Journal of Positive School Psychology http://journalppw.com
2023, Vol. 7, No. 4, 639-660

A Framework Of The Relationship Between The Foreign Investment Participant And Its Effect On Managing The Local Human Capital Efficiency With The Role Of Financial Deepening As A Mediator

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Abstract

The purpose of this study and present a framework that is to examine the impact of foreign investment, including inflow foreign direct investment (IFDI), multinational foreign enterprise (FMNE), and foreign labor (FL), on managing local human capital efficiency (LHCE) and financial deepening in the United Arab Emirates (UAE). A quantitative methodological approach using a survey method was employed to evaluate the effects of foreign investment on LHCE from a theoretical perspective. The study found that IFDI and FMNE have a significant positive relationship with LHCE in the UAE, while FL has a negative effect. Financial deepening was found to partially mediate the relationship between IFDI and FMNE and fully mediate the relationship between FL and LHCE. These results suggest that foreign investment can play a role in managing local human capital efficiency and financial deepening in the UAE.

Keywords: inflow foreign direct investment, foreign multinational enterprise, foreign labor, local human capital efficiency, financial deepening.

Introduction

Foreign direct investment is considered the most important factor for economic improvement. It is when a forgone company or individual invests in another country or enterprise. Foreign direct investment can represent establishing business operation activity or implementing a business asset in another country and even owning or investing in that particular company. Foreign direct investment is a source of external financing for a country with limited liquidity. They can receive funds worldwide from rich countries (Barry, 2017). FDI, or foreign direct investment, is when companies or individuals invest in businesses or companies in another country. The movement of FDI within a country is broken down into two types: inflow (IFDI) and outflow (OFDI). IFDI is the foreign investment coming into a country. At the same time, OFDI is the amount invested by a country's firms or individuals in other countries. (Lautier and Moreaub, 2012) Thus, the FDI can move from any two different countries. The IFDI is from a developed country to a developing country or another country in the transaction, improving the host country's overall performances (Shamsan, M.N. & Samikon, S.A., 2022).

The foreign participant in this study includes three elements: First, IFDI (Inflow Foreign Direct Investment) is defined as an investment where a foreign company or individual has a long-term relationship, control, and influence over a company in another country.

(Prasanna,2015). According to the author André-Pascal (2020), foreign direct investment (IFDI) is an integral part of an open and effective international economic system and a significant catalyst. However, FDI benefits do not accrue automatically and evenly across countries' sectors and local communities. National policies and the international investment architecture matter for attracting FDI to many developing countries and reaping the full benefits of FDI. The challenges primarily address host countries, which need to establish a transparent, broad, and effective enabling policy environment for investment and build human and institutional capacities to implement the overall performances.

Second, FMNE is an international firm that owns more than 50 percent of the equity and represents the company in the host country (Greaney, T. and Tanaka, A., 2021). FMNE subsidiaries usually improve the competencies of their local labor and managers through human resource development and training programs organized internally or externally by other organizations in the host country or other countries (Gachino, 2012). In the medial east countries, managers shift their functional mobility from FMNE subsidiaries to a local organization because of the high wages or looking for comfort and accessible working environment and retirement benefit (Gerschewski, 2013). However, the present study may not fully conform with existing literature proving that local organizations provide more opportunities for the country's professional development (Jain and Agrawal, 2005; Zhang, Zhang, and Liu, 2007; Gerschewski, 2013).

Third FL, as defined by (Alarcon, 1999; Sowell, 1996; West & Bogumil, 2000), foreign workers are employees with no permanent residence in their host country and seek foreign employment without sponsorship from their home nations. Over the past 15 years, the UAE has witnessed a doubling in domestic product and population growth. These multiplications have brought significant opportunities to attract foreign investment but have created more difficult challenges. The most important of these challenges is the immigration of foreigners to the UAE to meet the labor market's needs. As of 2015, citizens constitute 22 percent of the total population in the UAE, and 78 percent are foreigners of various nationalities, which is reflected in the employment distribution. Besides that, the percentage of women working in the UAE is only 8 percent of the total workforce in the UAE. From the level of education, women have a higher level of education the man in the UAE. (Jacob Cherian 2021)

The study uses the variable of local human capital efficiency, defined as local characteristics and population knowledge that can be developed through investment (Niklewicz-Pijaczyńska and Wachowska, 2012). The study also examines the role of financial deepening (FD) in economic growth (Krah et al., 2014; Mhadhbi, 2014; Ghildiyal et al., 2015; Silva et al., 2017; Capolupo, 2018) for both developed and developing economies (Adeniyi et al., 2015). It is believed to direct real growth through capital accumulation, enable long-run investment (Soedarmono et al., 2019), and affect the performance of the direct investment in the host country (Silva et al., 2017).

Literature Review

This part of the study will explore the relationship between different research variables and how they relate. The study will use the Priest theory and framework to understand how foreign investment affects a country and develop hypotheses to guide the research. This will help countries with high levels of foreign investment understand the problems they may face and develop solutions. (Priest theory and framework)

1. Inflow Foreign Direct Investment and Local Human Capital Efficiency.

Foreign direct investment is important in creating capital accumulation, job creation, and commercial opportunities for local employees and reducing unemployment (Li & Tanna, 2018). At the same time, foreign direct investment also brings modern technology and increases labor productivity in any investment industry (Alvarado, Iñiguez, & Ponce, 2017; Li & Tanna, 2018). The shift in the labor force towards the FDI sector (foreign direct investment) has led to a 29.3% increase in overall labor productivity in the economy from 2006 to 2016, according to the Investment Department (2018).

Multinational corporations (MNCs) establish subsidiaries in large countries to expand and achieve superior international marginal profits. These subsidiaries may differ in their research and development (R&D) investments. Due to easy access to capital and the formal link with the parent firm, some companies invest much more in R&D than local companies (Kokko, 2001). Others may invest less due to access to technology from the parent business (Chris Changwha Chung, 2015). MNCs transfer technology to affiliates and other host country businesses through various means such as machinery, equipment, intellectual property, expat management, and local staff training (Loykulnanta, 2019).

H1. The variable IFDI does significantly affect managing local human capital efficiency LHCE in the UAE.

2. Foreign Multinational Enterprise and Local Human Capital Efficiency.

IFDI in developing countries mainly comes from developed countries like the USA, UK, France, Canada, Australia, and Japan, but also from developing countries like South Korea, China, India, Brazil, and South Africa (UNCTAD, 2016, 2017). IFDI source countries like Saudi Arabia can come from developed and developing countries (Arab Investment & Export Credit Guarantee Corporation, 2017). The way in which foreign direct investment enters a host country is a crucial decision for a company or individual because it involves weighing factors such as benefits and risks, level of control, and operational costs (Anderson and Gatignon, 1986; Agarwal and Ramaswami, 1992; Werner, 2002; Herrmann and Datta, 2006; Chen, 2012).In UAE, the number of local employees in the international organization (FAME) is below average, which makes labor mobility a conversation between strangers and each other.

H2. The variable foreign multinational enterprise FMUE does significantly affect managing local human capital efficiency LHCE in the UAE.

3. Foreign Labor and Local Human Capital.

By considering only the sectoral affiliation of immigrant workers, the strategy adopted does not consider spatial proximity effects, especially between natives and immigrants. Indeed, it is likely that the effect of immigrants on productivity also depends on the knowledge spillovers that typically occur from close interactions with native workers.

H3. The variable foreign labor FL does significantly affect managing local human capital efficiency LHCE in the UAE.

4. Inflow Foreign Direct Investment, FMNE and Financial Deepening.

According to the literature review, the author (Haiyun Liua, 2020) examines the relationship between financial deepening (FD) and foreign direct investment (FDI) in One Belt One Road partner countries by using a new FD index from the International Monetary Fund. The study finds that the financial system positively impacts FDI in emerging markets and low-income countries. However, this relationship is not found in

developed markets. This finding implies that to maximize FDI benefits, regional economies will have to deepen their financial sector above this threshold. However, the relationship between FD and human capital did not determine in this hypothesis. However, this study investigates this relationship through a quantitative analysis.

H4. The variable IFDI does significantly affect financial deepening FD in the UAE.
H5. The variable FMUE does significantly affect financial deepening FD in the UAE.

5. Foreign Labor and Financial Deepening.

While the empirical literature concerning finance and growth is extensive (if inconclusive), very few empirical studies in this area also consider the role of human capital. This is a surprising gap in the literature, as human capital almost certainly matters for growth. There are many clear pathways through which finance and human capital accumulation are likely related.2 One early empirical study of the relationship between these three (finance, human capital, and growth) is (Evans et al. 2002). This paper examines 82 countries over 21 years and finds that financial development is as important as human capital as a determinant of growth. In addition, these authors and that the interaction between credit and human capital significantly contributes to growth; this paper argues that a developed financial system is an essential complement to investment in human capital. A similar approach is employed by (Hakeem (2010), focusing on Sub-Saharan Africa. This paper finds that both human and physical capital are important to growth. At the same time, financial development is not shown to have a direct effect. However, the author identifies important interaction effects (complementarity) between financial and human capital development, suggesting that simultaneous investment in both areas is growth-enhancing. (Abubakar et al. 2015) study the impact of both bank and domestic private credit on growth, both directly and indirectly through the human capital channel, in the Economic Community of West African States from 1980-2011. Results show that developing regional credit markets will ease credit constraints and encourage human capital accumulation, increasing real GDP growth. The authors argue that empowering human capital investment through private credit is an important economic development strategy for the region.

H6. The variable foreign labor FL significantly predicts financial deepening FD in the UAE.

6. Financial Deepening and Human capital.

The emerging body of empirical literature is small but suggests that finance, human capital, and growth are related in ways that are not yet fully understood. Furthermore, that human capital investment leads to more developed financial markets. However, they do not and causality runs from financial markets to human capital investment. According to the author, Ozcan (2018) conducted a similar study focused on determining the effect of financial development on human capital in Emerging Market Economies from 1990-2015; these authors. (Oyinlola and Adedeji 2019) studied the link between financial development and human capital growth in Sub-Saharan Africa from 1999 to 2014. They found that improving the financial sector can positively affect human capital development.

The author (Fassio, 2019) investigates how migrants contribute to the productivity of the sectors in which they are employed. However, with significant differences: highly-educated migrants show a larger positive effect in high-tech sectors, and to a lesser extent, in the services sector. The diversity of countries of origin contributes to productivity growth only in the services sectors.

H7. The variable FD does significantly predict managing local human capital efficiency LHCE in the UAE.

7. The Mediator Variable FD Does Significantly Mediate Between Foreign Investment Participants and managing Local Human Capital Efficiency in The UAE.

According to Adeniyi et al. (2012), nations reap the expected benefits from FDI only when their financial systems are well-developed. In addition to Choong et al. (2004), Alfaro et al. (2004) have argued that shallow financial systems can inhibit FDI in an economy and human capital development. Based on this evidence, the host country's financial plan is important in attracting FDI and determining the local employees' performance.

Interestingly, FD and foreign participation are often associated with economic growth indicators in many industries in the host country. Still, there is seldom any consideration of the direct effect of FDs on FDI. Hajilee and Al Nasser (2015) examine this connection in Latin American countries. This study adds valuable insights to the financial economics literature and differs significantly in several

ways from the previous research. The paper provides evidence from panel threshold regression and finds that FDI cannot maximize economic and local human capital benefits. Furthermore, FDI becomes less attractive in economies and improves the employee's efficiency with FD levels below this threshold. This study determines that no prior literature accounts for a point where the relationship between FD and FDI changes. This index measures financial markets and institutions based on access, depth, and efficiency. In addition, this study considers potential endogeneity issues that have been mainly ignored in earlier studies.

Furthermore, according to the author Zafar and Zaidi (2019) have recently demonstrated that the Financial Deepening Index (FDx) derived from foreign investment participation encompasses a wide range of financial systems that traditional proxies do not adequately cover due to a variety of limitations (Hassan et al., 2011; Huang & Lin, 2009; Islam et al., 2018; Levine, 1997; Svirydzenka, 2016).

H8. The mediator variable FD significantly mediates between Foreign Investment and managing Local Human Capital Efficiency in the UAE.

Conceptual Framework

The research will use a quantitative and data analysis method. The data of the Federal Authority for Competitiveness and Statistics in UAE is considered for the study provided by the official statistic website of the UAE to reach the statistical and functional data.

Research Methodology

This study uses positivism as its research philosophy, reflected in its structure and design. The research method employed is quantitative, which allows for testing the significance of hypotheses and is considered a scientific-based method. The study is independent of previous research and uses a targeted approach for sampling, which is suitable for quantitative analysis. The research questionnaires survey used self-decisive questions to gather data, and the results accurately represent the opinions of the chosen sample.

Data Collection Techniques

This study adopts a positivist philosophy and a deductive approach, using a survey to gather data on the link between foreign investment activity, financial deepening, and human capital efficiency in Dubai. The survey measures variables adopted from previous studies and is an important tool for understanding the relationship between the variables. The survey will be distributed among

workers with over three years of experience in Dubai. It will use a five-point Likert-type scale to assess the performance of foreign and Emirates managers.

Sample Size

This research focuses on the employees of foreign companies in Dubai, UAE, with over two years of working experience. The target population is local private, foreign, and multinational company employees, with 4000 workers. The study aims to identify the skills, education, and sex of local employees. To minimize the difficulty in identifying the sample, the study chooses 35 companies with over 100 employees. The statistics will be shown in table 3.8. The number of foreign companies in the UAE is 7821 company. We choose 35 companies that have over 100 employees. This technique will make sample targeting easier.

The size of the sampling follows the formula that is developed by (Krejcie& Morgan 1970). Additionally, the author used a table and formula to calculate the sample size, selecting a sample that accurately represents the total population of the study to ensure the sample size is appropriate. Then it is shown below:

Data Analysis and Results

The survey questionnaires were completed from 12 September 2021 to 12 December 2021. The number of the distributed survey was 540, of which 364 were returned. The total of the outliers is 9 cases, making the total usable respondents n=355 (65.7% response rate), which is considered appropriate for this study, as explained in the previous chapter (sampling section). Table 1 below depicts the data gathering summary and the response rate.

Table 1: The responses ratio of the sample

Responses	**Total**
Distributed questionnaires	631
Unreturned questionnaires	277
Returned questionnaires	354
outliers	9
Unites to analysis	345
Response rate	65.7%

4.3 Sample Demographic Analysis

The demographics of a population are determined by factors such as age, race, and gender. Demographic data refers to statistical socioeconomic information, such as employment, education, occupation, and experience. Demographers collect and study data about a population's general characteristics.

4.5.1 Gender and Age

Through the collected data from the questionnaire distribution, male respondents outnumber female respondents by more than 70 percent. According to the finding, the female respondents are 25.3 percent as males in the 74.7 percent table (2). And the age majority is 49.5 percent for respondents from 31 to 40 years. Less than 30 years, 18.7 percent, and 26.4 percent were from 41 to 50

years, which concludes that the demanding age of the respondent is more than 50 years 5.5 percent table (3).

Table 1: The Gander Demographic Analysis

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	male	254	73.6	73.6	73.6
	female	90	26.1	26.1	99.7
	3.00	1	.3	.3	100.0
	Total	345	100.0	100.0	

Table 2: The age demographic analysis

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 30 years	68	19.7	19.7	19.7
	31 to 40 years	169	49.0	49.0	68.7
	41 to 50 years	88	25.5	25.5	94.2
	more than 50 years	20	5.8	5.8	100.0
	Total	345	100.0	100.0	

4.5.2 Working Experience

The UAE is a country with an ambitious goal: to become one of the top five economies in the world. The country must create a more efficient and productive workforce to achieve this goal. One way to accomplish this goal is to allow Emiratis to develop work experience and international skills. Working experience is an important component of professional development because it increases skills and knowledge in the workplace and improves job performance.

The following question in the demographic questionnaires asks about years of experience. As per Table (4), of those who have 1 to 5 years of working experience, 24.9% of the respondents fall into the category of 5 to 10 years of working experience, 45.5% have 11 to 20 years of experience, and 20% have more than 20 years of experience based on the survey questionnaires.

Table 3: the working experience demographic analysis

Working Experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1 to 5 years	33	9.6	9.6	9.6

	5 to 10 years	86	24.9	24.9	34.5
	11 to 20 years	157	45.5	45.5	80.0
	more than 21 years	69	20.0	20.0	100.0
	Total	345	100.0	100.0	

4.6.3 Education Level

There is no doubt that the level of education plays a vital role in the efficiency and quality of human capital. A country's citizens' increased level of education may lead to greater productivity, higher economic output, and higher wages for workers. If they had a higher education, Emiratis would perform better overall, and their workforce would be more efficient. Education is the primary source of knowledge for most people in the UAE. In most of the Emirates, schooling and education primarily occur in Arabic. Therefore, providing facilities for foreign nationals to learn the Arabic language and culture is important to integrate successfully into the local community (UAE government, 2015). This question in the study covers four academic qualifications: 44.4% of respondents hold a bachelor's degree, 4.1% hold a high diploma, 34.4% hold a master's degree, and 16.9% hold a Ph.D. (Table 5).

Table 4: the qualification demographic analysis

Qualification					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	bachelor	147	42.5	44.4	44.4
	high diploma	14	4.0	4.2	48.6
	master	114	32.9	34.4	83.1
	PHD	56	16.2	16.9	100.0
	Total	331	95.7	100.0	
Missing	System	14	4.3		
Total		345	100.0		

4.7.2 constructs reliability

Two different forms of statistical validity tests ate used in this study. Convergent validity was determined primarily in the measurement model utilizing Smart-PLS analysis as the first validity test to verify whether the indications in a scale load together in a single concept. The second sort of validity is discriminating validity, which determines if items intended to measure distinct constructs measure distinct components.

4.7.3 Convergent Validity and AVE

Convergent validity is an essential analysis test that shows the degree to which multiple constructs ate used to measure the agreement of the same variable (Ramayah et al., 2017). According to Hair et al. (2019), convergent validity is confirmed when items load heavily in Smart-PLS (greater than 0.70 or 0.50 in exploratory research). However, items with the lowest outer loadings (less than 0.50) should be eliminated from the scale if they do not decrease the average variance extracted (AVE) value.

The AVE of the constructs is at least 0.5, and the composite reliability (CR) measure of internal consistency reliability or greater than 0.70. researchers advised that the AVE of each latent component be greater than 0.50 to obtain satisfactory convergent validity. Also, Table 4.7 Demonstrates that the (AVE) test results for all constructs were greater than the required value of (0.5) and ranged between 0.502 to 0.524. thus, findings show convergent validity.

Table 6: items loading, Cronbach's alpha, composite Reliability (CR), and AVE

Variables	**Items**	**Loadings**	**Cronbach's alpha**	**CR**	**AVE**
	IFDI 1	0.682	0.811	0.814	0.515
	IFDI 2	0.747			
IFDI	IFDI 3	0.678			
	IFDI 4	0.695			
	IFDI 5	0.761			
	IFDI 6	0.737			
	FMNE 1	0.840	0.82	0.876	0.524
	FMNE 2	0.544			
FMNE	FMNE 3	0.796			
	FMNE 4	0.789			
	FMNE 5	0.737			
	FMNE 6	0.587			
	FL 1	0.733	0.764	0.795	0.515
	FL 2	0.834			
FL	FL 3	0.728			
	FL 4	0.646			
	FL 5	0.627			
	FD 1	0.756	0.800	0.857	0.502
	FD 1	0.725			
FD	FD 2	0.687			
	FD 3	0.745			
	FD 4	0.733			
	FD 5	0.594			
	LHCE 1	0.670	0.807	0.84	0.502
LHCE	LHCE 2	0.755			
	LHCE 3	0.673			
	LHCE 4	0.709			
	LHCE 5	0.644			
	LHCE 6	0.79			

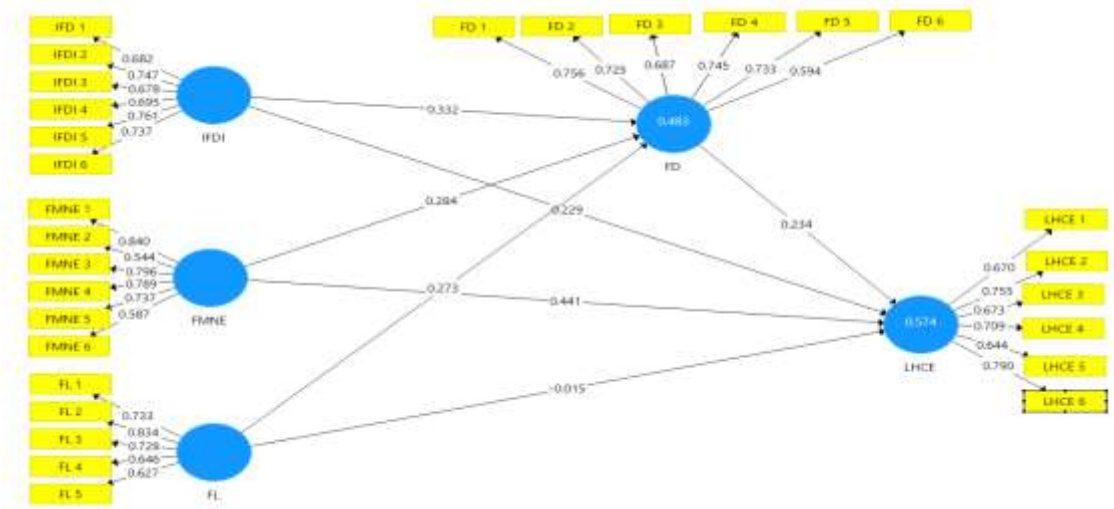


Figure 4: Measurement Model/ Outer Model

4.7.4 Discriminant Validity

According to Hair et al. (2019), discriminant validity measures the distinctness of a concept from other constructs, indicating if measurements are irrelevant and how many constructs represent only one item. Fornell and Larcker (1981) developed a criterion for determining discriminant validity, where diagonal elements are viewed higher than off-diagonal related elements. Using this criterion, this study can make comparisons and assume discriminant validity. Results from the correlation matrix in Table 4.8 confirm discriminant validity. AVE values were greater than squared correlations for each set of constructs, indicating discriminant validity. The square root of AVE for a given construct was also greater than the absolute value of its correlation square with any other factor (AVE > correlation square). Results also indicate that correlation coefficients between independent variables were less than 0.85 (Hair et al., 2019). The square root of extracted average variance was always greater than the correlation between latent components, implying appropriate discriminant validity. The investigation found multicollinearity between constructs did not exist (Sekaran, 2003).

Table 7: Discriminant Validity for variables

	FD	FL	FMNE	IFDI	LHCE
FD	**0.709**				
FL	0.487	**0.717**			
FMNE	0.536	0.274	**0.724**		
IFDI	0.595	0.410	0.533	**0.718**	
LHCE	0.599	0.314	0.684	0.597	**0.709**

	FD	FL	FMNE	IFDI	LHCE
FD					
FL	**0.591**				

FMNE	0.617	**0.354**			
IFDI	0.734	0.511	**0.626**		
LHCE	0.739	0.386	0.694	**0.700**	

4.8 collinearity test (variance inflation factor – VIF)

The VIF test is if the independent variable can be predicted from another independent variable in a regression model. IFDI and LHCE, the outer and inner VIF meet the required measurement to be valid as variable regression.

The structural model's results analysis draws on Hair et al. (2019) Table 4.9. The analysis evidenced minimum collinearity in every series of predictors in the structural model since the values of all variance inflation factors (VIF) is way lower than the threshold value, which is 5. VIF values lower than five indicate no multicollinearity problem (Hair et al., 2014).

Table 8: collinearity test for the study factors.

Outer VIF value		Inner VIF value					
IFDI 1	1.723		FD	FL	FMNE	IFDI	LHCE
IFDI 2	1.654	FD					1.933
IFDI 3	1.654	FL	1.208				1.352
IFDI 4	1.562	FMNE	1.405				1.561
IFDI 5	2.022	IFDI	1.562				1.775
IFDI 6	1.959	LHCE					
FMNE 1	2.023						
FMNE 2	1.288						
FMNE 3	1.927						
FMNE 4	1.816						
FMNE 5	1.874						
FMNE 6	1.462						
FL 1	1.742						
FL 2	1.733						
FL 3	1.696						
FL 4	1.484						
FL 5	1.519						
FD 1	1.674						
FD 1	1.764						
FD 2	1.714						
FD 3	1.794						
FD 4	1.722						
FD 5	1.278						
LHCE 1	1.581						
LHCE 2	1.641						

LHCE 3	1.840						
LHCE 4	1.869						
LHCE 5	1.840						
LHCE 6	1.595						

4.9 Cross-Loading If Observed Variables

The cross-loading criterion suggests that to reduce the presence of multicollinearity amongst latent variables, the average variance extracted (AVE) of a latent variable should be higher than the squared correlations between the latent variable and all other variables. As shown in Table 4.10, all variables have a higher squared correlation between the variable.

Table 9: the cross-loading of the observed variable.

	FD	FL	FMNE	IFDI	LHCE
IFDI 1	0.415	0.258	0.483	**0.737**	0.527
IFDI 2	0.285	0.263	0.409	**0.695**	0.471
IFDI 3	0.401	0.315	0.488	**0.761**	0.462
IFDI 4	0.512	0.258	0.422	**0.747**	0.400
IFDI 5	0.459	0.428	0.212	**0.678**	0.342
IFDI 6	0.477	0.254	0.262	**0.682**	0.363
FMNE 1	0.468	0.257	**0.840**	0.483	0.790
FMNE 2	0.450	0.263	**0.796**	0.384	0.538
FMNE 3	0.488	0.186	**0.789**	0.412	0.456
FMNE 4	0.363	0.248	**0.737**	0.465	0.391
FMNE 5	0.249	0.164	**0.587**	0.295	0.319
FMNE 6	0.180	-0.064	**0.544**	0.192	0.226
FL 1	0.483	**0.834**	0.206	0.391	0.269
FL 2	0.309	**0.646**	0.300	0.355	0.269
FL 3	0.361	**0.733**	0.135	0.179	0.221
FL 4	0.297	**0.728**	0.182	0.307	0.200
FL 5	0.223	**0.627**	0.161	0.198	0.133
FD 1	**0.733**	0.436	0.444	0.436	0.499
FD 1	**0.745**	0.342	0.487	0.327	0.456
FD 2	**0.687**	0.261	0.321	0.519	0.441
FD 3	**0.725**	0.348	0.379	0.440	0.400
FD 4	**0.594**	0.259	0.262	0.330	0.372
FD 5	**0.756**	0.402	0.358	0.471	0.363
LHCE 1	0.468	0.257	0.840	0.483	**0.790**
LHCE 2	0.495	0.185	0.423	0.585	**0.755**
LHCE 3	0.413	0.180	0.399	0.345	**0.709**
LHCE 4	0.428	0.222	0.306	0.274	**0.673**
LHCE 5	0.336	0.254	0.423	0.502	**0.670**

LHCE 6	0.409	0.249	0.265	0.240	**0.644**

4.10.1 Coefficient of Determination: R2 Value

The coefficient regression is important to explain the independent factors for the dependent variables. As indicated, the structural model's predictive power is improving if the coefficient regression is higher. To achieve the degree of explanatory power for the model, the regression coefficient value of the study shows the value of sufficient R2(Urbach & Ahlemann, 2010). The authors advised that the R2 should equal 0.10 or more (Falk and Miller 1992). Also, Cohen (1988) suggested that R2 is long if it exceeds 0.26 with a power of 0.02. On the other hand, Hair et al. (2014) recommended that the R2 be greater than 0.75 to be considerable, with an acceptable power greater than 0.25.

R square statistics explains the variance in the endogenous variable explained by the exogenous variables. The value of the R square suggested in scholarly research focusing on marking issues, R square of 0.75, 0.50, or 0.25 for endogenous latent variables can, as a rough rule of thumb, be respectively described as substantial, moderate or weak, follow table 4.10.

Table 10: the R square of the mediator and the independent variable.

	R Square	R Square Adjusted
FD	0.483	0.472
LHCE	0.574	0.562

4.10.2 Assessment of Effect Size (F2)

Effect size F square assesses how strongly one exogenous construct contributes to explaining a certain endogenous construct in terms of R square.

$$f^2 = \frac{R^2_{AB} - R^2_A}{1 - R^2_{AB}}$$

The changes in the R square value are calculated by estimating the PLS path model. The analysis runs twice, with the exogenous latent variable included and the second time with the exogenous latent variable excluded. Based on this formula, the rule of the F square, if the value is lower than 0.15, means that this relationship has a week effect, in the value of F square is between 0.15 and 0.35, the effect is moderate, last if the value of F square is more then 0.35, the effect is strong.

Table 11: The Effect Size of predictive Variables

	FD	FL	FMNE	IFDI	LHCE
FD					**0.066**
FL	0.119				**0**
FMNE	0.111				**0.292**
IFDI	0.136				**0.069**
LHCE					

4.10.3 predictive relevance (Q2)

This research utilized the blindfolding of the predictive relevance to the research model. The blindfolding process uses the reflecting measurement model solely on endogenous latent factors. To determine the study model's predictive significance, cross-validation redundancy is applied (Hair et al., 201). This research used the Q2 to determine how effectively a model predicts data by excluding cases (Hair et al., 2014). If the Q2 statistic is larger than zero is considered predictively significant. The Q2 for all the variables is measured using cross-validation as shown in Table 4.13: IFME, FMNE, FD, FL, LHCE. All variables are greater than zero, and the model is considered predictive (Henseler et al., 2016).

Table 12: construct cross-validated Redundancy

Variable	**SSO**	**SSE**	**Q^2 (=1-SSE/SSO)**
FD	900	627.364	**0.303**
FL	750	537.672	**0.283**
FMNE	900	584.687	**0.350**
IFDI	900	614.077	**0.318**
LHCE	900	628.002	**0.302**

4.11 Importance Performance Map Analysis (IPMA)

IPMA analysis can assist the local human capital and foreign investment to gain the required level of efficiency and productivity. On the other hand, the analysis determines the decision-making (Hair et al., 2014). It also assesses the total effects of the structural model in conjunction with the average value of latent factor scores to assess the LHCE in the role of foreign activities in the UAE. The results will show the strong effect with high importance and those with weak effects implying low performance (Ringle and Sarstedt,2016). Table 13 And figure 5And 6, trust the highest impact of (0.332) IFDI on the LHCE, and the lowest impact is (0.273) the foreign labor on the independent variable LHCE.

Table 13: IMPA results

	FD	FL	FMNE	IFDI	LHCE
FD					0.234
FL	0.273				0.049
FMNE	0.284				0.507
IFDI	0.332				0.307
LHCE					

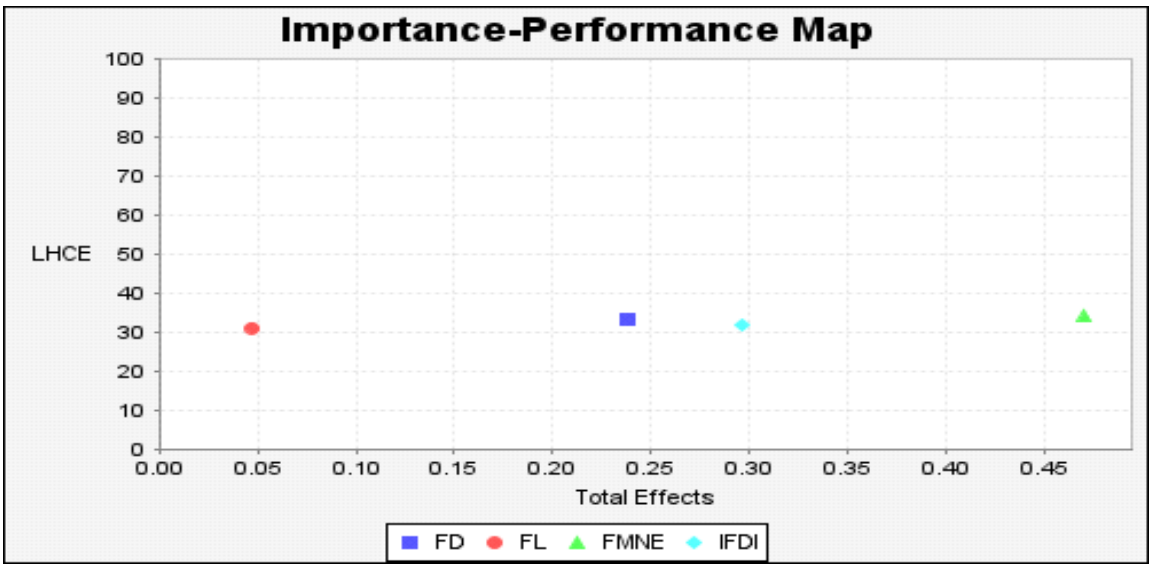


Figure 5: Quality criteria for LHCE (IPMA)

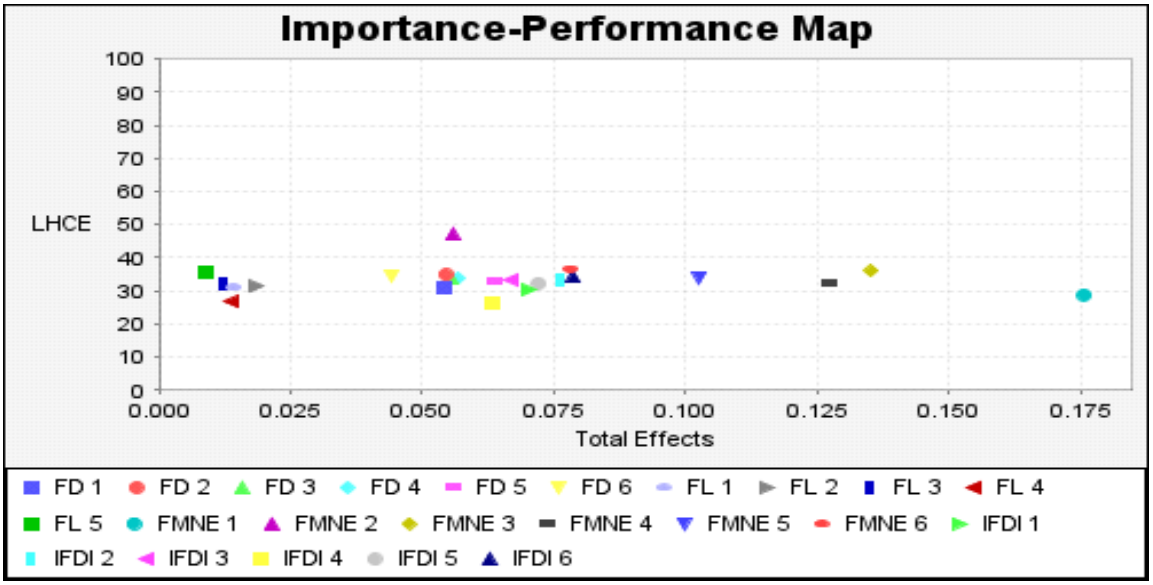


Figure 6: Indirect effect of the LHCE

4.12 Goodness of Fit (GOF) Of The Model

The goal of the goodness of fit is the model that measures the account for the variance extracted by both the measurement and structure models (Chin, 2010). The following equation can be used to determine the GOF.

In this study, the GOF value is 0.536, and it has been calculated as shown in the following equation:

Wetzels et al. (2009) suggested that the significance is small if the GOF is 0.1. If the GOF is 0.25 signifies medium, and if the GOF is 0.36 and above, it is significant. This study concludes that the model is good global validity.

4.13 Hypotheses Results

H1. The explanatory variable IFDI does significantly affect managing local human capital efficiency LHCE in the UAE.

Table 14 And figure 7 Show and indicate the t-statistics and the p-value of the impact of inward foreign direct investment IFDI on managing local human capital efficiency LHCE with (2.75) t-statistics and (0.01), respectively. More specifically, the regression value of the IFDI relationship with LHCE is positively significant. And the relation of the variable regression was (0.23), indicating a positive relationship. This means when the IFDI increases by one, the LHCE increases by 0.23. Thus, the hypothesis is accepted.

H2. The explanatory variable foreign multinational enterprise FMUE does significantly affect managing local human capital efficiency LHCE in the UAE.

Table 14 And figure 7 Show and indicate the t-statistics and the p-value of the impact of foreign multinational enterprise FMNE on managing local human capital efficiency LHCE with (5.71) t-statistics and (0.00), respectively. More specifically, the regression value of the FMNE relationship with LHCE is positively significant. And the relation of the variable regression was (0.44), which indicates a positive relationship, meaning when the FMNE increases by one, the LHCE increases by 0.44. Thus, the hypothesis is accepted.

H3. The explanatory variable foreign labor FL does significantly affect managing local human capital efficiency LHCE in the UAE.

Table 14 And figure 7 Show and indicate the t-statistics and the p-value of the impact of foreign labor FL on managing local human capital efficiency LHCE with (0.24) t-statistics and (0.81), respectively. And the relation of the variable regression was (-0.01), which indicates a negative relationship, meaning when the FMNE increases by one, the LHCE decreases by -0.01. More specifically, the regression value of the FL relationship with LHCE is negatively insignificant. Thus, the hypothesis is not accepted.

H4. The explanatory variable IFDI does significantly affect financial deepening FD in the UAE.

Table 14 And figure 7 Show and indicate the t-statistics and the p-value of the impact of inward foreign direct investment IFDI on the financial deepening FD with (4.14) t-statistics and (0.00), respectively. More specifically, the regression value of the IFDI relationship with FD is positively significant. And the relation of the variable regression was (0.33), which indicates a positive relationship. This means that when the IFDI increases by one, the FD increases by 0.33. Thus, the hypothesis is accepted.

H5. The explanatory variable FMUE significantly affects FD's financial deepening in the UAE.

Table 14 And figure 7 Show and indicate the t-statistics and the p-value of the impact of foreign multinational enterprise FMNE on the financial deepening FD with (3.84) t-statistics and (0.00), respectively. More specifically, the regression value of the FMNE relationship with FD is positively significant. And the relation of the variable regression was (0.28), which indicates a positive relationship, which means when the FMNE increase by 1, the FD increases by 0.28. Thus, the hypothesis is accepted.

H6. Foreign labor FL's explanatory variable significantly predicts financial deepening FD in the UAE.

Table 14 And figure 7 Show and indicate the t-statistics and the p-value of the impact of foreign labor FL on financial deepening FD with (4.19) t-

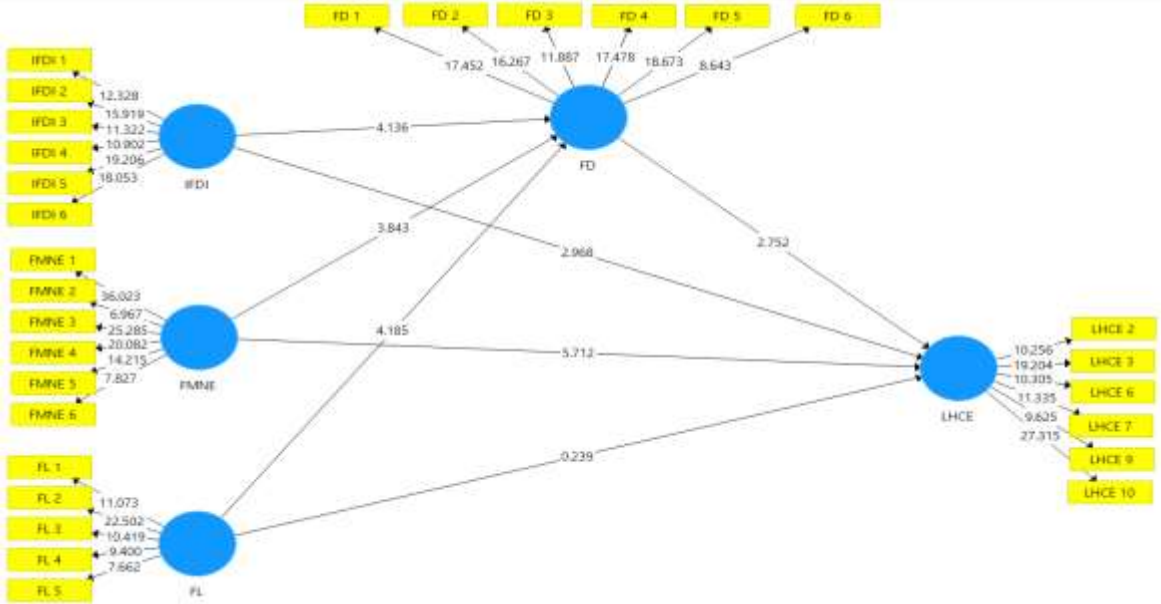
statistics and (0.00), respectively. More specifically, the regression value of FL relationship with FD is positively significant. And the relation of the variable regression was (0.27), which indicates a positive relationship. This means when the FL increases by 1, the FD increases by 0.27. Thus, the hypothesis is accepted.

H7. The explanatory variable FD does significantly predict managing local human capital efficiency LHCE in the UAE.

Table 14 And figure 7 Show and indicate the t-statistics and the p-value of the impact of financial deepening FD on managing local human capital efficiency LHCE with (2.75) t-statistics and (0.00), respectively. More specifically, the regression value of the FD relationship with LHCE is positively significant. And the relation of the variable regression was (0.23), which indicates a positive relationship. This means when the FD increases by one, the LHCE increases by 0.23. Thus, the hypothesis is accepted.

Table 14: summary of structural model assessment results (hypotheses test)

Relation	Original Sample (O)	Standard Deviation (STDEV)	T-Statistics (|O/STDEV|)	P Value	Results
FD -> LHCE	0.23	0.08	2.75	0.01	Supported
FL -> FD	0.27	0.07	4.19	0.00	Supported
FL -> LHCE	-0.01	0.06	0.24	0.81	Not Supported
FMNE -> FD	0.28	0.07	3.84	0.00	Supported
FMNE -> LHCE	0.44	0.08	5.71	0.00	Supported
IFDI -> FD	0.33	0.08	4.14	0.00	Supported
IFDI -> LHCE	0.23	0.08	2.97	0.00	Supported



4.14 Mediator Testing Results

Mediating variables, also known as mediators, mediate the relationship between two other related constructs in a PLS path model. These variables help to explain the underlying mechanism or process of the relationship between the constructs. According to Preacher and Hayes (2008), mediation hypotheses address how an independent variable (IFDI, FMNE, FL) influences a dependent variable (LHCE) through one or more potential mediators (FD). As described by Henseler et al. (2016), mediation analysis aims primarily to explain the relationship. However, some scholars have also recently added the purpose of prediction (Shmueli et al. 2016).

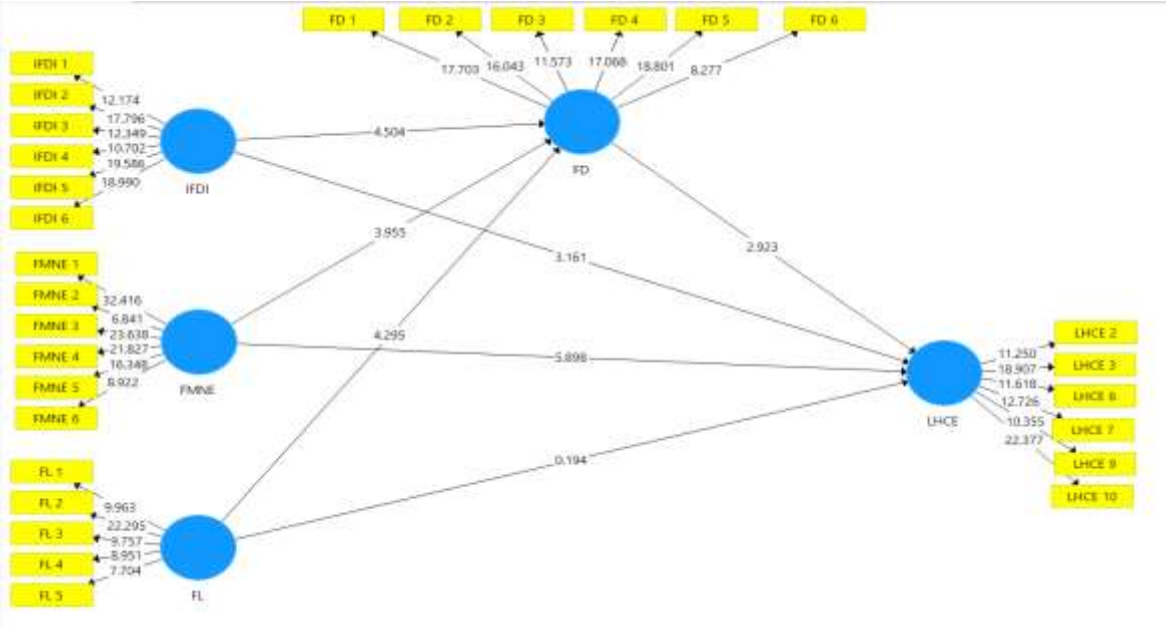
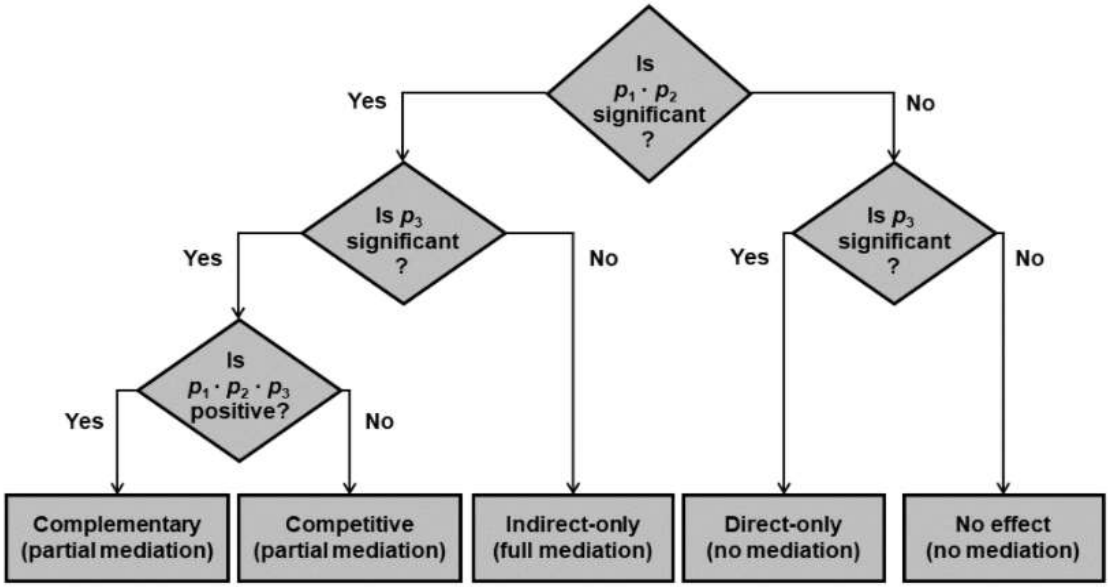


Figure 8: the indirect effect of model analysis.



To test the relationship between the independent variable and the dependent variable through the mediator, the test will follow the correlation shown in figure 4.6 for each variable

H8 A. The mediator variable FD significantly mediates between the Inflow of foreign direct investment and managing Local Human Capital Efficiency in the UAE.

During the mediator effect of financial deepening between IFDI and LHCE, Table 14 shows that the t-statistic between IFDI and FD is significant (4.504). The t-statistic between the FD and the LHCE is also significant (2.923). Moving to the next stage, the researcher indicates the direct relationship between the IFDI and LHCE, which is significant by (3.161). Finally, by testing the specific indirect effect between IFDI and LHCE through FD, as shown in Table 15, with a positive t-statistic value of (2.11), the researcher can conclude that there is a mediator effect between IFDI and LHCE (partial mediation).

H8 B. The mediator variable FD significantly mediates between Foreign multinational enterprises and managing Local Human Capital Efficiency in the UAE.

The second mediation effect of the financial deepening between the FMNE and the LHCE looks at the t-statistic between the FMNE and FD, shown in Table 14. It is significant (3.955), and the t-statistic between the FD and the LHCE is also significant (2.923). Moving to the next stage, researchers indicate the direct relationship between the FMNE and LHCE, which is significant by (5.585). Finally, by testing the direct indirect effect between FMNE and LHCE through FD, shown in Table 15, with a positive t-statistic value of (2.51), the researcher can determine the mediator effect between FMNE and IHCE in a complementary (partial mediation).

H8 C. The mediator variable FD does significantly mediate between Foreign Labor and managing Local Human Capital Efficiency in the UAE

The last mediation effect is financial deepening between the FL and the LHCE. Look at the t-statistic between the FL and FD, shown in Table 14. It is significant (4.825), and the t-statistic between the FD and the LHCE is also nonsignificant (2.923). Moving to the next stage, the researcher indicates the direct relationship between the FL and LHCE, which is nonsignificant by (0.235). Finally, a researcher can determine that the mediation between FL and LHCE is indirect only (full mediation).

Table 15: the specific indirect effect of the mediation.

Relation	Original Sample (O)	Standard Deviation (STDEV)	T-Statistics (|O/STDEV|)	P Values	Result
IFDI -> FD -> LHCE	0.08	0.04	2.11	0.04	Supported
FL -> FD -> LHCE	0.06	0.03	2.51	0.01	Supported
FMNE -> FD -> LHCE	0.07	0.03	2.08	0.04	Supported

This chapter describes the data analysis process using the PLS (SEM) analysis that analyzes the first and second phases of data assessment and refinement. SPSS analysis assessed the data's linearity, normality, and multicollinearity. Cronbach's alpha was used to determine the dependability of each scale. The convergent and discriminant validity tests are also performed, as well as an EFA analysis to determine the underlying structure of the items. Additionally, this chapter includes demographic information on the respondents, such as their age, education level, and current working position.

The team of the path coefficient revealed a significant and positive influence between the main factor (IFDI, FMNE) and the local human capital efficiency.

Furthermore, the FL was a statically insignificant relationship with the local human capital efficiency. On the other hand, the mediator between the IFDI and LHCE through FD was a partial mediation effect in the same thing between the FMNE and LHCE, but the mediation between the FL and the LHCE with full mediation.

Conclusion

The fifth objective of this study is the correlation between the mediator factor with the dependent variable local human capital efficiency in the UAE. The significant relationship between FD and LHCE and the positive correlation provide a clear understanding of the role of financial supply that helps foreign institutions and organizations provide high-quality education, working environment, and R&D techniques and technology with local employment. Additionally, the clear and significant government determination to decrease the tax for foreign companies and give them various activity chances help the UAE human capital by increasing productivity by seeking international technology and experience.

5.6 Limitations of The Study

Several limitations can conclude from this study such as: first, the study did not consider other variables like foreign banks, outflow foreign investment, R&D programs, and manager direct subsidies toward the local human capital. Second, the population in this study was limited to the locals who work in foreign companies. Thus, this research outcome doesn't reflect other foreign activities. Third, it the difficulty to get the local employees responses to the survey; also, a large number of questionnaires were distributed to ensure that the study reached the average number of responders. As a result, the number of distributed questionnaires was 540, and the total number of responders the researcher received was 364.

Fourth, the population of the UAE local is around 10% of the total population in the UAE. Furthermore, UAE is a country with their population leaving wealthy leaving still, so this study finds a challenge in the unbar of local who is interested in working in foreign companies because of the hard-working conditions, so they may don't have the potential to seek experience and information to improve the personal productivity. Future research should extend the number of other golf countries facing the same problem statement.

5.7 Recommendations

This study has a few recommendations and suggestions. The UAE government should promote awareness about the importance of utilizing foreign companies' experience and technology to improve local companies' economic performance and acquire the ability to compete at the international level. Additionally, reducing the number of foreign employees in the country will encourage the local population to gain experience and knowledge and participate in R&D programs.

5.8 Future Research

According to the research, limitations provide an effective future study. Future studies can improve

the outcome by extending the research field by adding several related variables such as banking, education, self-evaluation, and domestic businesses. Additionally, the mediation and modulator effect can develop an external effect on the existing model. Future research might perform additional studies on the FDI in UAE. All the current statistics and articles focusing on the short-run effect show a positive and significant impact without conspiring the long-run effects, with can be affected by the performance, capability, and efficiency of the local human capital in the UAE.

The current study used a quantitative research method. However, the determination qualitative research method will be effective and add to the current finding also opens the window to more statistical studies on the relationship between the variables FDI and human capital with various effective factors and variables.

This study aimed to determine the relationship between foreign direct investment (FDI) and human capital in the UAE. To do so, we tested the effect of foreign participation on managing local human capital efficiency in the UAE, with financial deepening as a mediating factor. Our research findings, based on data collected from respondents and analyzed using SME-PLS and SPSS, showed that foreign participation significantly predicts managing local human capital efficiency, except for foreign labor which had an insignificant relationship with managing local human capital efficiency in the UAE. However, the mediating factor of financial deepening played a significant role in improving the insignificant relationship between foreign labor and local human capital efficiency in the UAE. Overall, we conclude that our research goals were met and objectives were tested in light of the research discussion and findings.

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