater rates of capital formation, and, accordingly, accomplish the required growth rates (Pursuant and Nurkes,1966).

However, the financing of economic development cannot be fundamentally and permanently dependent on external resources. This financing must be primarily dependent on domestic resources in the first place, bearing in mind that external resources represent a complementary and revitalized means, and not a substitute for domestic savings or resources. Also, exaggerating dependence on external resources may make the national economy unable to absorb or take full advantage of it, as in this case it represents a great burden on the economic development process due to its obligations.

The need for outsourcing is due to two main considerations: strengthening the savings gap and providing the necessary foreign exchange to obtain productive goods and services.

(A)The savings gap:

According to Hussein, Mohieldin, Rostom (2017), savings are alternatively defined as income minus consumption, the change in wealth, or the supply of capital. Given the comprehensive and reliable definitions of each of these terms, each definition of savings would represent the same concept and give rise to similar empirical measures.

A known truth is that domestic savings reinforce to higher investment and accordingly higher growth rate. Domestic saving is a fundamental resource for developing nations that are extremely sensitive to external shocks effect to economic growth and development. Common traits of developing countries are; the low per capita income and therewith cannot finance their investments with national savings and an unstable macroeconomic indicator (Nguyen and Tuan, 2014).

Saving-Investment Gap is one of the most vital issues in developing countries in terms of being a reference to the macroeconomic indicators. Developing countries ought to close financing gap in investment, R&D and innovation with their domestic savings. Moreover, these countries open their economy to foreign inflows to finance this gap. Because of unstable macroeconomic indicators, these inflows are usually short-term, and this is not enough to sustain stable economic growth (Nguyen and Tuan, 2014).

On the other hand, short-term foreign inflows and debt measure the external debt of developing countries, causing the current account deficit (Brissimis et al., 2012, Gocer et al., 2013, Bayraktar-Saglam and Yalta, 2015). In this case, countries are becoming more vulnerable against the exchange rate and foreign economic shocks (Ornek, 2008; Gente et al., 2014, Ahmed and Zlate, 2014).

Abd El Wahab (2010), reported that the most developing countries suffer from low domestic savings optional and Compulsory - mainly due to lower levels of income, as well as a higher tendency to consumption, which increases due to the increase in the rates of population increase, which creates pressure on the level of per capita income on an ongoing basis. In addition to that, there is a factor of imitation and simulation among the high-income classes and the consequent increased consumption.

This gap is measured between the required investment resources and the savings available during a specific time period.

The savings gap **=** *investment resources - available savings*

(B) Foreign exchange gap:

On the contrary, the saving-gap countries, the countries facing foreign exchange gap, cannot overcome it by using their excess domestic saving. Therefore, for them foreign exchange gap is binding for achieving a desired rate of economic growth. In their case, foreign exchange resources are inadequate for supporting higher rate of economic growth that is permitted by their domestic saving rate. Most of the developing countries are assumed to fall in this category as they face a situation where the foreign exchange gap is binding. These countries have enough domestic saving or productive resources such as labour and other inputs but lack adequate foreign exchange resources to import capital and intermediate goods, such as machines, oil, certain industrial raw materials which they cannot produce themselves. In such a situation due to lack of complementary foreign exchange resources, a certain part of domestic savings may remain unutilized.

Foreign exchange gap= *Foreign exchange resources required to finance imports- Foreign exchange resources available in exports*

Literature Review

Saving is used mainly to fund savings. Most of the gap in the performance of growth between countries is also due to differences in saving and investment rates. Low domestic saving rates may sustain low-growth levels. External sources are usually used when domestic resources are not enough to finance investment requirements. Although very advantageous, foreign savings

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can make the country vulnerable to external shocks. Therefore, domestic savings are of top priority as a source of investment financing in order to reduce vulnerability to international economic fluctuations. In recent years, empirical work on the determinants of saving has been of great importance in both developed and developing countries. This attitude has been motivated by the widespread concern over falling saving rates in the major OECD countries and the growing divergence in saving and investment rates between countries of the developing world (Tony, 2008).

As for Egypt, there were clear records of investment activity with an average of gross fixed capital formulation as a ratio of GDP to be 22.5 percent through the period 1980 – 2005. However, about 65% of investment has been only funded from domestic saving. Egypt's domestic savings ratio has an average of only 14.6 percent of GDP through the period 1980 - 2005, which is poor compared to other countries at a similar level of per capita income. The challenge of boosting savings is of ultimate importance in Egypt to sustain the achieved growth rate and increase its investment. Because of that, in order to devise policies to increase the domestic saving rate in line with the needs of economic development, understanding the fundamental determinants of saving in Egypt is vital. In this paper, we investigate some possible macroeconomic factors to explain domestic savings behaviour in Egypt (Touny, 2008).

In order for developing countries to get over poverty and have better standards of living, they need a substantial capital inflow of external sources to fill the savings and foreign exchange gaps. The "savings gap" is generally defined as the difference between the "capital formation" and the "savings" of an economic sector over a given period and it measures the need of external funds of that sector. The understanding of this measure is straightforward; whatever funds a sector cannot produce from internal sources ("savings"), it has to be raised from other sectors for a given amount of capital creation. The balance of payment is the saving gap measure that is computed at a national level. For the corporate sector within a country, another widely followed measure is computed and used by at least two areas of the economic profession. While Foreign exchange gap represents Foreign exchange, resources required to finance imports minus foreign exchange resources available in exports. (According to Galizia, 2003).

According to Abd El wahab (2010), two factors have contributed to the sharp rise in the savings gap in developing countries. The first group is related to the supply side, and is represented in: Low per capita national income, in addition to a lower rate of growth, most developing countries face instances of high tendency to consume, and consequently, low or persistent tendency to save at low levels. Not only does this entail a decrease in private savings, or a low growth rates, but - also - a decrease in government savings, as the tax power of society decreases.

In addition to the impact of imitation and simulation, the prevalence of behavioral and social trends in these countries that rise the promotion of consumption among the high-income group plays a large role in the increasing phenomenon of globalization, which results in directing most of the increase in income to consumption and not to saving for the middle classes. The second group: the demand side, which is represented in the ambitious development strategies adopted by most developing countries, and the enormous amount of investment needed, the desire of developing countries to achieve high growth rates, in order to reduce the gap and finally the Modern and capital intensive technologies (Abd El wahab, 2010).

All this indicates how far it is important to seek external financing resources for economic development, and success is not achieved in the development process in developing countries unless it uses foreign capital to enhance domestic savings, where foreign financing methods can be seen as a transfer of part of the savings of foreign countries to finance development projects in developing countries, enabling them to achieve investment rates far beyond what can be achieved by relying on domestic savings alone (Abd El wahab, 2010).

The Foreign Exchange gap has increased over time due to a combination of factors: The first relates to the side of imports due to Increasing imports, as there is a close relation between investment programs and their dependence on foreign inputs and relying on intensive modern production methods for capital. The second is concerned with the export side Low external demand for primary products due to technological progress and finding alternatives to them and the expansion of countries in the production of these products.

Table 1: The average saving and investment rates as a percentage of GDP in middle and low-income developing countries and Egypt during the period (1980-2018)

Egypt			**Low-income developing countries**			**Middle-income developing countries**			**years**
Savings gap rate%	Savings rate%	investment rate %	Savings gap rate%	Savings rate%	investment rate %	Savings gap rate%	Savings rate%	investment rate %	
-11.8	18.2	30.0	-8.2	8.3	16.5	-3.9	18.9	22.8	**1989-1980**
-6.7	14.5	21.2	-8.2	9.7	17.8	-3.2	19.8	23.0	**1999-1990**
-4.0	14.8	18.9	-10.3	10.3	20.6	-2.9	23.2	26.1	**2009-2000**
-8.2	7.5	15.7	-9.2	16.0	25.2	-3.5	24.8	28.3	**2018-2010**
-7.7	13.9	21.6	-9.0	10.9	19.9	-3.4	21.6	24.9	**2018-1980**

GDP in middle and low-income developing countries and Egypt during the period (1980-2018)

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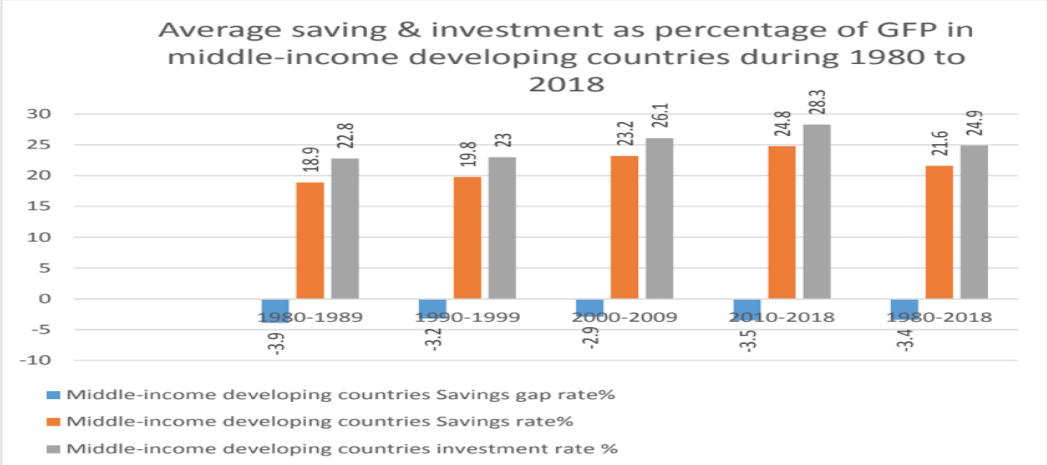

Figure 1: Average saving gap and investment as a percentage of GDP in middle –income developing countries during 1980 to 2018

- With regard to middle-income developing countries, investment rates were greater than saving rates in all years. Hence, the saving gap triangle was about 3.4% of the average annual GDP in this group of countries during the past decades from 1980-2018.

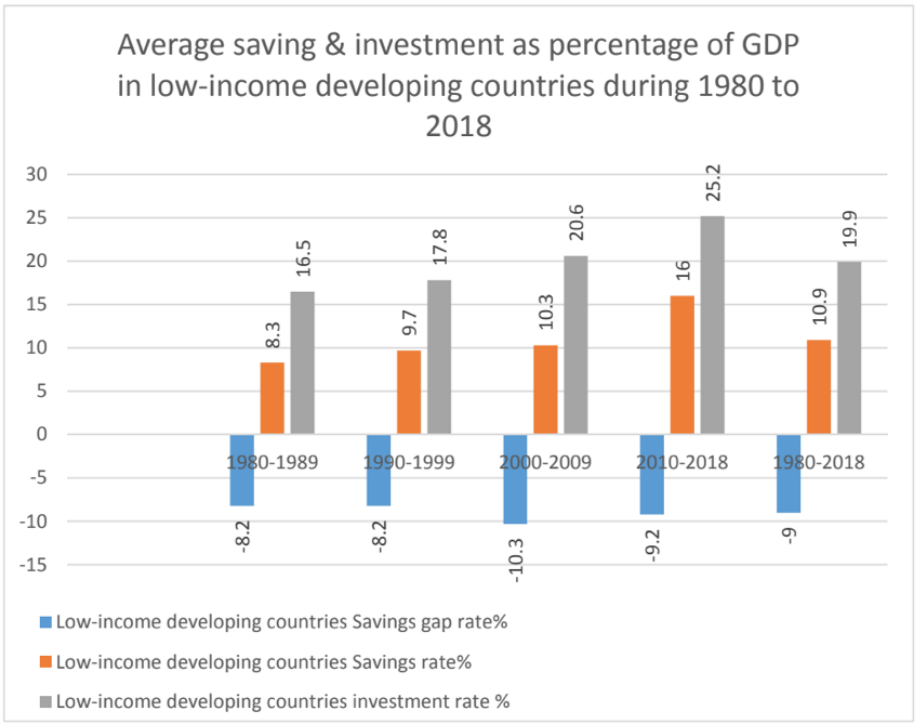

Figure 2: Average saving gap and investment as a percentage of GDP in low –income developing countries during 1980 to 2018

- Regarding low-income developing countries, the investment rate increased from 16.5% in the eighties to 25.5% in the period 2010-2018. In contrast, the saving rate increased from 8.3%-16% on average annually in the two previous successive periods. The investment rate during the period as a whole was approximately equivalent to double the domestic saving rate, indicating the magnitude of the saving gap and the lack of domestic savings in financing the required investments despite their low rates.

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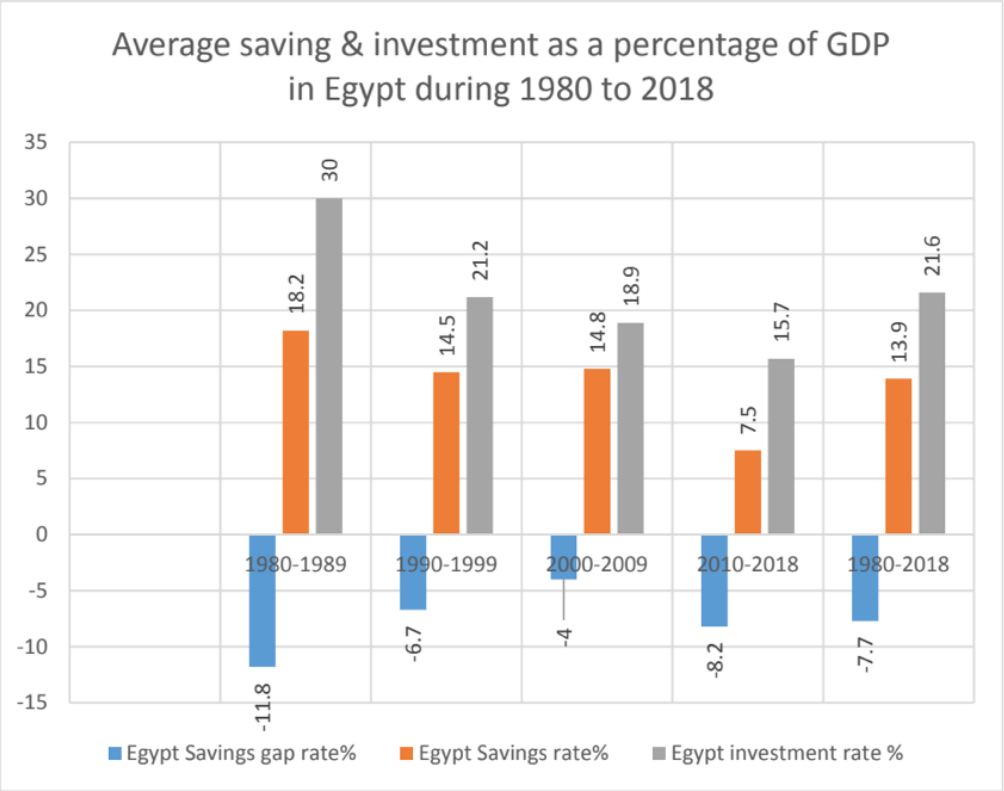

Figure 3: Average saving gap and investment as a percentage of GDP in Egypt during 1980 to 2018

- As for Egypt, the investment rate was greater than the saving rate in all years, and despite the decrease in the two rates during the period 1980-2018, the saving gap triangle during the period 1980-2018 was about 7.7% of the average GDP annually during the period from 1980-2018.

Table 2: The average rate of exports and imports of goods and services as a percentage of GDP in middle- and low-income developing countries and Egypt during the period 1980 to 2018.

Egypt			Low-income developing countries			Middle-income developing countries			Years
Current account surplus rate%	Rate of imports of goods and services%	Rate of exports of goods and services%	Current account deficit%	Rate of imports of goods and services%	Rate of exports of goods and services%	Current account deficit rate%	Rate of imports of goods and services%	Exports of goods and services%	
-12.0	33.1	21.1	-8.1	19.7	11.6	-3.9	19.1	15.2	1989-1980
-6.7	28.5	21.8	-8.2	22.9	14.7	-3.0	24.6	21.5	1999-1980
-4.0	29.1	25.1	-10.4	29.9	19.6	-2.5	30.6	28.2	2009-2000
-8.2	24.7	16.4	-10.3	36.0	25.8	-3.8	29.7	25.9	2018-2010
-7.7	28.9	21.2	-9.2	26.9	17.7	-3.3	25.9	22.6	2018-1980

- By comparing between each time period, we will find that there has been a clear decrease in the rate of imports from 33.1 % to 28.5 % in the second period during the period from 1990 to1999 compared to the first period from 1980-1989, and
- during this period, Egypt kept almost with the same percentage of exports, which led to the improvement of the deficit ratio from 12% to 6.7 %
- In the third era, in the period from 2000-2009, there was a noticeable increase in the rate of exports of goods and services over its prior in the period from 1990-1999 to 25.1 % instead of 21.8 %, respectively, and during this period the percentage of imports increased by a percentage. It was very limited to 29.1 % instead of 28.6 %, which ultimately resulted in an improvement in the current account deficit ratio again from 6.7 % to 4/1 only.
- But in the last period from 2010-2018, despite the decrease in the percentage of imports of goods and services to 24.7 % instead of 29.1 % in the previous period, there was a significant decline in the rate of exports of goods and services from 25.1 % to 16.4 %, which led to an increase in the current account deficit ratio from 4/1100 to 8.2 %

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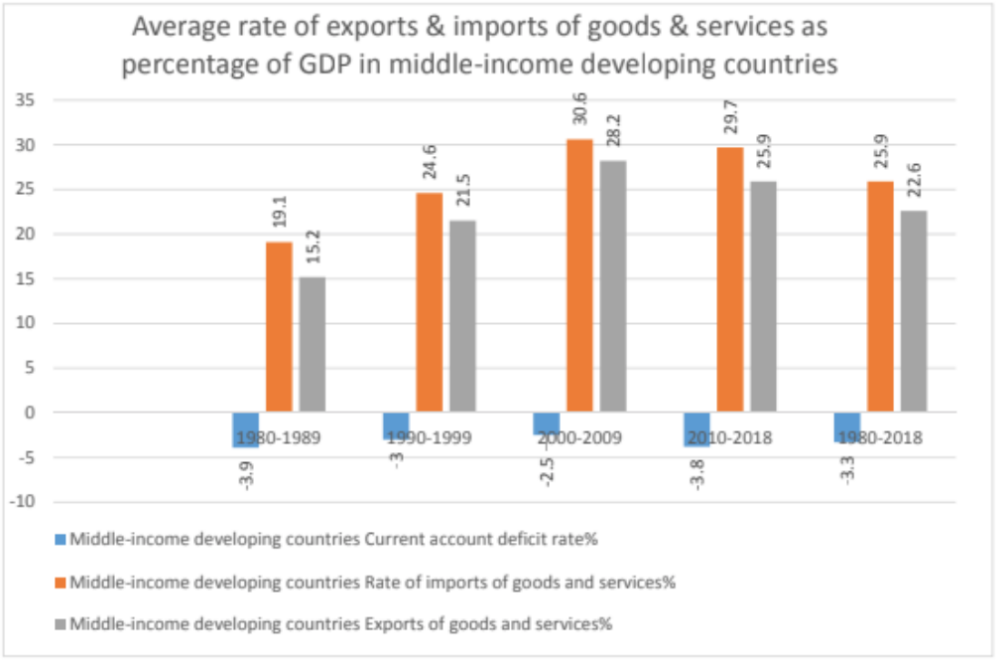

Figure 4: Average rate of exports and imports of goods and services as a percentage of GDP in middle income developing countries.

- Regarding middle-income developing countries, the percentage of imports of goods and services exceeded the percentage of exports from them during all the years of study, which was reflected in the form of a deficit in the current account, which indicates the amount of foreign resources required to cover what silences the foreign exchange gap, and this gap was estimated at about 3.3 % as a percentage of GDP on average annually during the period 1980-2018

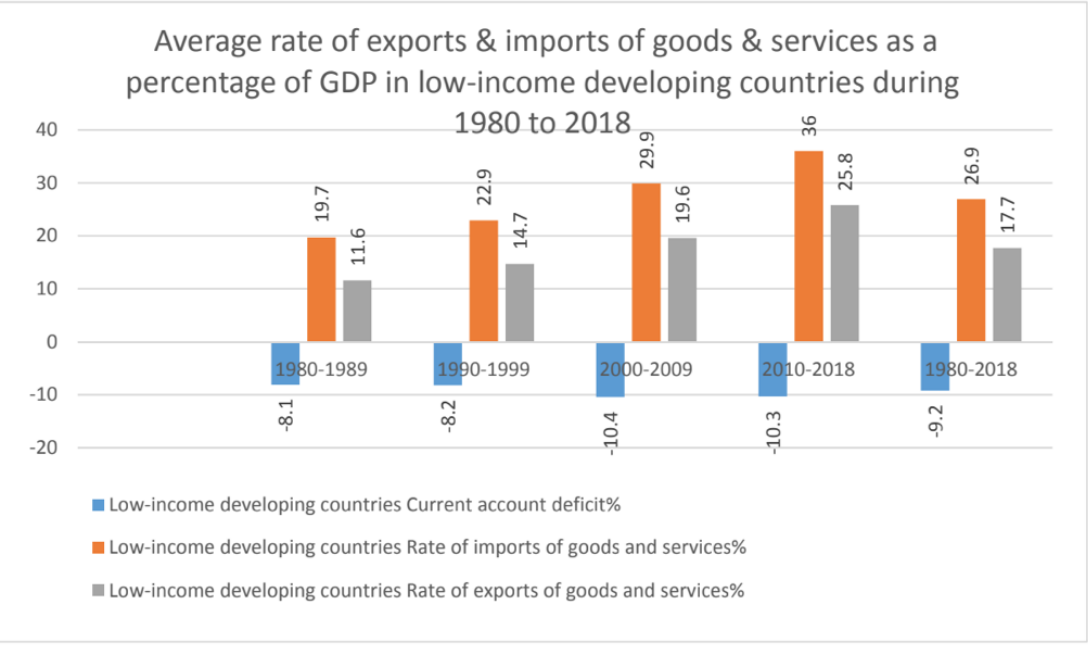

Figure 5: Average rate of exports and imports of goods and services as a percentage of GDP in low income developing countries.

- Regarding low-income developing countries, the amount of the deficit was greater than the current account compared to the previous group, where the current account deficit was estimated at about 9.2 % as a percentage of GDP on average annually during the period from 1980-2018, and this amount represents the size of the foreign exchange gap.

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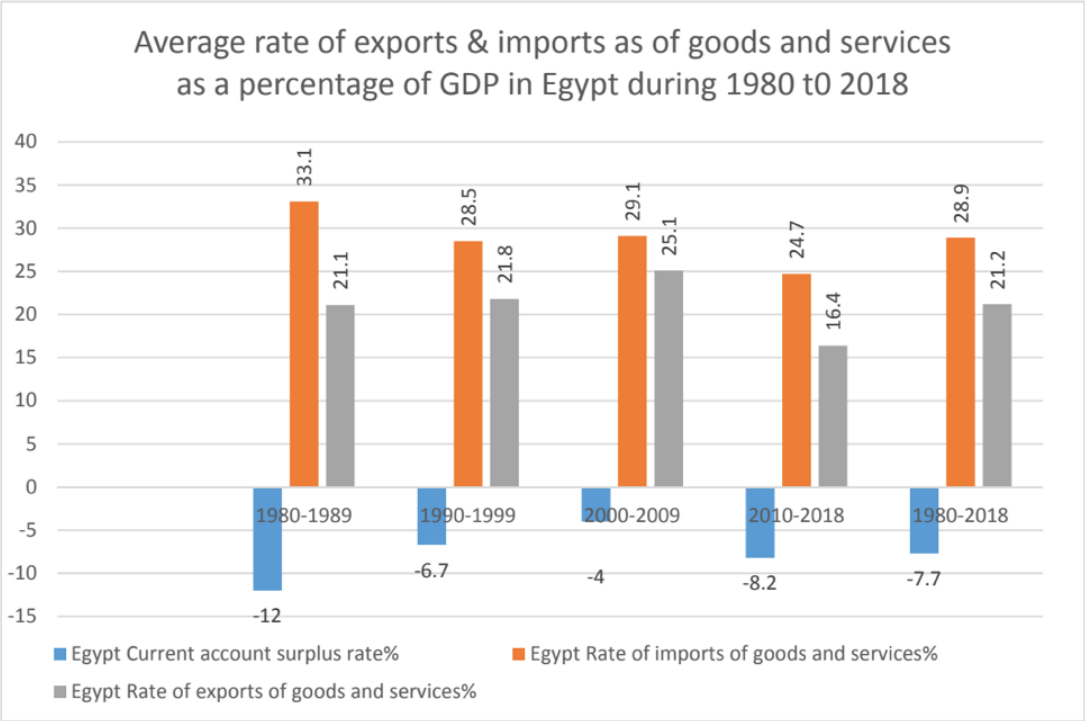

Figure 6: Average rate of exports and imports of goods and services as a percentage of GDP in Egypt during 1980 to 2018.

- With regard to Egypt, the percentage of imports of goods and services exceeded the percentage of exports from them during all the years of study, which was reflected in the form of a deficit in the current account that shows the amount of foreign resources required to cover the so-called foreign exchange gap. This gap was estimated at about 7.7 % as a ratio. GDP on average annually during the period 1980-2018

As reported by Ekpo (2017), "economic growth refers to a rise in national income and product; in other words, it is the percentage change in two consecutive years output or GDP. It connotes a sustained increase in GDP over-time." Economic growth is measured by the increase in the amount of goods and services produced in a country. Thus, growth is also expressed in terms of increases in the gross output of the economy per period of time. As economic growth is regarded to have the highest effect to raise the living standards in economy, all countries want to achieve faster rates of it. It also offers the prospect for the reduction of poverty and it is an important instrument for acquiring power and prestige – political and military strengths are dependent upon economic power, also the more a country can produce and satisfy the needs of its citizens, the more the country will be respected by others.

An economy that is growing will produce more goods and services in each consecutive time period. Growth is always thought of as a desirable objective for any economy but there is no agreement over the annual growth rate, which an economy should attain. Generally, economists believe in the possibility of continual growth. For instance, once at full employment, the economy must continue to grow in order to remain at full employment. Growth occurs when an economy's productive capacity increases which in turn is used to produce more goods and services. Factors which lead to growth include improvements in the skill and training of labour force, increase in productivity, output per hour of work, better management and technology, enlarged excellence and higher excellence of the stock of capital.

Conforming to Abdu (2013), economic growth is the growth in real terms of Gross Domestic Product (GDP) in a given year. There are several factors that contribute to economies grow, but growth in GDP is most critical because it signifies the output of domestic industries thereby creating wealth and employment.

In keeping with Mladen (2015), economic Growth means constantly increasing volume of production in a country, or an increase in gross domestic product as the main quantitative indicators of production for a period of one year. Economic development is not only quantitative changes when it comes to the economic position of the country, but also qualitative changes (changing the economic structure, the emergence of new sectors and industries, new jobs, etc.). They lead to a better and more complete satisfaction of all human needs.

Economic development entails improvements in the production over production a relatively short period of time, usually one year. In economic theory, economic growth reflects an annual increase of material production expressed in value, the rate of growth of GDP or national income. It is possible to achieve growth rather than does the developmental course of the economy. Therefore, not only does economic development amounts involve a rise in the production of goods, but it also includes all the other socio- economic processes and changes triggered by the impact of economic and beyond economic factors (Mladen, 2015).

Therefore, economic development is expressed in a longer period of time that consists of a series of structural changes. In fact, the high participation of the processing capacity of industrial production (secondary sector) will contribute in gaining the

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economic growth of a country, and at higher levels is increasingly dominated by service sector (tertiary sector). Ibd

Economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries. Both cross-country research and country case studies provide overwhelming evidence that rapid and sustained growth is critical to making faster progress towards the development goals (Mladen, 2015).

According to Global Economic Prospects (2007), growth creates job opportunities and hence stronger demand for labour, the main and often the sole asset of the poor. In turn, increasing employment has been crucial in delivering higher growth. Strong growth in the global economy over the past 10 years means that the majority of the world's working-age population is now in employment.

Youth unemployment is a major issue all over the world and particularly in Africa which is reflected in higher than average unemployment rates: young people make up 25 % of the working population worldwide but 47 per cent of the unemployed (Mladen, 2015).

Real wages for low-skilled jobs have increased with GDP growth worldwide, which indicates that the poorest workers have benefited from the increase in global trade and growth. Fears that greater global integration and ever more 'footloose' international investors would push down wages have proved to be unfounded. Indeed, evidence on foreign direct investment suggests that firms are attracted to countries with higher rather than lower labor standards (Mladen, 2015).

Macroeconomic factors such as low inflation, export orientation and low labour taxes help to identify how much employment is created by growth. Structural factors such as the balance of the economy between agriculture, manufacturing and services are also important. While the relationship between growth and employment remains robustly positive, the strength of the link has weakened slightly since the turn of the millennium. This has raised concerns about 'jobless growth' in some countries (Mladen, 2015).

2.2 Determinants factors of Economic growth

As stated in Themba & Nicholas (2016), one of the main tenets among theoretical and empirical growth researchers has been the investigation of the factors that increase or hinder economic growth, but there has been little consensus to date. Within the framework of economic growth theory, two important novelties have spearheaded much of the existing debates on economic growth which include neoclassical and endogenous growth theories. Their main focus has been on the importance of state factors such as the accumulation of physical capital and human capital development.

The neoclassical (Solow-Swan 1956) economic growth theory, also known as the exogenous growth model, advocates for the accumulation of physical capital as an important driver of economic growth in the short run, while technological advancement is the key determinant of economic growth in the long run. An important extension of the neoclassical growth model was the inclusion of human capital stock as one of the key factors driving economic growth to complement physical capital accumulation. In terms of endogenous growth theorists, their major contribution is based on the inclusion of productivity factors such as learning-by-doing and useful technological knowledge (research and development) as important drivers of economic growth. Endogenous growth theory has led to a welcome resurgence of interest in the determinants of long-term growth.

According to Themba (2016), there is a consensus that state factors such as the accumulation of physical capital (investment) and human capital stock, on the one hand, and productivity factors (technological growth) on the other, are important macroeconomic determinants of economic growth in almost any country. However, there are other proponents who believe that factors affecting the efficiency of savings and investment are equally important determinants in influencing economic growth. These efficiency factors became prominent in the 1990s, with three key outcomes being targeted: stability of the macro-economic environment; effectiveness of the institutional framework of an economy related to political and economic governance, incentive structures and social infrastructure; and the setting up of the right price mechanism and necessary regulatory environment to clear markets.

In the same manner of Boldeanu &Constantinescu (2015), the determinants of economic growth are inter-related factors influencing the growth rate of an economy. There are six major factors that determine growth with four of them been grouped under supply determinants and the other two are efficiency and demand. The four supply factors are natural resources, capital goods, human resources and technology and they have a direct effect on the value of goods and services supplied.

Economic growth measured by GDP means the increase of the growth rate of GDP, but the difficulty lies in determining the increase of each component. Public expenditure, capital formation, private or public investment, employment rates, exchange rates etc. have different impacts on economic growth and we should take into account that these determinants have different implications if the states are developed or not. There are also socio-political factors and events that have a major influence on the economic advancement of a country (Boldeanu &Constantinescu, 2015).

As reported by Acemoglu (2009), there are also differences between economic and non-economic determinants. "Proximate" or economic determinants refers to factors like capital accumulation, technological progress and labour. In contrast, "ultimate" or non-economic sources refers to factors like government efficiency, institutions, political and administrative systems, cultural and social factors, geography and demography.

There are numerous research papers that analyzed the link between FDI, trade components (exports, imports openness, trade restrictions) and growth. Most of them have shown that states that have economies open to trade have higher per capita GDP and grow much faster (Barro, 2003).

In keeping with Tekin (2012), he found that a raise in exports has a positive effect on growth. and determined a long-term and direct influence between some trade determinants on economic growth. The researcher identified a direct correlation and causality between exports, openness and economic growth for 10 East European states and Sultan and found that there is a long-run relationship between exports and growth for India.

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Many researchers have worked on the effect of trade on economic growth in the Middle East. According to AL- Raimony (2011), he investigated the relationship between real export and real import growth and economic growth in Jordan, and he came to a conclusion that real export growth positively affects growth, while real import growth negatively affects economic growth. In 2014, Abu-Eideh analyzed real domestic exports and imports of goods and services and how they affect real gross domestic product in Palestine (Abu-Eideh 2014). He stated that real domestic exports have a positive impact on growth in Palestine while real domestic imports have a negative one.

Conforming to Teodor (2015), Openness can have an important influence on economic growth through a multitude of different channels like through technological transfers, competitiveness advantage and increase in economies of scale. He showed that trade openness has a favourable effect on real GDP and that economic growth will be accelerated by trade liberalization, and countries will be capable of entering foreign markets more easily. Ynikkaya (2003) also analyzed the influence of trade openness on growth for 120 countries between 1970 and 1997. Several variables were used to measure openness like volume of exports, volume of imports, the sum exports and import and the volume of trade with developed countries. He also used trade policy variables for measuring restriction or openness of trade. The result concluded that for developed and developing states the indicators that measure the volume of trade have a positive effect on growth. An interesting result in our opinion is that trade restrictions have the effect of accelerating growth of GDP for developing countries.

According to Perović. et al. (2014), an investigation on the correlation between trade openness and financial openness and economic growth was made. The results confirm that trade openness and financial openness (FDI) have a significant impact on growth and also that institutional openness has an indirect effect on the economy via trade and FDI. Mihuţ and Luţaş (2014) also found that for the 12 new EU member state, the degree of openness and human capital are positively correlated with economic growth.

As stated, in to Florin Teodor (2015), there are also contradictions with the above results regarding openness. He concluded that for Australia, he obtained a negative impact of imports on economic growth and found that, for 47 African states, there is no link between trade and growth.

According to Ma'in and Isa (2020), an investigation was made and clarified that sustained growth of productive capacity is the main asset for economic growth, consisting in investment and saving. The low levels in investment and saving imply low economic growth. Being a source of economic growth, the need of FDI inflows has increased in the last years. Throughout the years, a lot of empirical research works are made to study the relationship between FDI and economic growth. Although many empirical researches have been conducted, the influence of FDI on economic growth is still inconclusive; some studies described the impact positively while others negatively.

CONCLUSION

To sum up, the researcher mentioned some previous studies related to the variables of the study. Also, the researcher talked about the dependent variable, the economic growth and the independent variables, which are foreign direct investment, Loans and Grants and aids. The researcher highlighted the positive and negative impacts of every independent variable on economic growth.

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