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Determinants of Foreign Direct Investment in the GCC: Evidence from the UAE's Sustained Attractiveness

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ABSTRACT

Foreign direct investment (FDI) plays a critical role in promoting economic growth, technological diffusion, and structural transformation, particularly in developing and resource-dependent economies. Within the gulf cooperation council (GCC), member states have undertaken extensive reforms to attract foreign investment; however, FDI inflows remain unevenly distributed across the region. This study examines the key determinants of FDI attractiveness in the GCC with specific evidence from the United Arab Emirates (UAE), which has consistently emerged as the region's leading FDI destination. Using secondary data from authoritative international and regional sources for the period 2020-2024, the study evaluates GCC countries across multiple dimensions, including global competitiveness, market size, economic growth, technology adoption, innovation, digital competitiveness, regulatory quality, talent attraction, and fiscal incentives. The findings indicate that while several GCC economies perform strongly on individual indicators, the UAE distinguishes itself through a unique and sustained combination of economic performance, advanced digital and innovation ecosystems, investor-friendly institutions, and fiscal competitiveness. The study contributes to the FDI literature by providing a holistic, comparative assessment of FDI determinants within the GCC and by demonstrating how an integrated policy approach enables the UAE to sustain its attractiveness in an increasingly competitive global investment environment. The findings offer policymakers and investors valuable insights into understanding and replicating successful FDI strategies in the region.

Keywords: Foreign Direct Investment, Gulf Cooperation Council, Investment Attractiveness, Innovation and Digitalization, United Arab Emirates
JEL Classifications: F21, F23

1. INTRODUCTION

In an increasingly interconnected and interdependent global economy, capital flows across borders in search of higher returns, lower risk, and more predictable business environments. Investors, particularly multinational enterprises, continuously evaluate alternative host countries based on a complex mix of economic, institutional, regulatory, and strategic considerations. As a result, countries with favourable investment climates tend to attract a disproportionate share of international capital, while others struggle to position themselves competitively. A substantial body of academic literature has therefore sought to identify and explain the key determinants influencing foreign investors' location decisions, often highlighting that these determinants vary across countries and over time.

Foreign direct investment (FDI) represents a distinctive and increasingly important form of cross-border capital flow. Unlike portfolio investment, FDI involves a lasting interest and a significant degree of control by an investor from one country in a business entity located in another country. It may take the form of acquiring existing firms, establishing new operations (greenfield investment), or entering into joint ventures with domestic firms. The growing relevance of FDI can be attributed to its dual benefits: for host economies, it supports capital formation, employment generation, technology transfer, and productivity enhancement; for investing firms, it offers opportunities for market expansion, geographical diversification, and partial mitigation of systematic risk through international operations (Dunning, 1980; Fernandez et al., 2023).

FDI plays a particularly critical role in developing and emerging economies, where domestic savings and capital markets are often insufficient to meet long-term investment needs. Multinational corporations typically enjoy privileged access to international financial markets and can mobilise funds at relatively competitive costs, thereby channelling resources that would otherwise be unavailable to host countries. In addition, FDI inflows generate foreign exchange earnings and contribute to easing macroeconomic imbalances, making them a valuable instrument for economic stabilisation and growth (Fernandez et al., 2020). Consequently, attracting high-quality and sustainable FDI has become a central objective of economic policy across many developing regions.

Within this broader context, the countries of the Gulf Cooperation Council (GCC) have emerged as active competitors for foreign investment. The GCC, established in 1981, is a political and economic bloc comprising six Arab states, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE), that share broadly similar political systems, cultural foundations, linguistic characteristics, and historical backgrounds. Traditionally characterised as an oil-based region, the GCC collectively holds some of the world's largest proven crude oil reserves and has benefited significantly from hydrocarbon revenues. Over time, these resources have facilitated rapid economic transformation, enabling the region to host several of the world's fastest-growing economies.

Despite these commonalities, GCC countries differ markedly in their success in attracting foreign direct investment. While all member states are pursuing economic diversification and remain in a growth phase, the availability of domestic resources is uneven, and in many cases insufficient to finance ambitious development agendas. As a result, GCC economies are increasingly competing with one another to enhance their investment climates, liberalise regulatory frameworks, and project themselves as attractive and investor-friendly destinations for FDI. Recent reform efforts across the region have focused on sectors such as energy, power generation, logistics, telecommunications, real estate, tourism, and financial services, reflecting a gradual shift away from exclusive reliance on hydrocarbons.

Against this competitive regional backdrop, the United Arab Emirates has consistently stood out as a leading destination for FDI within the GCC and the wider Middle East. Over the past decade, the UAE has deliberately repositioned itself from a predominantly hydrocarbon-driven economy to a diversified regional hub for trade, logistics, tourism, financial services, and knowledge-based activities. This transformation has been underpinned by long-term strategic planning, sustained investment in world-class physical and digital infrastructure, the establishment of specialised free zones, and continuous improvements in the regulatory and legal environment governing business operations. In parallel, the UAE has expanded its network of international trade and investment agreements, reinforcing its reputation as one of the most business-friendly jurisdictions in the region.

The importance of reassessing the UAE's FDI performance has become even more pronounced in light of recent global disruptions. The COVID-19 pandemic, shifting supply chains, geopolitical uncertainty, and intensifying competition from emerging regional hubs have altered global investment patterns. In response, the UAE implemented targeted policy measures to restore investor confidence, strengthen economic resilience, and accelerate diversification efforts. These initiatives appear to have contributed to a renewed rise in FDI inflows, with international firms and entrepreneurs increasingly viewing the UAE not merely as a local market, but as a stable platform for accessing markets across the Middle East, Africa, and Asia.

Building on the corresponding author's earlier empirical studies on FDI inflows into the Middle East, this paper represents a collaborative effort to reassess whether the UAE continues to be the most attractive FDI destination within the GCC. The primary objective of the study is to identify and rank GCC countries based on a set of key parameters influencing FDI attractiveness, thereby determining the region's leading investment destination in the current context. In addition, the study seeks to examine the principal factors that facilitate FDI inflows, assess the constraints that may hinder investment, and propose policy-oriented measures to further enhance the region's investment climate. By doing so, the paper aims to provide useful insights not only for policymakers, but also for investors and firms seeking to make informed location decisions within the GCC.

The remainder of the paper is structured as follows. Section 2 reviews the relevant theoretical and empirical literature on foreign direct investment. Section 3 outlines the research methodology and data sources. Section 4 presents the empirical analysis and discussion of results. Section 5 concludes the paper with key findings, policy implications, and directions for future research.

2. LITERATURE REVIEW

Foreign Direct Investment is widely recognized as a critical driver of economic development in host countries, particularly through its role in facilitating capital inflows, technology transfer, employment generation, and managerial and organizational spillovers. Prior studies consistently emphasize that FDI contributes positively to host-country growth by enhancing productivity, innovation capacity, and integration into global value chains (Cambazoglu and Simay, 2014).

A substantial body of empirical literature has examined the host-country determinants of FDI across different regions and development stages. Early and influential studies primarily focused on identifying macroeconomic and structural factors that influence firms' location choices, including market size, economic growth, trade openness, institutional quality, and policy frameworks (Balasubramanyam et al., 1996; Balasubramanyam et al., 1999; Borensztein et al., 1998; Alguacil et al., 2002; Chakraborty and Basu, 2002; Liu et al., 2002; Baharumshah and Thanoon, 2006). More recent research has expanded this scope to include technology readiness, digital infrastructure, governance effectiveness, and labour market characteristics (Loree and Guisinger, 1995; Reiljan, 2003; Fernandez et al., 2020; Fernandez et al., 2022; Alshamlan et al., 2021; Al Hosani et al., 2021; Alnuaimi et al., 2021).

Market size and growth potential emerge as among the most consistently significant determinants of FDI. Theoretical and empirical studies suggest that larger and faster-growing markets enable foreign firms to exploit economies of scale and ownership advantages, thereby attracting market-seeking FDI (Dunning, 1980). Empirical evidence from diverse contexts supports this relationship, highlighting the positive effects of market size, per capita income, and demand potential on FDI inflows (Schmitz and Bieri, 1972; Kravis and Lipsey, 1982; Billington, 1999; Agyenim et al., 2015).

Economic growth has also been shown to be both a determinant and an outcome of FDI. Studies across developed and developing economies find that higher growth environments are more attractive to foreign investors, while FDI inflows themselves reinforce growth through capital accumulation and productivity spillovers (Balasubramanyam et al., 1999; Baharumshah and Thanoon, 2006; Okwu et al., 2020).

Fiscal policy and taxation represent another key strand of the FDI literature. Empirical evidence indicates that lower corporate tax rates, transparent tax regimes, and a supportive business environment significantly enhance a country's ability to attract FDI (Mutti and Grubert, 2004; Hajkova et al., 2006). Countries with competitive and predictable tax structures are more likely to secure long-term and efficiency-seeking investments (Chandal, 2003).

Labor force characteristics further shape FDI attractiveness. The availability of a productive, skilled, and adaptable workforce is frequently cited as a decisive factor influencing foreign investors' location choices (de Mello, 1997; Milner, 2013). Studies emphasize that the quality of human capital, labour market efficiency, and skills alignment with industry needs enhance the absorptive capacity of host economies.

More recently, digitalization and technological readiness have emerged as critical determinants of FDI in the context of Industry 4.0 and global value chain restructuring. Empirical studies demonstrate that digital infrastructure, ICT readiness, and digital skills significantly strengthen the positive impact of FDI on economic growth and private investment (Das et al., 2020; Alam and Uddin, 2021; Supriyanto et al., 2025). Evidence from both developing and advanced economies suggests that digitalization reshapes traditional location advantages, influencing firms' investment decisions and altering the dynamics of FDI attraction (Götz et al., 2023; Nguyen, 2025).

Overall, the literature highlights that FDI attraction is a multi-dimensional phenomenon driven by an interaction of economic, institutional, fiscal, human capital, and technological factors. However, relatively few studies provide a holistic, comparative assessment of these determinants within the GCC context. This study seeks to address this gap by systematically examining the determinants of FDI across GCC economies, with a comparative analysis of these factors to identify the most attractive FDI destination in the GCC.

3. METHODOLOGY

The primary objective of this study is to identify the most favourable destination for FDI within the GCC. Building on the corresponding author's earlier empirical work, the study first examines whether the UAE continues to retain its position as the leading FDI destination in the region. Conditional upon this outcome, the analysis then extends to a more detailed examination of the factors that underpin the UAE's relative attractiveness and the mechanisms through which this position is being sustained or enhanced. In this regard, the study adopts a comparative, multi-country research design, enabling systematic evaluation of FDI performance across all six GCC member states.

The study relies exclusively on secondary data obtained from credible and widely recognised national, regional, and international sources. These include official publications and databases of the governments and central banks of each GCC country, as well as international organisations. In addition, relevant statistical reports, policy documents, and reputable press and institutional publications are utilised to supplement and validate the data. The exclusive use of secondary data ensures consistency, comparability, and reliability across countries and over time.

The empirical analysis covers a 5-year period from 2020 to 2024. This timeframe is deliberately chosen to capture recent dynamics in FDI inflows, including the effects of major global disruptions such as the COVID-19 pandemic and the subsequent recovery phase. By focusing on this period, the study is able to assess not only relative FDI performance across GCC countries, but also the resilience and adaptability of their investment environments under conditions of heightened global uncertainty.

While the study provides a comprehensive comparative assessment of FDI attractiveness within the GCC, it is subject to certain limitations. The reliance on secondary data restricts the analysis to available and published indicators, which may not fully capture firm-level perceptions or informal institutional factors influencing investment decisions. Nevertheless, given the credibility of the data sources and the regional focus of the study, the methodology is considered appropriate for achieving the stated research objectives and for generating policy-relevant insights.

4. ANALYSIS AND DISCUSSIONS

The analysis and discussion begin with an attempt to identify the most favoured FDI destination in the GCC. Table 1 presents country-wise FDI inflow for the period 2020-2024, in millions of US dollars.

In the most recent years, 2023 and 2024, the UAE was the recipient of the most FDI in the GCC; similarly, the cumulative FDI inflow for the period of study shows that the UAE was the recipient of the most FDI in the GCC. Thus, the evidence confirms that the UAE is the most favoured FDI destination in the GCC and has been sustaining this supremacy. This is in accordance with the findings of previous studies conducted by the corresponding author. As the UAE has continued to sustain its attractiveness as

Table 1: FDI inflow for the period 2020-2024

GCC countries	2020	2021	2022	2023	2024	Rank 2024	Cumulative inflow	Rank for cumulative
Bahrain	1,021	1,779	1,951	7,226	2,478	4	14,455	4
Kuwait	240	567	758	2,113	614	5	4,292	5
Oman	1,914	8,793	5,480	4,745	8,685	3	29,617	3
Qatar	−2,434	−1,093	76	−474	460	6	−3,465	6
Saudi Arabia	1,621	28,350	26,710	22,803	15,737	2	95,221	2
UAE	19,884	20,667	22,737	30,688	45,632	1	139,608	1

Source: World Investment Report, 2025

the most favoured FDI destination, the study continues with an analysis of selected relevant determinants of FDI and of how the UAE sustains its supremacy.

4.1. Market Size and Global Connectivity

A substantial body of FDI literature identifies market size, market growth, and market efficiency as among the most influential determinants of FDI. Market-oriented FDI is primarily motivated by the desire to serve local and regional markets, and is therefore positively associated with the size and growth prospects of the host economy (Caves, 1971; Chandalert, 2000). Larger markets enable firms to exploit economies of scale, spread fixed costs over higher output levels, and reduce average transaction costs, particularly in more developed and institutionally mature economies (Zhao and Zhu, 2000). Empirical studies have consistently shown that countries with greater market potential attract higher levels of FDI due to stronger demand conditions and more predictable revenue streams (Kravis and Lipsey, 1982; Na and Lightfoot, 2006).

In the context of the GCC, market size is often narrowly interpreted in terms of national population. However, this perspective is insufficient for assessing the UAE's true market potential. While the UAE's resident population is estimated at approximately 11.35 million, the effective market accessible to firms operating in the country is considerably larger (Worldometer, 2025). The UAE is the second-largest economy in the Arab world after Saudi Arabia, and its market size is significantly amplified by its role as a significant tourism, trade, and regional business hub.

Tourism plays a significant role in expanding the UAE's effective domestic market. Owing to its relatively low indirect tax regime, characterised by a modest value-added tax rate of 5% with refund mechanisms for tourists, the UAE has become a preferred destination for consumption-oriented travel. The availability of a wide range of international products, competitive pricing, high-quality retail infrastructure, and connectivity further strengthens this consumption base. Consequently, tourist inflows substantially augment domestic demand, especially in sectors such as retail, hospitality, transport, entertainment, and services.

Government-led initiatives have been instrumental in sustaining and expanding the tourism-driven market size. The UAE has consistently invested in large-scale tourism and entertainment projects, supported by advanced aviation infrastructure, global connectivity, and strong international relations. As a result, the country is projected to receive approximately 27.6 million international tourists in 2025 (DubaiDET, 2025). Dubai alone recorded 18.7 million visitors in 2024, representing a significant increase over previous years, while Abu Dhabi's Tourism Strategy 2030 aims to raise annual visitor numbers to over 39 million by the end of this decade (Tourism Strategy, 2030). These trends indicate sustained expansion in demand conditions, which directly enhance the UAE's attractiveness to market-seeking FDI.

Beyond tourism, the UAE's demographic composition further strengthens its market appeal. The population comprises residents from more than 200 nationalities, creating a highly diversified consumer base with heterogeneous preferences, income levels, and consumption patterns. Such diversity supports product differentiation and market segmentation, enabling multinational firms to test, adapt, and scale offerings across a wide range of consumer profiles within a single jurisdiction. From an investor's perspective, this diversified consumption environment reduces market concentration risk and enhances revenue stability.

Importantly, the UAE's market size extends well beyond its national boundaries. Firms operating from the UAE frequently use the country as a regional headquarters to serve the wider GCC market, which has a combined population exceeding 61 million (Worldometer, 2025). Moreover, the UAE serves as a strategic gateway to the broader Middle East and Africa. Africa alone represents a market of approximately 1.5 billion people, offering substantial long-term growth potential. Proximity to South Asia further enhances the UAE's strategic relevance for firms seeking to access the Indian subcontinent and other nearby emerging markets. When viewed through this regional lens, the UAE offers investors access to a vast and expanding market that far exceeds what national population figures alone would suggest.

In addition to quantitative market size, the UAE benefits from strong global visibility and brand positioning, which indirectly reinforces market-seeking FDI. High-profile international events such as Expo 2020 Dubai, GITEX Global, and COP28 have significantly enhanced the country's international profile. These events attracted millions of visitors and thousands of firms, facilitated cross-border partnerships, and strengthened long-term investment pipelines across multiple industries. Such initiatives help shape global perceptions of the UAE as an innovation-driven, business-friendly, and future-oriented economy, thereby amplifying its appeal as an investment destination.

Furthermore, the Location advantage and global connectivity add impetus to this. The UAEs' location is unique, as it shares borders with Saudi Arabia, Qatar, and Oman. The UAE's location makes it an excellent hub for integration with neighbouring countries (Alshamlan et al., 2021). For decades, the UAE has connected the east and the west, encouraging trade with other countries. The geocentric location advantage of the UAE provides investors with opportunities to maximize production and trade efficiency by applying cost-reduction methods. Over two-thirds of the world's population lives within eight hours of flight from the UAE, and one-third lives within 4 h. To capitalize on its great location, the UAE has built ports, roads, and airports to connect the world and facilitate trade between East and West, encouraging FDI inflows into the country.

Taken together, the evidence suggests that market size, conceptualised not merely in demographic terms but as a combination of domestic demand, tourism-driven consumption, regional market access, and global visibility, constitutes a powerful determinant of FDI inflows into the UAE. This expanded notion of market size helps explain why the UAE continues to outperform other GCC countries in attracting FDI.

4.2. Economic Growth

Firms do not operate in isolation from their macroeconomic environment; rather, their investment decisions are strongly influenced by the host economy's growth dynamics. High and sustained economic growth signals expanding demand, improving profitability prospects, and a supportive business climate, all of which are attractive to foreign investors. Corporations operating in fast-growing economies are better positioned to scale operations, capture rising market opportunities, and achieve higher returns compared to those operating in low-growth or stagnant environments (Fernandez et al., 2020).

The relationship between economic growth and FDI can be intuitively illustrated through the analogy of cultivation: Investments made in fertile, well-nurtured environments are more likely to yield abundant returns than those made in less conducive conditions, even when similar levels of effort are applied. In economic terms, growth-oriented environments amplify the effectiveness of firm-level strategies, thereby strengthening the appeal of such economies for foreign direct investment.

Table 2 presents the annual GDP growth rates of GCC economies from 2021 to 2024, along with average growth rates for the period. The data reveal considerable variation in growth performance across the region, reflecting differences in economic structure, exposure to global shocks, and the pace of diversification. Growth rates among GCC countries during the period ranged from a high of 12% to a contraction of 2.56%.

The global average economic growth rate for 2024, based on 177 countries, was approximately 3.2%. In that year, the UAE recorded a growth rate of 3.76%, exceeding the global average, while most other GCC economies grew at rates below this benchmark. This relative outperformance indicates greater macroeconomic resilience and a more favourable investment environment in the UAE.

Over the 4 years under review, Saudi Arabia recorded the highest average growth rate at 5.22%, followed closely by the UAE at 4.81%. While Saudi Arabia's growth performance reflects its scale and ongoing structural reforms, the UAE's consistently strong growth is particularly noteworthy given its more diversified economic base. Unlike growth driven predominantly by hydrocarbon cycles, the UAE's expansion has been supported by non-oil sectors such as trade, logistics, tourism, financial services, and technology-driven activities. From an FDI perspective, this diversified growth profile reduces volatility and enhances the predictability of returns.

The UAE's economic growth performance, therefore, creates a favourable environment for foreign investors by combining above-average growth with structural diversification. This growth momentum is likely to spill over into the industry, driving increased demand, higher capacity utilisation, and greater confidence in long-term investment planning. Consequently, economic growth emerges as a significant pull factor reinforcing the UAE's position as a preferred FDI destination within the GCC.

4.3. Technology Adoption, Innovation and Digitalization

Technology adoption, innovation, and digitalization are critical determinants of foreign direct investment, as they directly influence operational efficiency, cost structures, scalability, and speed of market entry. From an investor's perspective, weak technological infrastructure translates into higher transaction costs, slower processes, and reduced competitiveness. Consequently, destinations with advanced digital ecosystems and innovation-friendly environments are more attractive for FDI.

The ICT development index (IDI) provides a comprehensive assessment of the extent to which countries have achieved universal and meaningful connectivity. Table 3 presents the ICT Development Index scores for GCC & their filtered ranking for 2023-2025.

Across the period 2023-2025, all GCC countries recorded ICT scores significantly above the global average, reflecting a strong regional commitment to digital infrastructure and connectivity. Within the GCC, the UAE consistently ranks among the top

Table 2: Economic growth (in %) of GCC economies: 2021-2024

Country	2021	2022	2023	2024	Rank for 2024	Average growth rate	Rank for average
Bahrainw	4.35	6.18	1.19	3.02	2	3.69	3
Kuwait	1.67	6.76	−1.67	−2.56	6	1.05	6
Oman	2.58	7.99	1.19	1.67	5	3.36	4
Qatar	1.63	4.19	1.19	2.77	3	2.45	5
Saudi Arabia	6.52	12	0.54	1.81	4	5.22	1
UAE	4.35	7.51	3.62	3.76	1	4.81	2

Source: Compiled from theGlobalEconomy.com, reports from 2020 to 2024 performers, demonstrating a high level of ICT adoption that is improving. Such performance signals to foreign investors the availability of reliable telecommunications infrastructure, digital platforms, and technology-enabled public services, all of which lower operational frictions and enhance ease of doing business.

Innovation performance further strengthens the UAE's FDI proposition. The Global Innovation Index rankings from 2021 to 2025 place the UAE firmly at the top among GCC countries throughout the study period (Table 4). This sustained leadership reflects coordinated public–private efforts to foster innovation ecosystems, encourage research and development, and promote collaboration between government entities, businesses, and knowledge institutions. For foreign investors, this environment supports product innovation, process improvement, and long-term competitiveness.

The UAE's digital governance capabilities reinforce these advantages. According to the UN E-Government Survey 2024, the UAE ranks among the global leaders, including first place worldwide in the telecommunications infrastructure index and several Online Services sub-indices. Initiatives such as UAE PASS, the federal digital network, and AI-driven platforms like U-Ask illustrate how digitalization has been embedded into governance and service delivery. These initiatives reduce administrative burdens, increase transparency, and improve predictability, factors highly valued by FDI.

Digital competitiveness outcomes further validate this position. The IMD World Digital Competitiveness Ranking shows the UAE consistently ranked first within the GCC from 2021 to 2025, entering the global top 10 in 2025 (Table 5). Strong performance in future readiness, technology, and knowledge, particularly in talent availability and attraction of highly skilled foreign professionals, highlights the UAE's preparedness to leverage digital transformation. This ability to attract global talent and integrate advanced technologies underpins a resilient, forward-looking investment environment.

Overall, the UAE's strong performance in ICT adoption, innovation, and digital competitiveness materially enhances its attractiveness as an FDI destination. By combining advanced digital infrastructure, innovation-led policy frameworks, and future-ready institutions, the UAE offers a supportive ecosystem that fosters efficiency, adaptability, and sustainable growth.

4.4. A Productive and Diversified Labor Force: Residency Options that attract Investors and Talent

Human capital quality and labour market efficiency are critical determinants of FDI, as the availability of skilled, adaptable, and internationally competitive labour directly affects productivity, scalability, and long-term business success. Multinational investors typically prioritise destinations that offer not only cost-effective

Table 3: ICT development index scores for GCC and their filtered ranking: 2023-2025

Year	2023		2024		2025	
Country	Global score (out of 100)	Filtered rank	Global score	Filtered rank	Global score	Filtered rank
Bahrain	96.5	3	97.5	3	97.5	5
Kuwait	98.2	1	100	1	98.4	2
Oman	90.5	6	91.7	6	92.9	6
Qatar	97.3	2	97.8	2	98.4	2
Saudi Arabia	94.9	5	95.7	5	99.2	1
UAE	96.4	4	97.5	3	98.3	4

Source: Compiled from ICT Development Index, 2023-2025

Table 4: Global innovation ranking and filtered ranking for of GCC countries: 2021-2025

Country	2021		2022		2023		2024		2025	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	78	6	72	5	67	5	72	5	62	4
Kuwait	72	4	62	4	64	4	71	4	73	6
Oman	76	5	79	6	69	6	74	6	69	5
Qatar	68	3	52	3	50	3	49	3	48	3
Saudi Arabia	66	2	51	2	48	2	47	2	46	2
UAE	33	1	31	1	32	1	32	1	30	1

Source: Compiled from Global Innovation Index Database, WIPO, 2021-2025

Table 5: Digital competitiveness global ranking and filtered ranking for GCC: 2021-2025

Country	2021		2022		2023		2024		2025	
Rank	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered	Global	Filtered
Bahrain	NA	NA	32	4	38	4	30	4	32	4
Kuwait	NA	NA	NA	NA	41	5	45	5	42	6
Oman	NA	NA	NA	NA	NA	NA	NA	NA	36	5
Qatar	29	2	26	2	29	2	26	2	20	2
Saudi Arabia	36	3	35	3	30	3	27	3	22	3
UAE	10	1	13	1	12	1	11	1	9	1

Source: Compiled from IMD World Digital Competitiveness Ranking, 2025 labour but also regulatory flexibility, talent depth, work culture, and workforce stability.

The UAE has emerged as a leading FDI destination largely due to its investor-friendly residency framework and its success in attracting and retaining global talent. More than 85% of the UAE's workforce consists of expatriates, making it one of the most internationally diversified labour markets in the world. This diversity enables firms operating in the UAE to access multilingual, multicultural, and industry-specific expertise aligned with global business practices.

Over the past decade, the UAE government has pursued deliberate policies to strengthen labour market efficiency and human capital development. Substantial investments have been directed towards education reform, skills-based curricula, and alignment between academic output and labour market requirements. Parallel reforms in vocational education and professional training have enhanced workforce adaptability, particularly for emerging sectors such as technology, finance, logistics, renewable energy, and advanced manufacturing.

A key differentiator for the UAE is its progressive residency and immigration framework, which significantly reduces uncertainty for investors and talent. Reforms, including the 5-year Green Visa, 10-year Golden Visa, decoupling residency from employer sponsorship, and the introduction of Job Exploration Entry Visas, have transformed the UAE into a highly attractive destination for entrepreneurs, senior executives, skilled professionals, and recent graduates from leading global universities. The expansion of Golden Visa eligibility and the simplification of application processes have further strengthened long-term settlement incentives, encouraging founders, family offices, and high-net-worth individuals to relocate along with capital and business operations.

In parallel, labour law reforms have enhanced workplace equity and stability through measures such as equal pay for equal value, parental leave provisions, protection against dismissal during pregnancy, and improved access to credit. These reforms align the UAE's labour framework with international best practices, improving employee confidence and employer credibility.

Collectively, these residency, labour-market, and human-capital reforms have created a stable, productive, and future-ready workforce ecosystem. For foreign investors, this translates into lower operational risk, higher talent retention, faster scaling potential, and sustained competitiveness, reinforcing the UAE's position as the most attractive FDI destination in the GCC, and enabling them to sustain that.

4.5. Regulatory Quality, Ease of Doing Business, and Institutional Stability

Regulatory quality and institutional stability are critical determinants of FDI, as they directly affect transaction costs, predictability, and long-term investment security. Foreign investors prefer jurisdictions with transparent, consistently enforced regulations aligned with international best practices, as regulatory uncertainty increases operational risk and discourages capital commitment.

The UAE has established a regulatory environment that strongly supports business formation, expansion, and protection of investor interests. Continuous reforms in commercial laws, company ownership regulations, bankruptcy frameworks, and dispute resolution mechanisms have significantly improved the ease of doing business. The allowance of 100% foreign ownership in most sectors, streamlined licensing procedures, digitalized government services, and fast-track approvals have reduced entry barriers and compliance costs for foreign firms.

Institutional stability further enhances the UAE's attractiveness as an FDI destination. The country demonstrates strong policy continuity, low political risk, and effective coordination between federal and emirate-level authorities. Independent judicial systems, specialized commercial courts, and internationally recognized arbitration centers, such as the Dubai International Arbitration Centre (DIAC) and the Abu Dhabi Global Market (ADGM) courts, provide investors with credible legal recourse and contract enforcement mechanisms.

The widespread adoption of digital governance platforms has improved regulatory efficiency and transparency. Initiatives such as unified business portals, e-licensing, and real-time regulatory compliance systems reduce bureaucratic delays and enhance investor confidence. These features are particularly important for multinational corporations seeking predictable and scalable operating environments.

Overall, the UAE's strong regulatory quality, ease of doing business, and institutional reliability substantially lower operational and legal risks for foreign investors. This stable and pro-business institutional framework complements the country's economic growth, market access, and talent attraction, reinforcing the UAE's position as the most attractive FDI destination in the GCC.

4.6. Tax Policy, Free Zones, and Fiscal Incentives

Tax policy and fiscal incentives play a decisive role in shaping the locational choices of foreign investors, as they directly affect post-tax returns, cost structures, and long-term investment viability. Jurisdictions with predictable, competitive, and transparent tax regimes are more likely to attract efficiency-seeking and profit-oriented FDI.

The UAE has historically maintained a low-tax environment, which remains one of its most substantial structural advantages. Even with the introduction of a federal Corporate Tax at 9%, the UAE continues to be among the most tax-competitive economies globally. The tax framework is characterized by a high registration threshold, generous exemptions, zero personal income tax, no withholding tax on dividends or interest, and an extensive network of Double Taxation Avoidance Agreements. These features significantly enhance after-tax profitability and reduce fiscal uncertainty for multinational enterprises.

Free zones represent a central pillar of the UAE's FDI strategy. The country hosts more than 40 specialized free zones catering to sectors such as finance, logistics, manufacturing, media, technology, healthcare, and renewable energy. These zones offer a compelling package of incentives, including 100% foreign ownership, full repatriation of capital and profits, customs duty exemptions, simplified regulatory procedures, and, in many cases, guaranteed corporate tax concessions for extended periods. To make it easier for companies to do business across the emirate's free zones, Dubai is in the process of integrating the free zone platforms into a single unified digital platform that would bring together free zone procedures into a single system, making it easier for investors to have centralised access to services (like approvals and permits) and complete transactions.

Beyond tax concessions, the UAE's fiscal incentive regime includes targeted support for strategic sectors through grants, subsidized infrastructure, public–private partnerships, and innovation-linked incentives. Signalling a significant push to solidify its position as a global investment hub, the UAE recently launched a National Investment Fund (NIF) with an initial capital of AED 36.7 billion ($10 billion) to attract and boost FDI, aiming to increase annual inflows to AED 240 billion ($65 billion) by 2031, and to raise total accumulated FDI from AED800 billion ($218 billion) to AED2.2 trillion ($600 billion), by offering financial incentives and development packages to high-impact companies. The fund was launched with a clear message to global investors from His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Vice-President and Prime Minister of the UAE and Ruler of Dubai, that "the UAE welcomes you; the UAE will provide the world's best environment for investment. The UAE will continue to support your growth and long-term success."

Collectively, the UAE's competitive tax policy, extensive free zone ecosystem, and well-designed fiscal incentives significantly lower the cost of doing business while enhancing regulatory certainty. This integrated approach strengthens the country's appeal as a regional headquarters and investment hub, reinforcing its leading position as the most favoured FDI destination in the GCC, and the desire of the country to sustain it and further improve it.

5. CONCLUSION

This study set out to identify the most attractive FDI destination in the GCC. If the UAE is the most attractive destination, then to assess how the UAE continues to sustain its position as the region's most attractive FDI destination. The comparative analysis, based on a wide range of macroeconomic, institutional, technological, and policy-related indicators, provides consistent evidence that the UAE maintains a clear and sustained advantage over other GCC economies in attracting foreign investment.

Overall, the evidence confirms that the UAE's sustained attractiveness as the leading FDI destination in the GCC is the outcome of a coherent and multi-dimensional policy framework rather than short-term advantages or isolated reforms. The findings suggest that the UAE's FDI dominance cannot be attributed to a single factor, but rather to a mutually reinforcing ecosystem of determinants. Strong and relatively stable economic growth, coupled with high levels of global competitiveness, creates a favourable macroeconomic foundation for investors. Market size advantages are amplified by the UAE's strategic role as a regional hub serving the GCC, the Middle East, Africa, and beyond. At the same time, leadership in technology adoption, innovation capacity, and digital competitiveness significantly enhances operational efficiency and productivity, making the UAE particularly attractive to multinational enterprises in knowledge-intensive and service-oriented sectors.

Equally important are the UAE's investor-friendly institutional and policy frameworks. Progressive residency and visa reforms, combined with an open and diversified labour market, enable firms to access global talent with minimal frictions. High regulatory quality, institutional stability, and efficient governance reduce investment risk and policy uncertainty, while a competitive tax regime and a well-developed free zone ecosystem improve post-tax returns and operational flexibility. These elements collectively explain not only the UAE's ability to attract large volumes of FDI, but also its capacity to sustain investor confidence over time.

From a policy perspective, the study underscores the importance of an integrated and forward-looking approach to FDI promotion. For other GCC economies, the UAE experience illustrates that sustained FDI attractiveness depends on aligning macroeconomic performance, institutional quality, human capital development, technological readiness, and fiscal competitiveness within a coherent long-term strategy. Future research could extend this analysis by incorporating firm-level data or econometric modelling to further quantify the relative impact of individual determinants on FDI inflows. Overall, the evidence presented confirms that the UAE's sustained attractiveness is the result of deliberate and coordinated policy choices, positioning it as the leading FDI destination in the GCC.

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