International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2023, 13(2), 51-60.

An Empirical Study Identifying the Most Favored Foreign Direct Investment Inflows Destination in the Gulf Cooperation Council Countries

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Received: 05 January 2023 **Accepted:** 08 March 2023 **DOI:** https://doi.org/10.32479/ijefi.14174

ABSTRACT

This study aims to identify the most favored foreign direct investment destination in the Gulf Cooperation Council countries. The study compares the global rankings of each GCC country on investment decision parameters: market size, economic growth, infrastructure, technology adoption, innovation friendliness, productive and diversified labor force, financial infrastructure, taxation, political risk, corruption, and ease of doing business. This study confirms that the UAE is the most favored FDI destination in the GCC. Moreover, the current policies and regulations promulgated indicate the country's intent to become more investor-friendly and attractive to live in.

Keywords: FDI, GCC, Investment Destination, Investment Decision
JEL Classifications: F21, F23

1. INTRODUCTION

In this interconnected, interdependent world, there is a great flow of funds among countries, money flowing to destinations that offer higher returns and are more investor-friendly, and are relatively less risky than others. Different countries have different characteristics that attract different investors differently at different times. Several studies have been carried out to understand the different factors attracting investments, and the results of these studies have highlighted a number of factors. Foreign Direct Investment (FDI) is the investment made by a company in the investor country into a foreign host country. It can take the form of acquiring already existing host firms, establishing new companies in the host country, or entering into a joint venture with an existing host firm. The importance of FDI is growing because of the beneficial impact on both the host country's economy and a firm's return on investment and the option for geographical diversifications and thus manage even the systematic risk to a certain extent.

The inflow of FDI gives developing countries access to capital that would otherwise be not available, as Multinational Corporations (MNCs) often have privileged access to capital from the international banking sectors and international investors at competitive rates. Similarly, FDI provides much-needed foreign exchange and helps adjust some of the macroeconomic imbalances in developing countries. All the countries in the Gulf Cooperation Council (GCC) are in the growth mode, but the resources available with many of them are limited and very often insufficient; hence each nation is competing against each other to make the investment climate more investor-friendly and project itself as the most investor-friendly destination for the FDI.

The Gulf Cooperation Council (GCC) is a political and economic union of Arab states bordering the Gulf. It was established in 1981 and has six members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Unlike any other political or economic groupings, the GCC consists of six countries that are almost identical in every sense – political systems, language, history, religion, and people. GCC is an oil-based region with the largest proven crude oil reserves of 497 billion barrels, representing 34% of the world's estimated proven crude reserves. Since the discovery of oil, the GCC region has undergone a profound transformation and is now home to some of the world's fastest-growing economies. The region is continuing its economic reform programs, focusing on attracting domestic, regional, and foreign investments into various sectors like oil and gas, power generation, telecommunications, and real-estates.

The present study is conducted with the basic objective of finding out the most attractive FDI destination in the GCC. The study also intends to highlight the major factors attracting FDI and how to capitalize on these factors and highlight the major factors hindering the inflow of FDI and suggest remedial measures. The study proposes to rank all the GCC nations on various parameters that attract FDI and highlight the GCC's most attractive FDI destination. Anyone looking for investment destinations in the GCC can use this study's findings to arrive at the most suitable decisions.

This paper is organized as follows: Section 2 presents a literature review on FDI. Section 3 states the methodology. Section 4 focuses on analysis and discussions, and Section 5 concludes the paper.

2. LITERATURE REVIEW

Foreign direct investment is widely perceived as a powerful development engine for many receiving (host) countries. The study by Osunkwo (2020) attempted to estimate the impact of Foreign Direct Investment on the Economic Growth of Nigeria for the period 1980-2018, and it was found that FDI has a positive and significant impact on Gross Domestic Product (GDP). Virtually all countries are actively seeking to attract FDI because of its expected favorable effect on income generation from capital inflows, advanced technology, management skills, and market know-how (Cho, 2003). The motivational factors such as natural resources, market resources, strategic resources, efficiency resources, locational advantages, investment-friendly policies, political stability, etc., influenced MNCs to perform various activities in the host countries. Initially, MNCs search for the customers in host countries and conclude by encompassing productive activities when the foreign market confers higher value to the firm (Bhattacheryay, 2018).

A large number of studies on FDI have been conducted in different parts of the world, and a majority of these studies have been mainly concerned with various host-country determinants that are associated with attracting firms to specific locations (e.g., Balasubramanyam et al., 1996, 1999; Borensztein et al., 1998; Alguacil et al., 2002; Chakraborty and Basu, 2002; Liu et al., 2002; Baharumshah and Thanoon, 2006). The most frequently investigated determinants include market size, growth rate, economic stability, government policies, entry barriers, degree of openness, human capital, cost of production, wage rate, per capita income, exchange rate, infrastructure, geographical location, cost of capital, quality of institutions, technology- friendliness, connectivity, etc. (e.g., Loree and Guisinger, 1995; Reiljan, 2003; Fernandez et al., 2020; Alshamlan et al., 2021; Al Hosani et al., 2021; Alnuaimi et al., 2021; Fernandez et al., 2022).

The presentation of the literature review is sequenced in such a manner that the literature relating to market size is presented first, and then all literature relating to all other factors is arranged sequentially.

Market size is expected to have a positive relationship with FDI. Market-oriented FDI aims to set up enterprises to supply goods and services to the local market. The general inference is that host countries with larger market sizes, faster economic growth, and a higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and, therefore, will attract more market-oriented FDI (OECD, 2000). Several studies such as that of Schmitz and Bieri (1972), Dunning (1980), Lunn (1980), Kravis and Lipsey (1982), Nigh (1985), Culem (1988), and Agyenim et al. (2015) gauged that high rate of FDI is highly associated with a lower cost of production and enormous potential demand, which is further supported by the findings of the studies of Tsai (1994), Billington (1999), and Pistoresi (2000), that indicated that market size has positive effects on the inflow of FDI. The study by Makki et al. (2004) on the US food processing industry found that market size, per-capita income, and openness significantly affected the US food processing firms' decisions to invest abroad. The study by Reiljan (2003) of foreign direct investment determinants in Estonia found that most foreign investors in Estonia have a market-seeking nature. Thus one may presume that large host countries with high growth rates and higher per capita income attract higher foreign direct investment due to larger potential demand.

The study by Okwu et al. (2020) analyzed the effects of foreign direct investment inflows on the economic growth of 30 leading global economies during the period between 1998 and 2017 and concluded that FDI inflows enhanced economic growth. Balasubramanyam et al. (1999) analyzed the role of FDI in promoting economic growth and found that an important role is exerted by both the size of the domestic market and the competitive climate in relation to local producers. It also reported that interactions between FDI and human capital exert a significant influence upon growth performance. Baharumshah and Thanoon (2006) carried out a quantitative assessment of the effect of various types of capital flow on the growth process of the East Asian countries and found that FDI is growth-enhancing and that its impact is felt both in the short and long run. Moreover, the study found that countries that are successful in attracting FDI can finance more investments and grow faster than those that deter FDI.

Borensztein et al. (1998) tested the effect of FDI on economic growth in a cross-country regression framework, utilizing data on FDI flows from industrial countries to 69 developing countries over the two decades in the late nineteen nineties, and the results suggest that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, FDI contributes to economic growth only when a sufficient absorptive capability of advanced technologies is available in the host economy. Chakraborty and Basu (2002) explored the link between foreign direct investment and growth for India using a structural cointegration model with vector error correction mechanism and found a long-run relationship between FDI and GDP. The study also found that the trade liberalization policy of the government had some positive short-run impact on the FDI flow.

Political stability and reliability determine the FDI inflows. MNCs prefer a stable government so that their investment is protected. Political instability may be in the form of the government's negative attitude towards MNCs, non-allowance of fund transfer, currency convertibility, war, bureaucracy, and corruption. The study by Root and Ahmed (1979), and Schneider and Frey (1985), looking at aggregate investment flows into developing economies, found that political instability significantly affects FDI inflows.

The study by Bouchoucha and Benammou (2020) examined the effect of governance on the attractiveness of FDI through a sample of 41 African countries to identify the institutional quality aspects that affect the attractiveness of FDI in African countries, using both the static panel data approach and the dynamic panel approach. The empirical results showed that the attractiveness of FDI to African countries is positively correlated with the control of corruption, the effectiveness of governments, the quality of regulation, and the voice and accountability.

Tax policies, including corporate and personal tax rates, influence inward FDI. Hajkova et al. (2006) explored the impact of taxation on FDI while controlling several policy and non-policy factors and found that taxation and the business environment are the main drivers of FDI in OECD (Organization for Economic Co-operation and Development) countries. Mutti and Grubert (2004) examined empirical asymmetries associated with the effects of taxation on foreign operations by the U.S. MNEs and validated that the tax rate in the host country can have a negative effect on subsidiary profit. Other things being equal, a country with lower tax rates should stand a greater chance of attracting FDI projects than a country with higher rates (Chandal, 2003).

According to Milner (2013), the presence of a productive labor force is one of the determinants that influence the scope of FDI in a country. Moreover, Cheap labour with more skills attracts foreign investors, as seen in Asian countries (de Mello, 1997).

Numerous studies have been conducted on FDI in different parts of the world, but most of them have been focusing on a few of the determinates of the FDI; moreover, studies focusing on GCC are few and are constrained by focusing only on a few factors. Hence, this study is undertaken to analyze the FDI environment in GCC from a holistic perspective. In brief, the trend in FDI flows differs by region and country. Although FDI has innumerable effects on the economy of host countries and most countries are trying hard to attract FDI, the inflow of FDI continues to be uneven, with some countries getting the lion's share and others barely getting any.

3. METHODOLOGY

The main objective of this study is to find out the most favorable FDI destination in the GCC. The study also intends to highlight the major factors attracting FDI and how to capitalize on these factors and highlight the major factors hindering the inflow of FDI and suggest remedial measures. This study is solely based on secondary data collected from local, regional, and international agencies like the Governments of each GCC country, Central Banks of each GCC country, World Economic Forum, International Monetary Fund, Transparency International, World Bank Group, United Nations, and various publications of the statistical departments, governments, and the press. The study covers a period of 5 years from 2015 to 2019. Data relating to the year 2020 are excluded from this study as it was an abnormal year due to the Covid-19 pandemic. The collected data are analyzed, and the results are used to rank the GCC nations on various parameters that attract FDI and highlight the most favored FDI destination in the GCC.

4. ANALYSIS AND DISCUSSIONS OF DETERMINANTS

The Global Competitiveness Report 2019 published by the World Economic Forum assesses the competitiveness landscape of 141 economies, providing insight into the drivers of their productivity and prosperity. These 141 economies account for 99% of the world's GDP. The competitiveness ranking is based on indicators organized into 12 pillars: Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labor market; Financial system; Market size; Business dynamism; and Innovation capability. Each indicator or 'pillar' uses a scale from 0 to 100 to show how close an economy is to the ideal state or frontier of competitiveness in that area (Global Competitiveness Report, 2019). The Report series remains the most comprehensive assessment of national competitiveness worldwide. Table 1 presents the year-wise ranking of the GCC nations by global competitiveness index for 2015 to 2019 and the filtered ranking for GCC.

The Global Competitiveness Report 2015 has ranked Qatar as the most competitive nation among the GCC nations. However, since then, all reports have ranked the UAE as the most competitive nation among the GCC nations. Qatar is ranked second, and Saudi Arabia is at rank three. However, globally the position of GCC nations is on the decline, though it has shown a marginal improvement in 2019. An analysis is made into various determinants of FDI, starting with the market size.

4.1. Market Size

Market size, growth in market size, and market efficiency are important determinants of FDI. The market size and the growth prospects of the host country's market are important pull factors and are positively related to the level of FDI flows (Chandalert, 2000). A huge market size allows the attainment of economies of scale, and transaction costs are lower in countries with higher levels of economic development (Caves, 1971; Zhao and Zhu, 2000). A larger population means a better domestic market that can consume goods and services provided by investors. Table 2 gives the global ranking for the GCC countries on the market size from 2015 to 2019.

Saudi Arabia has the largest market size among the GCC countries, followed by the UAE, and Bahrain has the smallest market size.

4.2. Economic Growth

Over the past decade, growth in advanced economies has been fragile. Many emerging economies - including Argentina, Brazil, Russia, India, and China - are experiencing slowdown or stagnation. In least-developed economies, growth remains well below potential and highly volatile. Productivity growth started slowing down well before the financial crisis of 2008. Between 2000 and 2007, total factor productivity (TFP) annual growth averaged just 1% in advanced economies and 2.8% in emerging and developing economies. TFP then plummeted during the crisis. Between 2011 and 2016, TFP grew by 0.3% in advanced economies and 1.3% in emerging and developing economies (Obstfeld and Duval, 2018). Corporates do not operate in a vacuum, and they are highly influenced and attracted by the environmental factors and economic growth of the economy in which they do business. Corporates in high-growth economies can envisage growth at a higher rate than those in the low-growth countries as the environment highly influences the entity (Fernandez et al., 2020). Table 3 shows the annual percentage growth rate of GDP and the average growth rate for the GCC economies from 2015 to 2019.

The global average growth rate for 2019 was 2.77%. In 2019 all the GCC economies had a growth much below the global average. The growth rate during the 5-year period is observed to vary from 5.11% to −4.71% for the GCC countries; hence the average growth rate for the period of study is computed. Bahrain had the highest average growth rate of 2.78%, followed by Oman with 2.45%. The UAE had the third-highest average growth rate at 2.41%. Similarly, Bahrain had the lowest volatility in the growth rate, followed by Qatar, then the UAE.

4.3. Infrastructure

Infrastructure is a major determinant of FDI. Excellent infrastructure plays a major role in the productivity and profitability of MNCs, and thus, their decision about FDI location. Table 4 gives the global ranking of the GCC countries for the period 2015-2019 based on road connectivity, quality of road infrastructure, railroad density, the efficiency of train services, airport connectivity, the efficiency of air transport services, liner shipping connectivity, the efficiency of seaport services, utility infrastructure, electricity access, electricity supply quality, exposure to unsafe drinking water and reliability of water supply.

Infrastructure is vital for the long-term growth and competitiveness of emerging economies. It helps create jobs and improves standards of living. The Governments are continuously investing in infrastructure projects and are keen on initiating policies encouraging private sector players to heavily invest in infrastructure projects, ensuring the time-bound creation of a world-class infrastructure in the country. However, many emerging economies are still facing constraints in developing and funding

Table 1: Global competitiveness index: Ranking of GCC economies - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	39	5	48	5	44	4	50	5	45	4
Kuwait	34	4	38	4	52	5	54	6	46	5
Oman	62	6	66	6	62	6	47	4	53	6
Qatar	14	1	18	2	25	2	30	2	29	2
Saudi Arabia	25	3	29	3	30	3	39	3	36	3
UAE	17	2	16	1	17	1	27	1	25	1
Number of economies ranked	140		138		137		140		141	

Source: Compiled from World Economic Forum, Global Competitiveness Reports 2015 to 2019

Table 2: Market size: Global competitiveness index ranking of GCC economies - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	92	6	92	6	90	6	90	6	90	6
Kuwait	34	3	38	3	52	4	54	4	46	3
Oman	64	5	68	5	62	5	62	5	62	5
Qatar	56	4	50	4	51	3	51	3	53	4
Saudi Arabia	17	1	14	1	15	1	17	1	17	1
UAE	31	2	27	2	29	2	28	2	32	2

Source: Compiled from Global competitiveness reports from 2015 to 2019

Table 3: Economic Growth (in %) of GCC Economies - 2015 to 2019

Country	2015	2016	2017	2018	2019	Average growth rate
Bahrain	2.86	3.47	3.81	1.96	1.82	2.78
Kuwait	0.59	2.93	−4.71	1.25	0.41	0.09
Oman	4.68	4.96	0.35	1.76	0.5	2.45
Qatar	3.66	2.13	1.58	1.49	-0.18	1.74
Saudi Arabia	4.11	1.67	-0.74	2.43	0.33	1.56
UAE	5.11	3.06	0.49	1.73	1.68	2.41

Source: Compiled from the global economy.com, reports from 2015 to 2019 infrastructure projects. Among the GCC countries, the UAE is continuously holding the top rank during the period of study, but its global ranking is observed to decline, which has to be taken into account, and strategies formulated accordingly for developing the infrastructure of the country. The second-best infrastructure in the GCC is in Qatar. The filtered ranks are changing among these countries during the period of study, which can be taken as a signal that all these countries are continuously investing in the infrastructure, but the progress among them differs from year to year. Moreover, Dubai International Airport (DXB) has retained its position as the world's number one hub for international passengers for the sixth consecutive year, with traffic for 2019 reaching 86.4 million – six million more than its nearest rival, Heathrow. This clearly and doubtlessly highlights the supremacy of the world-class infrastructure of the UAE.

4.4. Technology Adoption and Innovation

Technology is an important consideration made by foreign investors because it determines the scope of operational efficiency. The lack of efficient technology systems implies that operations would be slow and costly from an investment perspective. Thus, there will be a need to choose destinations with a higher level of technology adoption. Today technology is the cornerstone of the economic and social development strategies and plans adopted by the world's advanced economies. Table 5 gives the ranking for GCC countries on Information and Communication Technology (ICT) adoption from 2015 to 2019 based on mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed broadband internet subscriptions, fiber internet subscriptions, and internet users.

ICT adoption is highest in the UAE, and it is observed to be improving and globally is the second-highest in 2019. Qatar has the second-best ICT adoption in the GCC, and it is also improving and has reached the eighth rank globally in 2019. All the GCC countries are having a significantly high degree of ICT adoption.

Innovation is the key to success and cooperation among individuals and government entities in developing solutions, and future foresight plays an accelerating role in this innovation and thus improves the country and society. Table 6 gives the ranking for the GCC countries on innovation friendliness from 2015 to 2019 based on diversity of the workforce, state of cluster development, international co-invention, multi-stakeholder collaboration, scientific publications, patent applications, R and D expenditures, prominence of research institutions, buyer sophistication, and applications made for trademark.

In innovation friendliness, the UAE is at the top rank among the GCC countries in the recent past. But in the comparative global ranking, most GCC countries' position is showing a decline from the previous years' rankings. The data show that the GCC countries require more investments and more friendly policies to further enhance technology adoption and innovations.

Moreover, the UAE tops the region in telecom infrastructure. According to the UN E-Government Survey 2020, the UAE's telecommunications infrastructure ranks first in the Gulf, Arab Region, and Western Asia and seventh globally in the Telecommunications Infrastructure Index. In the Smart Services Index, the UAE ranks first in the Gulf, the Arab Region, and West Asia, and the eighth in the world. During 2020, the UAE maintained its first place globally in the mobile phone subscriptions index and advanced from second place to first in the world in the mobile broadband Internet subscriptions index. The UAE also ranked first in the Arab world and at the regional level in the Information and communication technologies Index, the Internet Access Index, and the Internet Use Index.

Furthermore, the United Arab Emirates is ranked first in the Arab region and 12th globally among highly competitive countries in the IMD World Digital Competitiveness Ranking 2019. According to the report issued by the IMD World Competitiveness Centre, the UAE has advanced five positions from the previous year's

Table 4: Infrastructure: Global competitiveness index ranking of GCC countries - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	29	3	32	4	33	4	30	4	31	4
Kuwait	54	6	52	6	64	6	61	6	66	6
Oman	36	5	38	5	36	5	24	2	28	3
Qatar	18	2	18	2	13	2	28	3	24	2
Saudi Arabia	30	4	31	3	29	3	40	5	34	5
UAE	4	1	4	1	5	1	15	1	12	1

Source: Compiled from global competitiveness reports from 2015 to 2019

Table 5: ICT adoption: Global competitiveness index ranking of GCC countries - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	34	3	37	3	31	2	38	3	46	5
Kuwait	56	5	60	6	68	6	62	6	37	3
Oman	62	6	57	5	59	5	61	5	66	6
Qatar	31	2	33	2	34	3	9	2	8	2
Saudi Arabia	42	4	41	4	44	4	54	4	38	4
UAE	30	1	18	1	24	1	6	1	2	1

Source: Compiled from Global competitiveness reports from 2015 to 2019 ranking to be ranked 12th globally and first in the Arab Region. The ranking is based on 50 indicators grouped into nine sub-factors that form three main factors: knowledge, technology, and future-readiness. The UAE has progressed to achieve the first rank in the Arab Region in all three main factors of the report, namely the 'technology' factor, in which the country achieved the second rank globally, advancing by five ranks from last year, and the 9th globally in 'Future Readiness' factor, progressing from the 12th rank last year. The UAE advanced one rank in the 'knowledge' factor to be the first in the Arab Region and 35th globally.

4.5. Productive and Diversified Labor Force

When international investors look for an investment destination, considerations about the skilled nature of the labor force are a matter of priority that determines their scope of success in a country (Brakman and Harry, 2008). A probe is made to understand the labor market efficiency, and Table 7 gives the ranking for the GCC countries on labor market efficiency from 2015 to 2019 based on cooperation in labor-employer relations, the flexibility of wage determination, hiring and firing practices, redundancy costs, active labor market policies, workers' rights, ease of hiring foreign labor, internal labor mobility, the effect of taxation on incentives to work, pay and productivity, reliance on professional management, country capacity to retain talent, country capacity to attract talent and the ratio of women in the labor force.

During the period of study, the UAE had the top rank among the GCC countries for all years except 2019. But looking into the global ranking, the trend is not very favorable, and it had declined drastically in 2018. In 2019 Bahrain occupied the top position among the GCC nations, and during the period of study, it had been gradually improving.

As the UAE is found to top the position most of the years during the period of study, a further probe is made to unearth the strength of the UAE in this parameter. It is found that the UAE has made strides in terms of developing and attracting a labor force that can handle all forms of tasks and also align their knowledge with international trends. The education sector in the country has received government support in the last few years, with the emphasis being placed on how to train graduates so that they can be absorbed in the expanding job market. The need to improve the productive labor force in the UAE has been evidenced by government policies related to education, such as incorporating skills in the learning curriculum and at the same time understanding trends in the market and then matching the latter with learning conditions. As a way of making changes in the productive labor force area, the government has been pushing for reforms in training and vocational centers that support those making transitions in the job market. 85% of the labor force in the country is made up of expatriates. The country had been bringing in all possible improvements in tandem with international best practices so as to provide the best work environment that attracts professionals from all walks of life, both skilled and unskilled workforces from all parts of the world. Recent amendments like visa reforms that allow for 5-year and 10-year visas as well the "Golden Card" permanent residency scheme, and the decoupling of residency visa status from employment, have made the labor laws and immigration more friendly and liberal and hope it will continue to become better in the future.

Moreover, the UAE tops the Middle East and North Africa (MENA) region rankings in World Bank's 'Women, Business and the Law' 2021 report. The UAE's scores in the 'Women, Business and the Law' report saw marked increases as a result of legislative reforms related to women's economic participation enacted over the last few years. Considered one of the most significant global indexes that analyses laws and regulations affecting women's economic inclusion in 190 economies, the annual report is composed of eight indicators structured around women's interactions with the law as they begin, progress through, and end their careers. The indicators are Mobility, Workplace, Pay, Marriage, Parenthood, Entrepreneurship, Assets, and Pension. Over the past 3 years, the UAE amended more than 20 legal provisions related to

Table 6: Innovation capacity: Global competitiveness index ranking of GCC countries - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	56	4	45	4	45	4	72	4	65	5
Kuwait	109	6	110	6	103	6	103	6	108	6
Oman	103	5	76	5	76	5	86	5	57	4
Qatar	14	1	18	1	21	1	37	2	38	3
Saudi Arabia	34	3	42	3	40	3	41	3	36	2
UAE	26	2	25	2	25	2	35	1	33	1

Source: Compiled from Global competitiveness reports from 2015 to 2019

Table 7: Labor market efficiency: Global competitiveness index ranking of GCC countries - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	24	3	35	3	37	3	46	2	33	1
Kuwait	117	6	115	6	119	6	120	6	101	6
Oman	89	5	82	5	122	5	93	4	97	5
Qatar	14	2	17	2	19	2	54	3	47	3
Saudi Arabia	60	4	65	4	80	4	102	5	89	4
UAE	11	1	11	1	11	1	42	1	34	2

Source: Compiled from Global competitiveness reports from 2015 to 2019

Table 8: Financial system: Global competitiveness index ranking of GCC countries - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	33	3	43	3	46	3	33	2	37	4
Kuwait	73	6	65	6	62	6	48	5	34	3
Oman	45	5	55	5	54	4	56	6	59	6
Qatar	13	1	21	1	25	2	34	3	22	1
Saudi Arabia	41	4	47	4	56	5	45	4	38	5
UAE	20	2	28	2	24	1	31	1	31	2

Source: Compiled from Global competitiveness reports from 2015 to 2019

employee benefits such as equal pay for equal value, parental leave, prohibition on firing pregnant women, and equal access to credit. More in this line can be expected.

4.6. Financial Infrastructure

The presence of financial institutions with sufficient liquidity and transparency to grant quick loans at competitive rates is an important determinant. Table 8 gives the ranking for the Financial System of the GCC countries from 2015 to 2019 based on the availability of domestic credit to the private sector, financing of SMEs, venture capital availability, market capitalization, insurance premium, soundness of banks, non-performing loans as a percentage of loan portfolio value, credit gap and banks' regulatory capital ratio.

Among the GCC countries, Qatar or the UAE tops the table in most of the years, but in the global ranking, their position is observed to be declining, which calls for the immediate attention of the concerned regulators and operators to take necessary measures to boost the efficiency of their financial system. A modernized technology-driven financial system is the need of the hour. Today we are in a world where payments can be sent with a click of a button from the most basic cell phone, and countries must have financial sectors that ensure stability while offering deep, well-regulated markets and being agile enough to respond to rapid innovation in the industry. To improve the financial infrastructure, the UAE Central Bank (CBUAE) has recently issued few new regulations aiming to provide a robust financial structure, which is essential for financial stability and consumer protection. They also facilitate improving the UAE's international competitiveness.

4.7. Tax Rates and Clarity of Taxation Policies

Lower tax will give corporates and individuals more after-tax income that could enhance the wealth of the corporates, and individuals could use it to buy more goods and services or save. Investors prefer lower-tax locations to locate or relocate their businesses. Table 9 gives the corporate tax rates for GCC Countries.

Bahrain is a tax-free country but taxes oil and gas companies in the drilling and exploration sector at 46%. In Oman, taxpayers in oil exploration are subjected to a 55% rate on the income arising from the sale of oil. In Qatar, the tax rate is 10% of taxable income and applies only to entities with foreign investors and to the extent of their profit sharing ratio. The tax rate for oil and gas operations is governed by the Development/Exploration and Production Sharing Agreements and shall not be <35%. In Saudi, the rate on taxpayers in the exploitation of the natural gas sector is 20%, and the rate on those producing oil and hydrocarbons ranges from 50 to 85% depending on capital investment in Saudi. Remittance of profits abroad is considered deemed dividends subject to 5% withholding tax. The corporate tax rate applicable in the UAE ranges from 0 to 55%. In practice, tax is currently only enforced on foreign oil companies engaged in the exploration and production of oil and branches of foreign banks. The tax rate applicable to oil companies is generally 55% of operating profits. Branches of foreign banks are subject to tax at 20% of their profits under the banking tax decrees. Thus the tax rate for the MNCs would depend on the sector they propose to operate. There is no individual income tax in the GCC countries.

Table 9: Corporate tax rates (in %) in GCC countries - 2015-2019

Country	2015	2016	2017	2018	2019
Bahrain	0	0	0	0	0
Kuwait	15	15	15	15	15
Oman	12	12	15	15	15
Qatar	10	10	10	10	10
Saudi Arabia	20	20	20	20	20
UAE	20	20	20	20	20

Source: Compiled from KPMG data

4.8. Political Risk

MNCs usually assess political risk before investing in any country. There are many forms of political risks, but the extreme form is the possibility that the host country will take over a subsidiary. However, this form of political risk is extreme and not very common in today's global world. The more common forms of political risk include the negative attitude of the host government to MNCs, blockage of fund transfer, currency inconvertibility, war, bureaucracy, and corruption. The Credendo Group provides business and economic data for 200 countries and has classified country risk under different indicators like political risk short term, political risk medium/long term, special transactions risk, transfer risk, expropriation risk, and political violence risk; under each of these indicators countries are classified into seven categories: from 1 (low risk) to 7 (high risk); among them, those related to Direct Investments is probed into slightly.

4.8.1. Transfer risk

The currency inconvertibility and transfer restriction risk refer to the inability to convert and transfer out of the host country any funds related to the investment. Table 10 gives the ranking for the period 2015 to 2019.

The average value for Kuwait, Saudi Arabia, and the UAE during the period of study was 2.8, which indicates that currency inconvertibility and transfer restriction risk is low in these countries. Bahrain and Oman have 4.2, indicating that the transfer risk is average.

4.8.2. Expropriation risk

The risk of expropriation encompasses all discriminatory measures taken by a host government which deprive the investor of its investment without any adequate compensation; and also includes events of the embargo, change of (legal) regime and denial of justice, and the probability of a negative change in attitude towards foreign investments. Table 11 gives the expropriation risk ranking for the period 2015 to 2019.

The average value for the UAE during the period of study is 2, which is the lowest among the GCC nations. Kuwait has the highest. All the GCC nations have low expropriation risk. To date, there had been no major political unrest in the UAE, and one does not expect things to go wrong in the near future because of its rulers' strong political will and farsightedness in formulating strategies for the growth of the country and prosperity of all citizens and residents.

Table 10: Transfer risk: Credendo group index ranking of GCC countries - 2015-2019

Country	2015	2016	2017	2018	2019	Average
Bahrain	3	3	5	5	5	4.2
Kuwait	2	3	3	3	3	2.8
Oman	2	4	5	5	5	4.2
Qatar	3	4	4	4	4	3.8
Saudi Arabia	2	3	3	3	3	2.8
UAE	2	3	3	3	3	2.8

Source: Compiled from Credendo Group index reports 2015 to 2019

Table 11: Expropriation risk: Credendo group index ranking of GCC countries - 2015-2019

Country	2015	2016	2017	2018	2019	Average
Bahrain	3	2	3	3	3	2.8
Kuwait	4	4	4	4	4	4.0
Oman	2	2	3	3	3	2.6
Qatar	3	3	3	3	3	3.0
Saudi Arabia	3	3	4	4	4	3.6
UAE	2	2	2	2	2	2.0

Source: Compiled from Credendo Group index reports 2015 to 2019

4.8.3. Corruption

Corruption distorts competition and investment and hinders free and fair trade. The study by Mauro (1995) found that corruption lowers investment and, thereby, economic growth. Corruption erodes trust, weakens democracy, hampers economic development, and further exacerbates inequality, poverty, social division, and the environmental crisis. When the corruption level is sufficiently high, no investment will take place. Transparency International has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as 'the misuse of public power for private benefit.' Table 12 displays the ranks assigned to the GCC countries from 2015 to 2019.

When the corruption level is sufficiently high, no investment will take place. The UAE is the least corrupt country in the Arab world and offers a business-friendly environment with an effective and efficient public administration. The second least corrupt country in the GCC is Qatar. The international investors can be sure that they will get a warm welcome in the UAE, their funds will not be blocked, enjoy easy convertibility, least bureaucracy bottlenecks, and the lowest corruptions.

4.9. Ease of Doing Business

The World Bank Group's Doing Business Report ranks economies based on their ease of doing business. These reports provide quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. Table 13 gives the ranking for GCC Countries from 2015 to 2019.

Doing Business data show that the UAE is the easiest destination to do business in the GCC, followed by Bahrain and Oman. The

Table 12: Corruption: Global Ranking of GCC countries - 2015-2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filterewwd
Bahrain	50	4	70	5	103	6	99	6	77	5
Kuwait	55	5	75	6	85	5	78	5	85	6
Oman	60	6	64	4	68	4	53	3	56	4
Qatar	22	1	31	2	29	2	33	2	30	2
Saudi Arabia	48	3	62	3	57	3	58	4	51	3
UAE	23	2	24	1	21	1	23	1	21	1

Source: Compiled from the Corruption Perceptions Index 2015 to 2019

Table 13: Ease of Doing Business: Ranking of GCC Countries - 2015 – 2019

Country	2015		2016		2017		2018		2019	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	53	3	65	2	63	2	66	2	62	2
Kuwait	86	6	101	6	102	6	96	6	97	6
Oman	66	4	70	3	66	3	71	3	78	3
Qatar	68	5	83	5	83	4	83	4	83	4
Saudi Arabia	49	2	82	4	94	5	92	5	92	5
UAE	22	1	31	1	26	1	21	1	11	1

Source: Compiled from the Doing Business Report 2015 to 2019

UAE continues to keep its lead in the Middle East and Arab region in the World Bank's Ease of Doing Business ranking 2019 with 11th position in the global ranking of 190 countries. The World Bank report makes special mention of the reforms undertaken by the UAE, such as making starting of business less expensive by reducing fees for business incorporation, easier construction permits by using a risk-based approach to reduce the number of inspections, improving minority investor protection, ease of paying taxes and making trading across borders easier by reducing the time to export by fully digitizing certificates of origin and the cost to import by issuing certificates of conformity that covers multiple shipments.

5. CONCLUSION

The UAE ranked first in the Arab World and 25th globally in the Global Competitiveness Report 2019. It is observed from the study that during the period of study, the UAE had been pursuing the approach which focuses on hard work and diligence to improve and develop performance in all competitiveness indicators. The infrastructure is undisputed and world-class, has the highest ICT adoption with extensive connectivity. In innovation friendliness, UAE was occupying the second position at the start of the study. However, by the end of the study period, they have advanced to the first position among the GCC countries. In labor market efficiency, till 2018, UAE was at the top rank, but in 2019 dropped to the second position behind Bahrain. Since then, the UAE has come out with bold steps to enhance this by series of reforms like longer-term visa, Golden Card permanent residency scheme, and the decoupling of residency visa status from employment, thus making the labor laws and immigration more friendly and liberal. Financial infrastructure is well developed, and during the period of study, the UAE had been either in the first or the second position. In market size, the UEA had been maintaining the second position behind Saudi Arabia during the period of study. It is observed to have a high degree of political stability, with low transfer risk and expropriation risk and the lowest levels of corruption. It has strong economic prospects, a low tax system, and safe-haven status. All the more, Doing Business data show that the UAE is the easiest destination to do business in the GCC. Thus, the study shows that the UAE is the most favored FDI destination in the GCC.

A further probe made into the recent Government policies and strategies reinforces the findings of the study and are briefed below:

- The UAE, the most diversified and open economy in the GCC, has been on a path of liberalizing investment policies to attract foreign capital into the country. The UAE government's decision to allow 100% foreign ownership of the onshore business has come as a major boost to the country's economy that has been actively pursuing for FDI. The UAE's Foreign Direct Investment Law (FDI Law) came into force in November 2018, aiming to remove barriers to ownership and make the UAE more competitive. In April 2020, the federal government released a list of 122 economic activities across 13 business sectors that would be eligible for up to 100% foreign ownership on the mainland. Further, it mandated that each emirate be responsible for determining the levels of foreign ownership for those activities in their emirates. The 13 sectors are: Renewable energy, Space, Agriculture, Manufacturing, Transportation and storage, Hospitality and food services, Information and telecommunications, Scientific, technical and professional activates, Administration and support services, Education activities, Healthcare, Art and entertainment, and Construction.
- The UAE aims to achieve top rank in the rule of law, has outlined important judicial reforms in line with the UAE Vision 2021 and UAE Centennial Strategy 2071. They aim to improve the overall environment of the legislative and judicial structure of the UAE, to better serve society and enhance its competitiveness at the global level. For the fifth consecutive year, the UAE has topped the World Justice Project Rule of Law Index in the Middle East and North Africa (Mena) region. In line with the UAE's ongoing endeavors to develop its legislative foundations and its status as a global destination for foreign investment and expertise, in November 2020, the UAE announced major amendments to the nation's personal laws, criminalizing 'honour killings,' allowing unmarried couples to cohabitate and relaxing alcohol restrictions among other things. The reforms aim to boost the country's economic and social standing and consolidate the UAE's principle of tolerance.

Thus, the UAE business environment demonstrates continued strengths in factors most important to investors, including government incentives. This study confirms that the UAE is the most favored FDI destination in the GCC. Moreover, the current policies and regulations promulgated indicate the country's intent to become more investor-friendly and attractive to live in.

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