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Does the Source of Capital Matter? A Comparative Analysis of Foreign and Domestic Investment in Egypt's Sustainable Development[1]

ما مدى أهمية مصدر رأس المال؟ تحليل مقارن لأثر الاستثمار الأجنبي والمحلي على التنمية المستدامة في مصر

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Abstract

This paper investigates the role of FDI and domestic investment in Egypt's economic development between 1990 and 2022, focusing on their respective roles in sustainable growth and human development. Using an ARDL model, the study explores the long- and short-run relationships between sustainable development (as proxied by HDI) and FDI inflows, domestic investment, and other macroeconomic variables. The results indicate that FDI and domestic investment are important factors in long-run economic growth, though they differ in effectiveness. While FDI has been critical in boosting technological innovation and enhancing infrastructure, domestic investment has shown a more direct and stable impact on employment and local industry development. The paper concludes with some policy recommendations that could be considered to improve the investment climate and ensure economic resilience in the long term. Such as Supportive policies for domestic investment are required. That is, creating an investment-friendly environment domestically, which would involve the pursuit of appropriate macroeconomic stability and access to finance that is easy for domestic firms.

***Keywords*:** FDI, Domestic Investment, Sustainable Development, Egypt.
JEL Classification: E22, F21, Q01.

الملخص

يقوم هذا البحث بدراسة ومقارنة وتحليل دور الاستثمار الأجنبي المباشر والاستثمار المحلي في التنمية الاقتصادية في مصر خلال الفترة من 1990 إلى 2022 مع التركيز على أدوارها في تحقيق النمو المستدام ومن ثم التنمية البشرية. وللوصول إلى هذا الهدف استخدم البحث نموذج الانحدار الذاتي لفترات الإبطاء الموزع (ARDL)، لاستكشاف العلاقة طويلة وقصيرة الأجل بين التنمية المستدامة متمثلة في مؤشر التنمية البشرية HDI من جانب، والاستثمار الأجنبي المباشر والاستثمار المحلي، وعدد من مؤشرات الاقتصاد الكلي من جانب آخر. وتشير النتائج إلى أن الاستثمار الأجنبي المباشر وكذلك الاستثمار المحلي من العوامل الهامة في تحقيق النمو الاقتصادي المستدام في الأجل الطويل، وإن كانا يختلفان في مدى فاعليتهما. فعلى الرغم من أن الاستثمار الأجنبي المباشر يلعب دورًا هامًا وجيدًا في تعزيز الابتكار التكنولوجي وتحسين البنية التحتية، فإن الاستثمار المحلي أيضًا يُظهر تأثيرًا أكثر استقراراً على العمالة وتطوير الصناعة المحلية.

ويختتم البحث بعدد من المقترحات لتحسين مناخ الاستثمار في مصر وضمان مرونة الاقتصاد على المدى الطويل.

الكلمات المفتاحية: الاستثمار الأجنبي المباشر، الاستثمار المحلي، التنمية المستدامة، مصر.

1. Introduction

In most developing countries, particularly for those at the early stage of development like Egypt, FDI and domestic investment are the major driving forces behind economic growth and development. Indeed, over the last few decades, Egypt has taken several measures to attract FDI given its ability to stimulate technological innovation, improve infrastructure, and generate employment. At the same time, domestic investment, driven by both public and private sectors, plays a crucial role in fostering sustainable growth and development by reinvesting profits into key sectors of the economy. However, the relative importance and effectiveness of these two forms of investment in contributing to Egypt's sustainable development remain subjects of ongoing debate.

This paper explores how FDI and domestic investment is affecting the economic development of Egypt and consequently may or may not contribute towards sustainable growth and an increase in the living standards of people. By using the autoregressive distributed lag model (ARDL), the study investigates the dynamic relationships of time series data between key variables like HDI, FDI inflow, domestic investment, and other relevant economic variables between 1990 and 2022. In this respect, the paper contributes to the empirical knowledge about the role that foreign and domestic capital has played so far in the sustainable development of Egypt, given the short- and long-run effects of both types of investments.

The paper also addresses the policy implications of these findings, showing how Egypt can balance foreign and domestic investments for their maximum contribution to sustainable development. In a world of an increasingly complex economy, clarity on these dynamics becomes so imperative for the design of policies that can assure long-term economic stability, resilience, and inclusive growth in Egypt.

2. Theoretical Perspectives on FDI

The basic hypothesis of an economic theory of FDI is that a firm located in a given country at a given time has a configuration of both country-specific

advantages (C) and firm-specific advantages (O). This homogenously defined corporation may seek to exploit its ownership advantages by investment in the form of direct foreign investment (DFI) in research and development (R&D). Therefore, the directional nature of foreign direct investment depends on the states of the key parameters of C and O advantages. In turn, since raw materials and technology are normally present in only a small number of countries, a variable number of such C and O advantages must be allowable. This leads to a decrease in the number of nations that obtain direct capital transfer. Hence, since the producing entities characterized by the parameters C, O, and F then relocate to another country, it must be appreciated that foreign direct investment is an evolving and not a static mode of international capital movements (Accolley, 1970, 2003) [(2)].

Economic growth is mainly targeted. Within this literature, and depending on the algebra used, economic growth turns to be a determinant as well as an effect of FDI. FDI encourages economic growth in two ways: directly by creating new jobs and indirectly by developing other sectors supplying locally with the production processes of MNEs and benefiting market access. There are also investigations proving that FDI contributes significantly to economic growth in recipient countries. On the other hand, some studies indicate that a minimal level of economic growth is imperative to reap growth benefits from FDI (Kurtishi-Kastrati, 2013).

2.1. Classical Theories of FDI

The classical economic theory on FDI is inscribed in the history of modern economy. The early concept of FDI can be regarded as the development of classical theories of international trade and is originally rooted in economics. The first attempt to explain the FDI was considered a Ricardo's theory of comparative advantage. According to this theory, countries are different in factor endowments. Different factor endowments lead to different relative factor prices, different technologies, and, consequently, different relative product prices. Comparative advantage in producing certain goods determines a country’s international trade. Producing export goods abroad requires a foreign capital investment. Heckscher-Ohlin theory is one of the pillars for the development of the concept of international movements of capital for international trade due to the variety of resource endowments between the counties (Kurtishi-Kastrati, 2013). Countries

[(2)] Although the original paper was drafted in 1970, it was published online in 2003.

possess different relative factor endowments, which lead to specialization in different goods.

2.2. Internalization Theory

Buckley and Casson (1976) conceptualized the internalization theory. Their original analysis emphasized factors that explain why the multinational firm had altered its previously existing shorter-run internationalization strategies of sourcing inputs or selling products in foreign markets through external arms-length agreements with foreign firms (Kurtishi-Kastrati, 2013). Market imperfection can be defined as anything that interferes with trade. The most widely studied result of the increasing recourse to market imperfections is FDI. Hymer focused on the role of any advantages that allow a firm to escape price-cost margins greater than zero, that is, an advantage of one. He defined these as structural, arising from structural deviations from perfect competition due to exclusive and permanent control of proprietary technology, privileged access to inputs, scale economies, control of distribution systems, and product differentiation. This class of structural imperfections in the markets for and of entry barriers to trade is referred to as ownership advantages. Some foreign direct investors invest abroad with the most important motivation being the extraction or use of natural resources, which is not subject to alternate modes of investment on the national territory of the host country. Endowments of oil, gas, minerals, forests, and waterfalls, or century old design, technology, and marketing of products may be the most important attraction for international investment. Multinationals involved in exploitation, processing, and use of resources are another case of FDI where there is no alternative to the local presence of the firm.

Williamsons (1985) internalization theory critique of earlier explanations of FDI focused primarily on the industry. The market imperfections approach to FDI is typically referred to as internalization theory. Market imperfections create opportunities for internalizing transactions within a firm. Instead of conducting business externally, where a different firm enjoys profit opportunities, it makes sense to maximize profits by conducting business internally across national boundaries. As markets become global, with firms being able to conduct international business, they will find it cheaper to establish their subsidiary in the imperfection-prone foreign market than to exploit that imperfection with contractual agreements with local firms. A firm expands internationally to the extent that the increased costs of doing business through the international subsidiary outweigh the advantages of its continued existence. A company could

separate service components geographically, say, to locate the design centers in a large market with large numbers of engineers, or on the edge of the gorilla, where fewer engineers were needed, or more far-flung locales in the presence of "very cheap" engineers. This became a matter of trade-offs. Companies start with a world-view in which they examine all possible locations through an industry-focused lens. Globalization had made FDI a more attractive option, but the emergence of other options like governance shifts had inevitably led them to question whether they should make a particular geographical take-off. The emergence of FDI could lead to more trade, as some of the firms used their efficiency to buy inputs/control quality in the center position of a chain, and take it to other less big-measured plants.

3. Literature Review

According to Szirmai et al. (2013), domestic investment is conceived as the act of channeling money into different sectors of an economy by individuals, businesses, and companies to aid the expansion of companies, increase productivity, and generally expand and improve overall economic growth activities in the country of origin. In the same manner, it is an act of reinvesting the money earned by companies, businesses, and the proceeds from traditional savings into the mining, construction, manufacturing, and utility sectors of an economy rather than placing it in offshore accounts or investing in other international countries. Consequently, domestic investment can be described as an act of putting money into a country for use in the functional processes of the country.

At the same time, Greaney and Li (2012) have identified domestic investment with domestic capital investment, which they see as a nation's buying into the production processes of that nation to consume what they have invested in. Consequently, domestic investment is seen as the total amount of private and public capital invested in an economy. It also includes the act of individuals or groups investing their savings into commercial bank accounts, the purchase of office facilities, investment in shares, and activities with the general aim of increased productivity to help in the development of a nation. Annually, a nation's growth and development, i.e. a change in total output from one year to another, is the projections of investments over the year. Therefore, domestic investment and economic growth are seen as supplementary to each other with the total amount of investment undertaken affecting the total amount of capital available in the nation that brings about changes in the total productivity of the economy.

In contrast to domestic investment, Foreign direct investment refers to investments made by an entity in one country into business interests located in another. FDI is considered a driver of economic growth, particularly in developing countries, due to its capacity to transfer technology, skills, and capital (Borensztein et al., 1998). Theoretically, FDI contributes to sustainable development through knowledge spillovers and the introduction of environmentally friendly technologies. Additionally, FDI can foster competition and innovation, promoting more efficient resource use (Dunning, 1993).

Hall (2023) investigates how foreign direct investment (FDI) spillovers from 2000 to 2020 have influenced Egypt's economic growth, focusing on three main channels: infrastructure, employment, and technology transfer. Using a mixed-methods exploratory approach grounded in the FDI-led growth hypothesis and absorptive capacity frameworks, the analysis reveals that while infrastructure spillovers were present, they fell short of expectations given Egypt's substantial FDI volume. Employment spillovers were significant, with FDI fostering job creation in key sectors. However, evidence of technology spillovers was limited; Hall argues that stronger government policies to enhance human capital and incentivize knowledge transfer are necessary. The study concludes that to maximize FDI benefits, Egypt should reduce corruption and further develop infrastructure to improve its absorptive capacity.

In Addition, Massoud (2008) examines how different forms of foreign direct investment—specifically greenfield versus acquisition entries—affect employment in Egypt. The results recommend that greenfield FDI (new investments) tends to generate significantly higher job creation compared to acquisitions, which often transfer assets without necessarily expanding employment. The study highlights that the mode of FDI entry plays a critical role: promoting greenfield investments could more effectively tackle Egypt's unemployment challenges.

Djokoto (2021) explores the relationship between the Investment Development Path (IDP) and human development by analyzing data from 135 countries between 1990 and 2019. The study finds a strong, positive link between GDP per capita and the Human Development Index (HDI), suggesting that as countries move along the IDP, their human development outcomes improve significantly. The paper concludes that economic growth through foreign investment must be accompanied by strategic policies that enhance social outcomes to ensure sustainable development.

However, FDI is not without potential drawbacks. Critics argue that FDI can lead to dependency on foreign capital and technology, creating vulnerabilities for host economies. It can also prioritize short-term profit over long-term sustainability, especially in sectors that may exploit natural resources or undermine local industries (Kaplinsky, 2000). Thus, FDI's contribution to sustainable development depends on the type of investment, the regulatory framework, and the absorptive capacity of the host country.

Empirical research explains the influence of FDI on the growth of the economy. Countries like Mexico, for instance, coordinate with different levels of education and technical background enabling Loungani & Razin (2001) to determine that International Investment has a visible positive effect especially when it comes to low-income countries. Such a finding reinforces earlier conclusions that the interaction of FDI with the local environment matters, especially regarding human capital and institutional quality.

In the same manner, Alfaro et al. (2004) emphasize that the positive effects of FDI become apparent only when it is aimed at fast-growing industries such as manufacturing or service. The authors, using the observations gathered across multiple countries demonstrate that FDI brings economic growth by raising productivity and increasing competition. Still, they add that FDI in the agriculture or mining sector will be less effective or even negative in terms of growth if the country becomes resource-cursed or is banded to economic instability.

Following the same path, Lautier and Moreau (2012) address a relatively new dimension of foreign direct investment (FDI) by examining how domestic investment influences FDI—instead of the more common reverse causality narrative. Analyzing data from 68 developing countries over the period 1984–2004, they find that higher levels of domestic investment in the previous period significantly predict greater FDI inflows, particularly in countries with GDP per capita above USD 1,500. The effect is even stronger when isolating greenfield FDI. These results suggest that domestic investment serves as a credible signal of a healthy investment climate and attracts foreign companies. More recently, two studies have focused on the contribution of FDI in an economy in terms of environmental issues utilizing the dissemination of cleaner technology (Javorcik & Wei, 2004). For example, Zarsky (1999) states that FDI can become a helping hand for leaping over into more environmentally friendly types of industrial production, especially if there are relevant regulations and the investors are attracted due to the presence of green technologies.

Nonetheless, FDI has also contributed to adverse ecological effects serving as a major causal factor, particularly in the event of weak regulations or absence of regulations. In regard to the analysis of the economies of Latin America by Gallagher and Zarsky (2007), they uncover that FDI in the area of natural resource extraction has always resulted in ecological degradation and socio-political strife. Their findings indicate that there are gaps in the development of legal provisions and institutions geared towards regulating FDI so that it promotes rather than threatens sustainable development.

There is also an effect of FDI on social progress particularly on employment and skills transfer. Blomström and Kokko (1998) have contended that MNEs entering the market of developing economies can positively affect the labor conditions in that country and the pay levels, especially in industries where skilled labor is needed. Besides, FDI helps the establishment of local suppliers and creates more jobs thereby enhancing development outlooks that are inclusive (Markusen & Venables, 1999).

However, some empirical studies draw attention to the considerable adverse influence of FDI on society, labor exploitation, and inequality facet in particular. Foreign investors may emphasize their low-cost labor, hence causing deterioration of working conditions and income inequity (Kaplinsky, 2000). Thus, the kind of FDI is very important in establishing its impacts regarding the social development objectives rather than harming it.

Aust et al. (2019) critically examine whether FDI positively impacts the SDGs in Africa. They find that it positively affects infrastructure, clean water, sanitation, and renewable energy. Unfortunately, however, some environmental consequences can be seen, notably from the climate action perspective (SDG 13). Hence, the necessity of responsible investment policies. Izadi and Madirimov (2023) investigated the same issue on Eurasian countries. They found evidence that FDI has an important effect on the SDG index particularly in low-income countries, further evidencing the importance of targeted investment policies.

Swart et al. (2023) review Latin American countries where they report that FDI in the region increases atmospheric CO2 levels due to the expansion of industries because of a "pollution halo" mechanism, but over time technological innovation can mitigate some of the negative effects. Ayamba et al. (2020) report that FDI to China does exacerbate pollution but in the long run clean technologies are incorporated—confirming the pollution halo hypothesis.

Shin and Park (2020) consider the role of institutional investors in corporate sustainability, with particular reference to investments in R&D, and find that foreign institutional investors bring positive effects on innovation and long-term sustainability while domestic institutional investors have a negligible effect. This conclusion is in line with Voica et al. (2015) who point out that FDI promotes corporate responsibility but the effectiveness of FDI differs depending on governance structures. 426 Studies on FDI229 are available. According to UNCTAD (2004), FDI contributes to the creation of jobs, technology transfer, and increased income; but FDI should be guided by national development priorities. However, Voica et al. (2015) argue that FDI stimulates economic activity but warns against disadvantages such as resource depletion and dominance of markets by multinational corporations.

Domestic investment is usually in contrast to foreign direct investment as being more permanent and one that can always be relied on to propel the economy. Rodrik (1998) affirms the necessity of interpersonal relationships for the injection of capital in developing economies. He notes that however underdeveloped the economy any investor would be willing to invest in the domestic investors to comprehend the problem and the requirements of the economy.

Kose et al. (2006) present some evidence suggesting that domestic investment is growth enhancing, particularly in the context of developed financial systems. Their work provides evidence that local resources build up and real economic energy are primarily engaged to improve productive processes and to create novel ideas which are the engine for development.

Concerning sustainable development, it often accompanies lower or at least comparable levels of resource use intensity as well as better pollution control and management efforts.

Agosin and Machado (2005) argue that domestic investors may have higher regard for the future environmental and social effects of their investments since they have more to lose in the country’s future growth. It was concluded in their study that domestic investment such as in renewable energy, agriculture, or education can yield better development results than schism pursuits in international inflows of funds assembling.

But it should be noted that even all the capital inflows domestic investments may not be sufficient for achieving sustainable development goals especially in countries with weak financial resources and lower levels of

technology. In such scenarios, it has been suggested that within countries both foreign private investment and domestic investment are required in order to maintain sustainable growth of the economies (Kose et al., 2006).

Moreover, domestic investment is important for the area of social investment in employment creation and poverty alleviation. It is often more likely that local firms will put up funds for the betterment of their communities because they are situated in those areas and have the concerns of building a nation (Rodrik, 1998). Further, investment in education and healthcare within the country has considerable externalities on growth and reduction of poverty (Agosin & Machado, 2005). However, the domestic investment in question must adhere to the given forms in societies with adequate investments in social solidities. For nations that have poor and lack governing and regulatory structures, domestic investment may not enhance the inclusion growth and social development proportions (Rodrik, 1998).

Based on the reviewed literature, it is evident that the role of domestic investment in fostering sustainable development has often been underappreciated relative to the emphasis placed on foreign direct investment (FDI). While several studies highlight the potential of FDI to contribute to employment, technology transfer, and infrastructure development, others emphasize its conditional benefits and limited spillovers, especially in contexts where absorptive capacity is weak or institutions are fragile. In contrast, domestic investment—being more embedded within the local economy—tends to exhibit a more stable and long-term contribution to inclusive growth and development. This is particularly relevant in the case of Egypt, where persistent challenges in translating FDI inflows into broad-based development raise questions about its actual developmental impact. Accordingly, this study posits the following hypothesis: domestic investment plays a more significant role in promoting sustainable development in Egypt than foreign direct investment, which may not exert a consistently positive or significant effect.

4. Overview of Domestic and FDI Investment in Egypt

4.1 Domestic Investment in Egypt:

Since the 1990s, Egypt has experienced significant economic transformation, with domestic investment playing a crucial role in the country's development. During this period, Egypt has started its structural adjustment program, which has typically followed a phased approach, beginning with aggregate demand management aimed at stabilizing macroeconomic imbalances

through fiscal consolidation, exchange rate adjustment, and monetary tightening. This initial phase was evident in the economic reform and structural adjustment programs of the 1990s and reemerged in the post-2016 IMF-supported reform agenda (Abdou & Zaazou, 2013; IMF, 2017). Following stabilization, the second phase has focused on aggregate supply management by enhancing productivity, promoting private sector participation, and improving investment climate to foster long-term growth. More recently, environmental sustainability has entered the policy agenda, with increased attention to green investment, renewable energy, and climate-resilient infrastructure as part of Egypt's Vision 2030 and commitments under the Paris Agreement (OECD, 2020).

The major objective of the program was to boost economic growth and development through several channels, most importantly domestic investment. Domestic investment, defined as the reinvestment of income within a country by individuals, businesses, and the government, has contributed to industrial growth, infrastructure development, and overall economic expansion. This section focuses on the patterns of domestic investment in Egypt for the years 1990 to 2022 highlighting various factors affecting such investments and the economic activities that have gained most. Various data and analyses are included to provide an overview of the trends of domestic investment in the country within the above-mentioned period.

In the 1990s it started developing an economic reform program of policies and measures including ERSAP stimulating domestic and foreign investments. This period in Egypt was characterized by a substantial growth of domestic investments in some key sectors of the economy including infrastructure, manufacturing, and agriculture.

The economic reform program, which started in Egypt in the early 1990s, primarily the Economic Reform and Structural Adjustment Program (ERSAP) included a sequence of liberalization measures that sought to attract more private sector players and investments. Studies report such domestic investment growth in Egypt was registered in the periods of the said reforms in manufacturing, construction and agriculture. As one of the measures of the reform, the authorities undertook a privatization policy which subsequently resulted in an inflow of investments into telecommunications, real estate, and other sectors of the economy. (Abdel-Khalek, 2001).

However, domestic investment was significantly impacted by global and domestic events, including the 2008 global financial crisis and the 2011

revolution in Egypt. According to El-Said & Zaki (2014), it was this political instability and uncertainty in this period that led to a decline in self-investors' confidence, thus explaining the decline in investment activities, especially in tourism and construction sectors. With these difficulties, still, the economy of Egypt started to penetrate gradually with the remarkable rebound of domestic investment experienced since 2016. This recovery was driven by large-scale national projects, structural economic reforms, and monetary policy measures introduced by the government.

Between 1990 and 2022, domestic investment as a percentage of GDP fluctuated, as demonstrated in Table 1. By 2022, domestic investment reached 22.5% of GDP, its highest point during the examined period. This increase can be attributed to the Egyptian government's ambitious infrastructure and energy projects, which attracted substantial investment from both the public and private sectors. The launch of national projects such as the New Administrative Capital and energy developments in oil and gas contributed significantly to this growth.

Table 1: Domestic Investment in Egypt (1990-2022)

Year	1990	1995	2000	2005	2010	2015	2020	2022
Domestic Investment (% of GDP)	20.1	17.3	19.6	20.8	17.9	16.3	21.2	22.5

(Source: Egyptian Ministry of Planning and Economic Development, 2023)

During the early 1990s to the middle of the 2000's period, it was noted that domestic investment rates were relatively consistent over time but due to the political upheavals after the 2011 revolution, structural domestic investments were lowered. This was especially devastating for areas like tourism, which construction especially on a politically stable environment. Yet, from 2014 onwards, Egypt experienced an upsurge in investment as it embarked on a wide range of mega infrastructure projects coupled with a full-fledged economic reform program backed by IMF support (IMF, 2020). These reforms also contributed to the stabilization of the economy and the improvement of investors' confidence and domestic investments in most sectors.

The upsurge of domestic investment has led to the preference of financing construction works in the energy, infrastructure and real estate industries. The breakthrough point was achieved in 2015 with the discovery of the Zohr gas field which changed the landscape of Egypt's local energy investments. Furthermore, significant amounts of money from domestic sources were raised as a result of

the government's intention to develop infrastructure conditions, for instance, the construction of the Suez Canal expansion and the new capital city.

Table 2: Sectoral Distribution of Domestic Investment - 2022

Sector	Infrastructure	Energy	Manufacturing	Real Estate	Agriculture
Investment (% of Total Domestic Investment	**35%**	**25%**	**18%**	**15%**	**7%**

(Source: Egyptian Ministry of Planning and Economic Development, 2023)

4.2 Foreign Direct Investment in Egypt

FDI has been crucial to Egyptian economic development since the 1990s. FDI is very vital in improving economic growth, technological transfer, and employment. Flows of foreign capital into Egypt have shifted over time, influenced by various global and domestic events, economic policies, and reforms. The trends of FDI in Egypt for the period between 1990 and 2022, factors that determine these trends, sectors that are important in the structure of FDI attraction, and the effects caused by this kind of investment in the transformation of the economic environment of this country are analyzed herein. The various economic reforms, part of ERSAP's aim to open the economy up to foreign investment by encouraging privatization and reducing barriers to trade, started in Egypt during the 1990s. These now lay the base for attracting FDI into the country, especially into manufacturing, telecommunications, and energy. World Bank, 1995.

However, the levels of FDI inflow during the 1990s were still relatively modest due to persistent macroeconomic problems of inflation, exchange rate instability, and structural inefficiencies. By the mid-2000s, FDI inflows into Egypt recorded an unprecedented increase, driven by economic liberalization policies and a politically stable environment. FDI inflows peaked as a share of GDP between 2004 and 2007, driven in large part by foreign capital inflows in the oil, gas, and real estate sectors. Additional inducements included the government's efforts towards attracting foreign investment via tax incentives, reforms in investment laws, and setting up special economic zones.

FDI has played an important role in Egyptian economic development since the 1990s. FDI is urgently needed to attain better economic growth, technological transfer, and employment. Due to different world and domestic events, changing economic policies, and/or reforms, the flow of foreign capital into Egypt has

changed over time. Herein, an analysis of the trends of FDI in Egypt within the period from 1990 to 2022, factors that determine these trends, sectors important in the structure of FDI attraction, and the effects this kind of investment causes in the transformation of the economic environment of this country are performed. Various economic reforms that were part of ERSAP's aim to open the economy to foreign investment through privatization and reducing trade barriers started in Egypt during the 1990s. These now form the backbone for attracting FDI into the country, especially in the manufacturing, telecommunications, and energy sectors. World Bank, 1995. The levels of FDI inflow during the 1990s were nevertheless relatively modest due to unyielding macroeconomic problems of inflation, exchange-rate instability, and structural inefficiencies. By the mid-2000s, FDI inflows into Egypt have realized an unprecedented increase, driven by economic liberalization policies and a politically enabling environment.

During the period from 2004 to 2007, it was at its peak in terms of the share of GDP, influenced mainly by the inflows of foreign capital to the oil, gas, and real estate sectors. Other inducing factors were government efforts to attract foreign investments by offering enticements like tax benefits, amending investment laws, and setting up special economic zones. The FDI thus contracted greatly in the 2011 Revolution and its succeeding period of political instability, as investor confidence was quickly lost. In fact, many foreign investors either pulled out or delayed their projects, especially those who had invested in sectors reliant on political stability such as tourism and real estate. This is until after 2014, when FDI inflows started recovering with the Egyptian government implementing a raft of reforms to restore macroeconomic stability and attract foreign capital.

Table 3: FDI inflows to Egypt (1990 -2022)

Year	1990	1995	2000	2005	2010	2015	2020	2022
FDI Inflows (US$ Billion)	1.2	1.5	1.8	6.1	6.4	6.9	5.5	8.6
FDI as % of GDP	1.3%	1.6%	2.0%	5.7%	5.5%	4.1%	2.8%	3.1%

(Source: World Bank, 2023)

These FDI inflows increased significantly in the mid-2000s and peaked in 2007 when Egypt featured as one of the top recipients of FDI in the African continent. The inflows declined strongly after 2011 but partly recovered after

2014 as the government emphatically restored investor confidence through a host of reforms, which included the devaluation of the Egyptian pound in 2016 and the launching of mega infrastructure projects.

Most FDI in Egypt has concentrated in a few key sectors, such as oil and gas, real estate, telecommunications, and manufacturing. Of these, the rich natural resources and friendly investment policies within the energy sector could probably be reasons for the huge stake the oil and gas industry has in the Egyptian economy. The latter was mainly influenced by the 2015 discovery of the Zohr gas field, after which foreign energy companies heavily invested in exploration and production activities.

Other beneficiary areas of FDI are real estate and construction. The New Administrative Capital project launched a government focus on urban development to make way for considering the country's mushrooming real estate market for foreign investors. Huge FDI, especially from the Gulf countries and international firms in real estate, was attracted for the construction of residential and commercial projects besides infrastructure.

Table 4: Sectoral Distribution of FDI to Egypt – 2022

Sector	Oil and Gas	Real Estate	Manufacturing	Telecommunications	Other Sectors
FDI (% of Total FDI Inflows in 2022)	45%	25%	15%	10%	5%

(Source: Egyptian Ministry of Planning and Economic Development, 2023)

Data in Table 4 reflects the sectoral distribution of FDI for the year 2022, where the oil and gas sector is being considered as having the lion's share in total FDI inflows. Real estate and construction are second and third in the list, respectively, reflecting the emphasis which the Egyptian government has put on infrastructure development and urban expansion.

The Egyptian government has put forward multiple policies and reforms in the context of attracting more FDI. This includes Investment Law No. 72 of 2017, which facilitates tax breaks, among other incentives, to foreign investors through the facilitation of procedures. Establishment of special economic zones, such as the Suez Canal Economic Zone, has been built to be appealing to FDI due to infrastructural endowments, regulatory advantages, and location near the global shipping route (UNCTAD, 2019).

FDI has had quite a massive impact on the Egyptian economy. These inflows of FDI have brought about employment opportunities, particularly in industries like oil and gas, manufacturing, and telecommunications. In addition, foreign capital facilitated technological transfer and knowledge sharing, especially in the so-called advanced technology and skill-intensive sectors. Research has shown that FDI is positively related to economic growth in Egypt since it removes the saving-investment gap common in most developing economies. On the other hand, indirect investment, such as portfolio inflows, tends to be more volatile and less development-oriented compared to FDI, often responding to short-term financial returns rather than long-term economic fundamentals. While it can temporarily ease balance of payments pressures, its contribution to sustainable growth in Egypt is limited due to its speculative nature (Adelegan, 2008).

Although FDI has been vital in the economic development of Egypt, much more needs to be done to attract sizable and continued levels of foreign investment. Political instability in the post-revolution period has generally discouraged foreign investors. Bureaucratic inefficiency and unnecessary regulatory barriers still bar full capitalization by foreign businesses of investment opportunities available in the country. According to UNCTAD, inflation and volatility in the exchange rate also posed a challenge, particularly in the devaluation of the Egyptian pound in 2016.

While the business climate has benefited from the governmental preoccupation with reforms, a host of areas, including those related to streamlining regulations, increasing transparency, and reducing corruption, still await reforms. Further infrastructural improvements and expansion, such as the building of new industrial zones, may be reasonably expected to take place in the next few years to attract greater FDI.

Overall, from 1990 to 2022, FDI has continued to be the most influential driver of growth and development in Egyptian borders. Not being totally spared from hiccups with many political and economic shocks, still the general trend has always been recuperation and growth, wherein foreign capital plays a vital role in heavyweight sectors like energy, real estate, and telecommunications. Thus, the remaining challenges must be met if the inflows of FDI are to be sustained and increased-a prerequisite for long-run growth and development in Egypt.

5. Methodology

5.1 Model Specification:

In order to investigate the effects of foreign debt and foreign aid on Egypt's Human Development Index (HDI), the Autoregressive Distributed Lag (ARDL) model is adopted to estimate both short- and long-term relationships between variables, regardless of whether the underlying variables are stationary at level or at first difference.

The ARDL model can be specified as follows:

$$lnHDIt = \alpha_0 + \sum_{i=1}^{p} \alpha i\ lnHDIt-1 + \sum_{j=0}^{q} \beta j\ lnFODt-j + \sum_{k=0}^{r} \gamma k\ lnODAt-k + \sum_{l=0}^{s} \delta l\ lnXt-1 + \lambda 1\ HDIt-1 + \lambda 2\ FODt-1 + \lambda 3\ ODAt-1 + \lambda 4\ Xt-1 + \epsilon t$$

Where,

- *ln* denotes the natural log operator.
- HDI_t represents the Human Development Index at time t. It is a Composite index measuring average achievement in key dimensions of human development: life expectancy, education, and per-capita income.
- FDI_t refers to an ownership stake in a foreign company or project made by an investor, company, or government from another country. FDI typically involves acquiring a substantial share in a foreign business or expanding operations to a new region.
- INV_t represents gross fixed capital formation as proxy for domestic investment, which includes land improvements, plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings
- X_t is a vector of control variables including FOD, NFT, ODA, and INF, where FOD represents Foreign Debt at time t, which is the total external debt of Egypt, which includes public and publicly guaranteed long-term debt, private nonguaranteed long-term debt, and the use of IMF credit, ODA represents Net Development Aid and Official Aid at time t. These variable measures the net official development assistance (ODA) received by Egypt. ODA is defined as government aid designed to promote the economic development and welfare of developing countries[3]. NFT represents Net transfers from abroad include remittances and other transfers received by residents of Egypt from non-residents. INF Inflation is measured by the

(3) Note that foreign aid is often accompanied by political conditions or expectations.

consumer price index (CPI), reflecting the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services.

- α_i, β_j, γ_k, and δ_l are short-term coefficients.
- λ_1, λ_2, λ_3, and λ_4 are long-term coefficients.
- ϵ_t is the error term.

In order to check the robustness of the model, three further models will be run to incorporate two more variables, namely government spending as a proportion of GDP (Ln_GOV) and carbon dioxide emissions (Ln_CO2), With the use of this model, it would be feasible to examine both the long-term equilibrium relationships and the short-term dynamics between HDI and the explanatory variables, giving us a thorough knowledge of the ways in which foreign debt and ODA affect human development in Egypt. The following phase entails performing bounds testing to verify the presence of long-term links among the variables after unit root tests to ascertain the stationarity of the variables.

5.2 Augmented Dickey Fuller Test:

To determine if the variables in the ARDL model were stationary, the Augmented Dickey-Fuller (ADF) test was used. Because non-stationary data can produce erroneous regression findings, stationarity is essential. The following table displays the results:

Table 5: Unit Root Test Results Using the ADF Test

Variable	Level	Calculated ADF Value	P-Value	First Difference	Calculated ADF Value	P-Value	Lag Period	Degree of Integration
HDI	Level	-0.776	0.81	First Difference	-2.719	0.08	2	I(1)
FOD	Level	-1.886	0.88	First Difference	-7.137	0.00	2	I(1)
FDI	Level	-3.562	0.05	-	-	-	1	I(0)
INF	Level	-3.204	0.02	-	-	-	1	I(0)
INV	Level	-3.222	0.09	-	-	-	1	I(0)
ODA	Level	-2.974	0.04	-	-	-	1	I(0)
REM	Level	-2.058	0.54	First Difference	-6.095	0.00	1	I(1)

HDI, FOD, and REM are non-stationary at their levels, but they become stationary after taking their initial differences, according to the ADF test results, suggesting that they are integrated of order one, or I(1). FDI, INF, INV, and ODA, on the other hand, remain fixed at their levels, suggesting that they are integrated of order zero, or I(0). The ARDL model can support variables of multiple

integration orders without needing all variables to be I(1), as demonstrated by these mixed integration orders.

This finding guarantees that, in the context of Egypt's economic development, the ARDL limits testing approach may be suitably used to investigate the long-term correlations and short-term dynamics between HDI and the explanatory variables (FDI, NDA, FOD, IN, DI, and NFT).

5.3 Results and Discussion:

The results of the ARDL models are reported in table 5 give balanced weights to the impact which domestic and foreign investment have on the dependent variable. In fact, this analysis brings out the differential significance and magnitude of these investments, underlining thereby their role and implications for economic policy.

Table 6: ARDL Results

Variables	Model 1	Model 2	Model 3	Model 4	Model 5
LOGHDI(-1)	-0.1052 (0.0944)	-0.0828 (0.0500)	-0.286*** (0.0632)	-0.2184** (0.0523)	-0.0047 (0.0503)
LOGFOD(-1)	-0.0110** (0.0033)	-0.0046** (0.0017)	N/A	-0.0040 (0.0022)	-0.0037** (0.001)
LOGFDI(-1)	0.0036** (0.0011)	7.92E-05 (0.0008)	-3.61E-05 (0.0013)	-0.0040 (0.0022)	-3.57E-06 (0.0007)
LOGODA(-1)	-0.0045** (0.0014)	N/A	-0.0046*** (0.0013)	-0.0004 (0.0007)	-9.8E-07 (0.9962)
LOGREM(-1)	0.0127** (0.0044)	0.0036* (0.0019)	0.0133*** (0.0035)	N/A	0.0059*** (0.0020)
LOGINV(-1)	-0.0075 (0.0070)	0.0062 (0.0053)	0.0206** (0.0072)	0.0388** (0.0119)	0.0043 (0.0051)
LOGINF(-1)	-0.0018 (0.0028)	0.0010 (0.0009)	-0.0034 (0.0017)	0.0003 (0.0043)	0.0003 (0.0010)
D(LOGHDI(-1))	-0.7304 (0.5170)	0.3591** (0.1397)	0.2847 (0.1989)	1.3943*** (0.1689)	0.4672*** (0.1295)
D(LOGHDI(-2))	0.7610** (0.2249)	0.3298** (0.1393)	0.4788* (0.2258)	N/A	N/A
D(LOGFDI)	0.0012 (0.0008)	N/A	0.0029** (0.0009)	0.0027* (0.0009)	0.0009 (0.0008)
D(LOGINV)	0.0100 (0.0050)	0.0174*** (0.0048)	0.0100 (0.0066)	N/A	0.0154** (0.0049)
D(LOGREM)	0.0057 (0.0024)	0.0129** (0.0061)	-0.0071** (0.0027)	0.0002 (0.0024)	0.0059*** (0.0020)
Constant	0.0053 (0.9786)	-0.5917** (0.1810)	-0.7362*** (0.0492)	-0.8278** (0.2377)	0
F-statistic	3.662912	4.533628	4.977167	10.02671	3.898879
R-squared	0.65	0.71	0.75	0.82	0.68

- Standard errors are presented in parentheses.

- Significance levels: *** p < 0.01, ** p < 0.05, * p < 0.10

The ARDL results point towards the combined impact of domestic and foreign investments in various models that reflect their comparative importance and effectiveness. Foreign Direct Investment is erratic and depends on the model. FDI indicates a positive significant influence in Model 1, suggesting that a rise in FDI is associated with a small rise in HDI. This finding supports the normal belief that FDI brings in important capital inflows along with technology transfer and managerial competence, acting as a driver for the growth of an economy. However, in Model 2, FDI's effect becomes insignificant, which may indicate that gains are not necessarily to be taken or may be determined by other influences not captured in this model. While in Model 3, the coefficient of FDI is statistically insignificant and very close to zero, implying that FDI may not be relevant on many aspects to exert a statistically significant impact on the dependent variable under certain conditions. This inconsistency brings out the fact that while FDI has potential benefits, its impact may highly be contextual depending on the regulatory environment, the quality of infrastructure, and the absorptive capacity of the domestic economy. In Model 4, FDI has an insignificant impact on HDI. This result would, again, hint at the fact that there are conditions where FDI could perform negatively due to distortion, crowding out, or profit repatriation. This reveals that it might perform differently and fit into various contexts, as seen in Model 5 with an insignificant result.

On the other hand, Domestic Investment shows a more consistent and statistically significant positive influence on HDI. For example, the coefficients of domestic investment were positive and statistically significant in Models 2, 3, and 4, reflecting the fact that with increasing domestic investment, robust and beneficial impacts will be seen in other words, an improvement in economic performance or growth as well. The significant positive coefficients of these models present a signal that an enabling environment should be created for domestic investors.

On the other hand, the steady positive effect of domestic investment across the different models stands in contrast to the variance in the impact of FDI. Such a finding points to the important role that domestic investment plays regarding HDI. Domestic investment is usually much more responsive to the local conditions of the economy, needs, and priorities. It is also less susceptible to outside factors and tends to be much more stable and predictable. Moreover,

domestic investments usually go to sectors that directly satisfy local needs and may be more sustainable and inclusive.

Next, the Bounds testing method is applied to ascertain if variables in an autoregressive distributed lag (ARDL) model have a long-term connection. This method is especially helpful because it may be used with underlying variables that are integrated into order zero, I(0), order one, I(1), or a combination of both. **The following are the outcomes of the Bounds test for cointegration for the five models are shown in the table:**

Model	F-Statistic	I (0) at 5%	I (1) at 5%	Significance Level	Conclusion
Model 1	3.662912	2.17	3.21	5%	No long-run relationship (F < I (1))
Model 2	4.533628	2.39	3.38	5%	Long-run relationship (F > I (1))
Model 3	4.977167	2.39	3.38	5%	Long-run relationship (F > I (1))
Model 4	10.02671	2.39	3.38	5%	Long-run relationship (F > I (1))
Model 5	3.898879	2.27	3.28	5%	Long-run relationship (F > I (1))

The results of the five models reveal that both domestic and foreign direct investment (FDI) are essential to Egypt's long-term growth. Strong long-run connections between the variables are shown by models 2, 3, 4, and 5, suggesting that both domestic and international investments favorably impact sustained economic growth. These findings suggest that Egypt gains long-term advantages from regular FDI inflows, especially in vital industries like energy, infrastructure, and real estate. Local reinvestment in the economy is essential to long-term prosperity, as demonstrated by the crucial role that domestic investment plays in fostering industrial growth and human development. In other words, the presence of a long-run relationship indicates that FDI, domestic investment, and other explanatory variables move in sync over time, influencing the HDI in a stable manner. Economically, this suggests that both foreign and domestic investments contribute positively to sustainable development in Egypt. The stable, long-run relationship highlights the importance of maintaining conducive policies that encourage foreign investment and ensure that domestic investment channels are effective. Policymakers might want to focus on policies that enhance institutional quality, governance, and human capital to sustain the benefits of these investments. Given that Model 1 does not demonstrate a long-term relationship, short-term or unstable factors may prevent some investment flows from resulting in sustained growth.

6. Conclusion and Policy Recommendations

This study has been focused on investigating the different impacts of domestic versus foreign investment on sustainable development in Egypt using the ARDL model during the period 1990 - 2022. The results confirm that domestic investment is the real engine for economic performance; it has constantly shown a positive impact in more than one model. In contrast, FDI seems to have a rather erratic impact. This might show that even though there is potential from FDI, the impact can be affected by a range of determinants. Most importantly, FDI to Egypt has been to sectors that are not a priority for sustainable development. Besides, foreign investors have focused on acquiring existing projects rather than establishing new ventures, resulting in minimum effect on employment.

In this respect, supportive policies for domestic investment are required. That is, creating an investment-friendly environment domestically, which would involve the pursuit of appropriate macroeconomic stability and access to finance that is easy for domestic firms. There has to be, in line with that, an enhancement in absorptive capacity for FDI. That can be done by quality improvement in institutions and better regulatory environments, coupled with human capital and infrastructure investment. The integration of FDI with domestic firms will thus facilitate technology and knowledge spillover or diffusion and consequently fully realize the gains of foreign investments.

Another challenge policymakers will need to ensure is that FDI is aligned carefully with national development priorities and is not negatively distorting markets. A proper balance must be achieved in leveraging domestic and foreign investments, where there should be targeting of FDI in strategic sectors while considering domestic investment for stability and predictability. Infrastructural investment and human capital will make the economy attractive to investors. It also means the continual reassessment and readjustment of investment strategies so that these are viable under changing economic circumstances.

On the other hand, certain limitations may arise in this article. One potential limitation lies in its reliance on the Human Development Index (HDI) as the sole proxy for sustainable development, which may not fully capture the multidimensional nature of sustainability, such as environmental quality or institutional strength. Additionally, while the ARDL model effectively estimates long- and short-run dynamics, it is sensitive to variable selection and lag structure and may not fully account for potential endogeneity or structural breaks in

Egypt's investment landscape over the long study period. Finally, the paper focuses on aggregate investment trends, which may overlook sector-specific variations in FDI and domestic investment impacts.

Future research in that field is highly recommended as it could explore the sectoral impacts of FDI and domestic investment on sustainable development in Egypt to identify which industries yield the greatest developmental returns. Additionally, incorporating environmental and institutional quality indicators into the analysis could provide a more comprehensive understanding of sustainability dynamics beyond HDI.

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