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Foreign Trade, FDI and their Impact on Growth in GCC Countries: Evidence from Qualitative and Quantitative Approaches



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Introduction

This paper focuses on analysing foreign trade and FDI in GCC countries during 1998-2008. It analyses key criteria of economic growth, namely, size of GDP, its per capita and share of exports in GDP. Moreover, we will analyse FDI flows and their relative importance in GCC economies by using two important indicators - FDI as a percentage of gross fixed capital formation and FDI as a percentage of GDP; in order to explain the role of these investments during 1998-2008. Furthermore, the study also explores the role of foreign investment in these economies, especially those suffering from a tight local market, such as Bahrain and Qatar.

Moreover, this study aims at measuring the impact of foreign trade and foreign direct investment on GDP, whereas a positive value will reflect their role in enhancing GDP growth rates. In other words, it will have to reflect the growth of per capita GDP and the increasing ratio of exports to GDP. Therefore, we will examine five independent variables: oil exports, non-oil exports, imports, FDI flows and FDI out flows.

FDI flows are considered an important indicator for integration with the world economy, whereas it usually enhances GDP level and increases other economic activities, which lead to exploiting available resources. Furthermore, foreign trade plays a significant role in supporting economic growth as a key criterion before foreign investors, as it attracts more direct foreign investments. However, GCC countries aim at attracting more FDI in order to improve growth level and reducing percentage of oil exports in total GDP since 1981, when these countries opted for a unified economic policies in this regard.

1- Literature Review

Both Anderson and Ronald¹ concentrated on two fundamental points regarding empirical testing between foreign trade and economic growth. Firstly, foreign trade does not lead obviously to (economic) growth, or such a growth does not, in fact, stimulate trade. Secondly, the study encountered difficulty in developing such a measure, which encompasses all aspects of how trade could affect (economic) growth.

Nonetheless, the study concludes that there is such a positive relationship between foreign trade and economic growth, by improving levels of productivity. It also emphasizes both roles of education and property rights as key factors for enhancing various economic institutions.

Meanwhile, Boukllia and Nagat Zatl² took pains to analyze determinants of FDI and economic growth in South and East region of the Mediterranean. They dealt with

(1) Lill Andersen and Ronald Babula, «The Link between Openness and Long-Run Economic Growth,» *Journal of International Commerce and Economics* (United States International Trade Commission) (July 2008), p. 9, < http://www.usitc.gov/publications/332/journals/openness_growth_link.pdf > .

(2) Rafik Boukllia and Nagat Zatl, «The FDI Determinants and its Effect on the Economic Growth in South and East Mediterranean,» Round Table Conference (Marcella- France) (30 March 2001).

various key variables in their study; per capita GDP growth rate, investment in infrastructure, degree of economic openness as a ratio of GDP, inflation rates, loans granted to the private sector as a proportion of GDP and budget deficits as a proportion of GDP.

The study found that the above variables had a weak impact in attracting direct foreign investments, except the degree of economic openness variable, which had contributed significantly in attracting such a direct investment during 1976-1997.

On the other hand, Lyroudi Katerina, et al.³ investigated the nature of impact FDI had on the growth rate in 17 transitional economies: Albania, Azerbaijan, Belarus, Bosnia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Mongolia, Romania, Russia, Slovenia, Tajikistan, Turkmenistan and Uzbekistan.

The study shows that FDI does not represent any significant relationship with economic growth for countries in transition. Moreover, it reaches the same conclusions after splitting the study sample into two groups, low - and high - income countries.

In the meantime, Moudatsou Argiro⁴ dealt with the causality between FDI inflows and economic growth in 14 EU countries. He investigated three possible cases: growth driven FDI - when economic growth in the host country attracts FDI; FDI led growth - when FDI improves growth rate in the host country; causal link between them. The empirical result supports the hypothesis of GDP driven FDI for 4 out of the 14 investigated countries (Italy, Finland, Spain and Ireland). However growth in Ireland and Finland was very attractive for FDI, given their small economies.

In addition, the study found FDI driven growth in 9 cases (Belgium, Denmark, Greece, Germany, France, Netherlands, Austria, Portugal and UK), whereas it revealed no causality between FDI and GDP in the case of Sweden.

Ovidiu Serafim Trufin⁵ determined that the impact of FDI on economic growth in Romania significantly depends on government policies, which are applied by decisional factors. The study reports that economic practice proves the importance of applying certain active measures of orienting attracted FDI and actions of the host country towards modernising its infrastructure and raising qualification level of the population.

Balasubramanyam, et al.⁶ analysed the impact of foreign direct investment on economic growth during 1970-1985. The sample included 46 developing countries. These

(3) Lyroudi Katerina, Papanastasiou John and Vamvakidis Athanasios, «Foreign Direct Investment and Economic Growth in Transition Economies.» *South Eastern Europe Journal of Economics*, no. 1 (2004), pp. 97-110.

(4) Argiro Moudatsou, «Foreign Direct Investment and Economic Growth: Evidence from 14 European Union countries.» *International Economics and Finance Society* (2001), < <http://www.iefs.org.uk/papers/moudatsou.pdf> > .

(5) Ovidiu Serafim Trufin, «Foreign Direct Investment and Economic Growth in Romania's Development Region North-east.» *CES Working Paper Series*, vol. 11, no. 2 (2010), pp. 11-16.

(6) V. N. Balasubramanyam, M. Salisu, and David Sapsford, «Foreign Direct Investment and Growth.» *Economic Journal*, vol. 106 (January 1996), p. 103.

countries were divided into two groups: The first included countries, which had followed exports policies, while the second were countries which had pursued imports policies substitution. The study found a key result, confirming that the positive role of foreign direct investment in countries, which pursued exports policies, is greater than in other countries which adopted a policies of imports substitution.

Meanwhile, Blin and Bazoumana Duattara⁷ dealt with the important question of whether foreign direct investment enhances economic growth in Mauritius. Their study was based on time series data for 1975-2001. Domestic private and public investments were also utilized to estimate neoclassical production function in long and short terms as well as.

The results of the study indicated that foreign direct investments have a significant impact on economic growth in Mauritius. As for domestic investments, the study showed that only private investments have a positive effect on economic growth.

On the other hand, Pfaffermayr⁸ illustrated the relationship between FDI and the growth of exports in Austria, whereas he used the test of Granger causality to determine total impact of foreign direct investment and exports on the Austrian economy. The study concluded that there is a significant causal link between foreign direct investment and exports, and that there are potentials to achieve a positive impact of exports, by increasing foreign direct investment in the host country, especially in modest value added sectors, where FDI is considered a good way for economic diversification.

Dosse Toulaboe, et al.⁹ stressed that foreign direct investment contributes in increasing fixed capital formation and technological progress, and that these investments are a good catalyst for improving the economic growth. The researchers identified several testable hypotheses; first, foreign direct investment has economic benefit to the host countries; second, direct impact of foreign investment is substantial in more developed economies; third, foreign direct investment has indirect economic implications in host countries, as a result of positive relationship between foreign direct investment and the level of human capital formation; finally, indirect effect is significant in developed economies.

Meanwhile, Borensztein et al.¹⁰ tested the effect which FDI has on economic growth, by using FDI data flows from industrial countries to 69 developing countries during 1970-1989. The study found that FDI is an important vehicle for technology

(7) Myriam Blin and Bazoumana Quattara, «Foreign Direct Investment and Economic Growth in Mauritius: Evidence from Bounds Test Cointegration,» *Journal of International Economics* (2009), pp. 47-61.

(8) M. Pfaffermayr, «Foreign Direct Investment and Export: A Time Series Approach,» *Journal of Applied Economics* (1994), pp. 337-315.

(9) Dosse Toulaboe, Rory Terry and Thomas Johansen, «Foreign Direct Investment and Economic Growth in Developing Countries,» *Foreign Direct Investment and Economic Growth in Developing Countries* (2009), < <http://www.ser.tcu.edu/2009/SER2009%20Toulaboe%20et%20al%20155-170.pdf> > .

(10) E. Borensztein, J. De Gregorio and J-W. Lee, «How Does Foreign Direct Investment Affect Economic Growth?,» *Journal of International Economics*, vol. 45 (1998), pp. 115-135.

transfer, and that it relatively contributes more in achieving economic growth than domestic investments.

I. S. Salts¹¹ analysed the level of FDI impact on the growth rate of GDP in 75 developing countries. The researcher concluded that there is a reverse link between FDI and the rate of GDP growth during 1975 - 1980. Salts made clear that the reason for this inverse relationship is attributed to the failure of economic policies of the host country, while attempting to attract more foreign direct investment, which did not lead to an increased level of value added, where these investments have not achieved substantial and rapid economic growth. In addition, he analysed the main reason for this failure, which he attributed to certain factors like economic instability, shortage of incentives and basic facilities, which did not attract foreign direct investment.

Zeshan Atique, et al.¹² found that the foreign trade policies regime followed by Pakistan has a significant impact on FDI inflows amount and on economic growth rate. He also recommended that the government should emphasise both exports promotion policies and FDI inflows, in order to achieve sustained economic growth.

Rodney Schmidt¹³ analysed the relationship between FDI, growth and cross-country income convergence in 128 countries during 1970-1999. The study is based on non-linear growth regression model. It concluded that a country must receive a minimum amount of FDI before its macroeconomic growth rate can respond. Furthermore, the study found that FDI makes an important contribution to economic growth, as a result of its role in enhancing and improving the growth rate of GDP per capita; i.e between 0.83 and 1.57% each year, depending on the actual amount of FDI. In addition, the study confirms that FDI is the main channel of technology transmission across countries.

Gheorghe Ruxanda and Andreea Muraru¹⁴ investigated whether FDI has an impact on Roman's economic growth, by using simultaneous equation methods to analyse the link between economic growth and the share of FDI in GDP. This attempt revealed a bi-directional relation between the study variables. Moreover, the study highlighted the importance of economic growth for all other independent variables, whereas FDI positively affects economic growth and, in turn, the higher GDP attracts FDI. The study result confirms the idea of a causal relation between FDI and GDP. Moreover, the study proved that labour cost has a significant role in attracting foreign direct investment.

(11) I. S. Salts, «The Negative Correlation between FDI and Economic Growth in Third World: Theory and Evidence,» (1992), pp. 617-633.

(12) Zeshan Atique, Mohsin Hasnain Ahmed and Usman Azhar, «The Impact of FDI on Economic Growth under Foreign Trade Regimes: A Case Study of Pakistan,» *Pakistani Development Review*, vol. 43, no. 4, part II (2004), pp. 707-718.

(13) Rodney Schmidt, «Enough Foreign Direct Investment Quickens Economic Growth Everywhere,» The North-south Institute (Canada) (2008), < <http://www.nsi-ins.ca/english/pdf/FDI.pdf> > .

(14) Gheorghe Ruxanda and Andreea Muraru, «FDI, and Economic Growth, Evidence from Simultaneous Equation Models,» *Romanian Journal of Economic Forecasting*, vol. 1 (2010), pp. 45-52.

2- Research Gap

According to the literature review of the study, we note that most of the studies have been conducted in respect of more diversified economies, where we record that the quantitative approach of these studies is mostly based on total foreign trade as an independent variable. In this study, we have used for analysing the role of foreign trade of GCC countries, three independent variables to represent aspects of foreign trade, namely; oil export, non-oil exports and imports of goods, as well as, FDI, inflows and outflows. The main reason is to identify the role of each variable and its effect on economic growth.

Finally, for continuing with the literature of the study, our study tries to link the three key topics, foreign trade, foreign direct investment and growth. For achieving objectives of the study, we will use two approaches. First, the analytical approach enhanced by tables and graphics. This approach will focus on the analysis of the variables of the study, for which it will use the quantitative approach, in order to make a clear picture about GCC economies during 1998-2008. Second, the quantitative approach is used to examine the variables, which affect the economic growth of GCC countries.

3- Methodology

This study relies on neoclassical and endogenous growth theories, which confirm that FDI will enhance economic growth by increasing the efficiency of investment, as well as leading to various technologies¹⁵, in order to determine whether FDI has a positive or negative impact on the economic growth in GCC countries during the time of the study.

Furthermore, we will add three independent variables, which represent oil export, non-oil exports and commodity imports. We have added these variables based on comparative advantages and endogenous growth theories, which indicated that open trade policies promotes the level of investment efficiency by reinforcing sectors, which have a comparative advantage in trade¹⁶, where a more open trade economy allows a country to reorient factors of production to increase the level of GDP and its growth. However, results of this model will determine whether GCC's economic policies has achieved its target or not. In other words, we will determine the reality of economic policies of these countries during 1998-2008.

3.1 - Assumption of the model: this model will focus on the following assumption:

Commodity trade and FDI had a positive effect on GDP in GCC countries during 1998-2008.

(15) Paul M. Romer, «Increasing Returns and Long Run Growth», *Journal of Political Economy*, vol. 95, no. 5 (1986), pp. 1000-1032.

(16) Balasubramanyam, Salisu, and Sapsford, «Foreign Direct Investment and Growth».

3.2 - Formulation of the model

The main formulation can be expressed by the form of economic growth of GDP as a function of FDI inflows, FDI out flows, oil export, non-oil commodity exports and commodity imports, in the following form:

$$GDP = f(FDin, FDout, Oilx, Noilx, M)$$

Whereas:

GDP: Gross domestic product.

FDin: Foreign direct investment inflows.

FDout: Foreign direct investment outflows.

Oilx: Crude oil exports.

Noilx: Non-oil commodity exports.

M: Commodity imports.

Ui: Error term.

(*) FDin and FDout are measured as a ratio of GDP.

(**) GDP, Oilx, Noilx and M are measured by natural logarithmic.

3.3 - Description of the Model

After adding error term variable, the final model will be as the following form:

$$\text{Log (GDP)} = a + B1 (\text{FDin}) + B2 (\text{FDout}) + B3 \text{Log (Oilx)} + B4 \text{Log (Noilx)} + B5 \text{Log (M)} + U_i$$

Whereas:

a: constant.

B1, B2, B3, B4 and B5: coefficients.

4. Key criteria of economic growth in GCC countries:

4.1 - GDP

As known, GDP represents the size of the economy. It is a significant indicator of economic activities of the country, whereas it is considered a good measurement from the perspective of foreign investors. Therefore, GDP and its growth level are important factors in attracting more foreign direct investment (FDI), for countries which have positive growth rates. In this respect, we can say that increased FDI will come to big local markets, where there is a positive relation between FDI and size of GDP¹⁷.

GCC countries witnessed an increased growth during 1998-2008, especially in

(17) Melina Dritsaki, Chaido Dritsaki and Antonios Adamopoulos, «A Causal Relationship between Trade Foreign Direct Investment and Economic Growth for Greece.» *American Journal of Applied Science*, vol. 3 (2004), pp. 230-235.

2000¹⁸, where total GDP reached USD (341373) Million, due to the high level of the oil sector and manufacturing industries in general. However, it dropped again in 2001 (Arab league, op cit) because of the weak level of world economic growth, which affected oil prices of GCC countries¹⁹. In this context, growth rates in developed countries dropped from 4.6% in 2000 to 2.5% in 2001, and in developing countries from 5.8% to 4.2% for the said years²⁰. This decline resulted in a lowering of oil prices. In other words, GCC economies suffered a negative effect because of their high reliance on the oil sector and its fluctuations with the global economy. Therefore, we noted that in UAE, GDP has dropped as a result of dropping of crude oil exports revenues, as well as in the rest of GCC countries, especially in Saudi Arabia, Qatar and Kuwait. However, in Oman, we see that there is a modest drop in its GDP, which could be attributed to the significant role of the gas industry and other sectors which are associated with it²¹. In other words, increasing added value of these industries has reduced the negative impact of global fluctuations of crude oil demands. Table (1) shows the level of GDP of GCC countries during the time of the study.

Table (1)
Level of gross domestic product in GCC during 1998-2008 (million USD)

Year	UAE	Bahrain	KSA	Oman	Qatar	Kuwait
1998	48500	6184	145967	14086	10255	25941
1999	55193	6621	160957	15710	12393	30126
2000	69979	8028	188442	19450	17760	37714
2001	68909	7971	183012	19399	17538	34906
2002	73635	8491	188551	20048	19364	38129
2003	86686	9747	214573	21543	23534	47869
2004	104180	11235	250339	24674	31734	59439
2005	138331	13459	315337	30905	42463	80799
2006	168384	15852	356155	36804	56770	101549
2007	196643	18447	383871	41639	71041	114585
2008	250517	24338	468800	59945	102303	148165
Average 1998-2008 (*)	114,632	11,852	259,636	27,654	36,832	65,383
Growth rate (*)	16%	13%	11%	14%	23%	17%

(*) Calculated by the researcher.

Source: Joint Arab Economic Report,» League of Arab States (Abu Dhabi), (2004), Annex 2/2 (in Arabic) and «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2009) (in Arabic), p. 266.

(18) «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2009), p. 266 (in Arabic).

(19) Sadiq Al-Rawi, «The Role of Foreign Direct Investment in United Arab Emirates,» *Journal of Oil and Industry News*, no. 340 (2003), p. 24 (in Arabic).

(20) «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2005), p. 35 (in Arabic).

(21) Ibid.

Table (1) shows that during 2002-2008, GCC countries achieved an increased level of GDP, which can be attributed to many reasons, the first being increase in oil revenue especially for 2004, which amounted to 40% in Kuwait, 29.7% in Qatar, and 35.8% in UAE²². This helped in increasing investment expenditure, as well as achieving economic reform programmes, besides playing a significant role in the private sector, which helped enhancing economic performance in GCC countries; thereby enabling them to achieve high growth rates.

In addition, we can link positive growth of GDP in GCC countries with increased growth rates in developed countries, which increased in ratios of 4.7%, 6.4%, 5.1% in 2002, 2003 and 2004, respectively, as well as in developing countries, which achieved 4.7%, 6.4%, 7.2%, respectively²³. Increased global growth led to increased demand for crude oil, which had a positive effect on economic growth in GCC countries.

Finally, it is clear that GCC growth rates is linked to changes which occur in the global economy, however, in general, it can be seen that GCC countries have attracted FDI due to the positive growth of these economies which ranged between 23% in Qatar and 11% in Saudi Arabia during 1998-2008. Consequently, it can be said that the size of GDP in GCC countries is a positive criterion for attracting more foreign direct investment.

4.2 - Per capita GDP

Per capita GDP shows the power of local demand, and is also a significant indicator for measuring wage rates and consumption level. Per capita GDP in GCC countries has increased in 1998-2008 due to superior growth rate of GDP compared to population's growth rates during the same period²⁴.

In table (2) and figure (1), we note that positive growth rate of per capita is attributed to high increase of crude oil exports as the main reason for maximising its share in GDP over 1998-2008. Qatar and UAE reflect high level of their per capita GDP. In other words, these two countries distinguished in increased local demand, which is considered a good indicator for encouraging foreign direct investment during the period of study.

Table (2)
Per capita GDP in GCC countries 1998- 2008 (US Dollar)

Year	UAE	Bahrain	KSA	Oman	Qatar	Kuwait
1998	17119	9660	7484	6467	18306	11425
1999	18194	10026	8085	6546	21390	13358
2000	23365	12582	9203	8097	28784	16927

To be Continued

(22) «Annual Statistical Bulletin Organization of the Petroleum Exporting Countries,» OPEC (2008), p. 47.

(23) «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2008), p. 38 (in Arabic).

(24) «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2009), p. 16 (in Arabic).

Continued

2001	21758	12169	8723	7829	27024	15562
2002	21987	12635	8772	7899	28393	16136
2003	24412	14127	9743	9202	32777	19271
2004	28379	13635	11095	10213	41976	22472
2005	33690	15140	13640	12318	47818	28182
2006	39816	16512	15041	14282	54534	33273
2007	43815	17754	9038	15180	57964	34431
2008	52574	21668	10520	20898	70651	43046
Average 98-2008	29555.36	14173.45	10122.18	10811.91	39056.09	23098.45
Growth rate 98-2008 (*)	10.7	7.6	3.1	11.2	13.0	12.8

Source: By researcher depending on joint Arab economic report, different issues.

Statistical Yearbook, Statistical, Economics and Social Research and Training Centre for OIC Countries (Turkey: SESRIC, 2007).

Figure (1)
Average of Per capita GDP in GCC countries - 1998-2008 (Dollar)

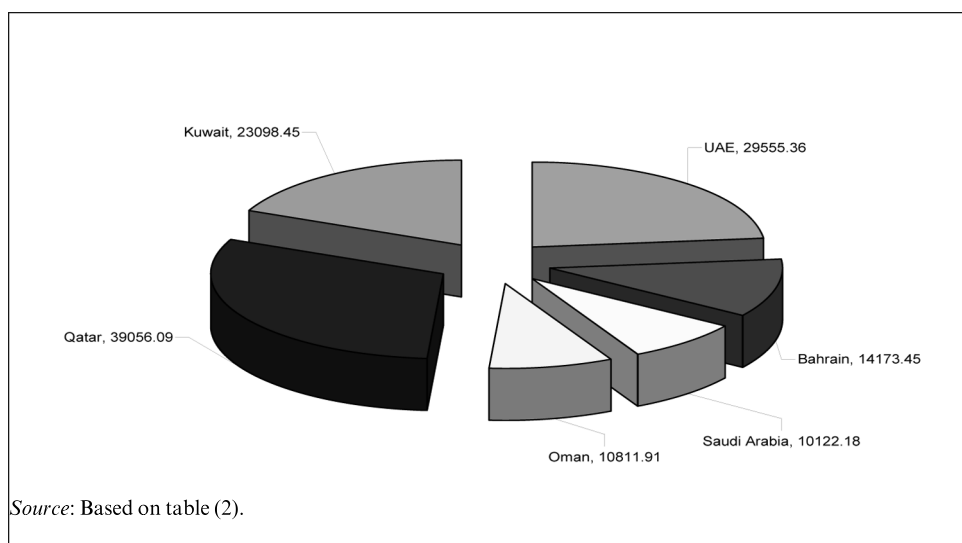


Figure (1) indicates that Qatar fell in the first level in terms of per capita GDP and its growth over the period of study, whereas economic growth reached 13%. This reflects high economic performance which attracted foreign direct investment to the commodity sectors, particularly the mining sector and other industries which are associated with oil. UAE comes in the second level. However, what distinguished the economy of UAE is its dependence on the oil sector. Its revenue is less than that of Qatar, which we can confirm from table (4), which indicates that the share of extractive industry in Qatar is about 61.7% as average of GDP during the time of the study (1998-2008), while its

contribution in UAE is 38.2%. Therefore, we can say that the economic growth in UAE is better than Qatar in terms of its stability, which reduce the effect of fluctuations of global oil prices. In other words, any world crisis in the oil market will affect Qatar's economy more than UAE, which is considered more stable compared with other GCC countries in general.

Kuwait dominates on the third level, whereas per capita GDP reached USD 23098.45 dollars per year, on average, and the oil sector constituted a high ratio in GDP. Also, Bahrain, Oman and Saudi Arabia represent a lower share in this regard in comparison with other GCC countries, whereas their per capita GDP amounted to USD 14173.45, 10811.91 and 10122.18 dollar, respectively.

From the above, we can see that both Bahrain and Oman share a common problem, which is represented by the narrowness of their local markets resulting from the small size of their GDP despite the small population of the two countries. However, we note the importance of enhancing the level of economic growth by encouraging foreign investors and attracting more FDI. It is considered a good Policy to expand local markets and create new economic outlets, which stimulate economic growth, as well as investing the surplus of oil revenues in non-oil industries, in order to reduce the impact of world fluctuations in global oil markets on these economies, which affect economic growth.

Furthermore, we note that per capita GDP in GCC countries is still significantly linked with oil exports revenues. Meaning that global fluctuations resulting from oil prices have a direct impact on these economies, also, we can say that there is an indirect positive relationship between economic growth in developed countries and average of per capita GDP in GCC countries according to the relation between oil global demand and increasing crude oil export, which affects an increase in total oil revenues and then per capita GDP. Therefore, this issue will reflect the development impact by investing achievable surplus in various projects, which increase the level of value added.

In conclusion, according to positive growth of GDP in GCC countries during 1998-2008, which ranged between 11% and 23%^(*), we can say that large local power demand in GCC countries is a positive factor encouraging foreign companies to increase their investment to create a new market outlet, which has a positive effect on achieving surplus production in GCC countries.

4.3 Exports ratio to GDP

Exports ratio of GDP is an important indicator for attracting foreign direct investment. It shows economic openness level and competitive ability, as well as being a criterion of economic efficiency, whereas increasing exports ratios is a good evidence of trade surplus. The following table shows exports share in GDP during 1998-2008.

(*) see table (1)

Table (3)
Exports share to GDP in GCC countries 1998-2008 (percentages)

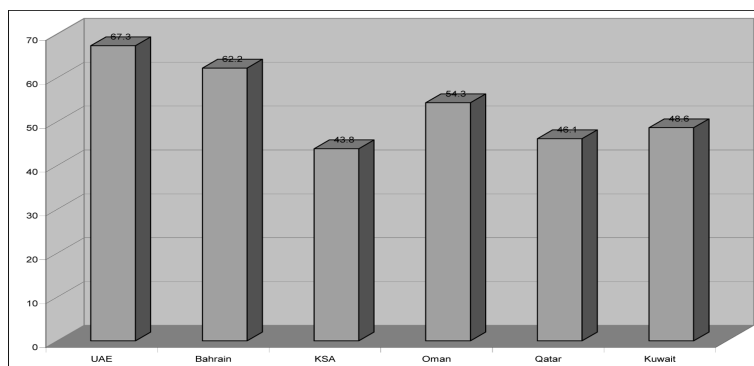
Year	UAE	Bahrain	KSA	Oman	Qatar	Kuwait
1998	83.3	71.0	41.5	54.3	37.6	55.0
1999	61.3	49.3	42.7	72.1	40.6	60.6
2000	52.1	54.2	41.7	61.2	54.7	60.2
2001	72.3	78.2	42.4	58.3	66.1	49.3
2002	65.7	66.4	36.1	55.2	56.1	50.8
2003	59.6	60.4	34.0	51.9	46.6	50.7
2004	64.0	59.8	37.2	55.4	42.1	30.9
2005	65.7	56.8	47.4	43.7	44.0	37.2
2006	69.6	65.3	50.6	50.7	45.4	46.3
2007	74.0	66.9	54.8	51.9	37.9	51.2
2008	72.5	56.6	53.2	42.6	36.9	42.9
Average 98-2008	67.3	62.2	43.8	54.3	46.1	48.6

Source: By the researcher depending on the following:

«Joint Arab Economic Report,» Arab League (Abu Dhabi) (2009), pp. 266-328 (in Arabic); «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2008), p. 338 (in Arabic); «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2005), Annex 5/5 (in Arabic); «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2003) Annex 5/5 (in Arabic) and «Joint Arab Economic Report,» Arab League (Abu Dhabi) (2004), Annex 2/2 (in Arabic).

Table (3) shows that, on average, average of exports ratios of GDP range between 43.8% in Saudi Arabia and 67.3% in UAE during the period of study, which confirms the role of exports in all GCC countries. Moreover, fluctuations of oil markets have a direct impact on economic performance of these economies. In addition, GCC's exports contributed in achieving high oil revenues, which lead to enhanced economic growth with a significant increase in GDP, as shown in the figure (2).

Figure (2)
Average of share of exports to GDP in GCC -1998-2008 (Million USD)



Source: Based on table (3).

From the above figure, we note that commodity exports represent high ratios in UAE and Bahrain (67.3%) and (62.2%), respectively, as well as other GCC countries. These ratios confirm the role of oil exports in GCC economies, particularly, in Saudi Arabia as a main producer and exporter of crude oil.

In table (4) we note that extractive industry sectors in GCC countries have high value added compared with manufacturing industries over the period of study, whereas achieved value added is attributed to the revenues of the oil sector in general. Therefore, GCC policies is still targeting, improving industrial sectors by establishing many industrial projects in an attempt to enhance the investment climate, encouraging the role of the private sector and diversifying non-oil products to increase exports revenue of manufactured goods²⁵. This has a positive affect in raising the contribution of the industrial sector to GDP, whereas increasing produced goods has a significant role in enhancing foreign trade and gains high revenue to invest in other projects, which lead to high value added, as well as reducing imported goods. The following table shows the average of the value added of the industrial sector and its share in GDP during 1998-2008.

Table (4)
Average of added value and its share in GDP- 1998-2008

Country	Extractive Industry		Manufacturing		Total industrial sector	
	Added value	Share in GDP (%)	Added value	Share in GDP (%)	Added Value	Share in GDP (%)
UAE	43789.4	38.2	14443.6	12.6	58228.4	50.8
Bahrain	3081.5	26	1635.5	13.8	4717.0	39.8
KSA	148511.8	57.2	21549.7	8.3	146434.7	56.4
Oman	14214.1	51.4	2820.7	10.2	17062.5	61.7
Qatar	22725.3	61.7	2504.5	6.8	25229.9	68.5
Kuwait	38902.8	59.5	3661.4	5.6	42498.9	65

Source: League of Arab states,(2000.2009) Joint Arab economic report, Abu Dhabi, different issues.

In addition, the table above shows that manufacturing industries have achieved high value added in both UAE and Saudi Arabia in comparison with the rest of GCC countries, with their contribution amounting to USD 148511.8 and 43789.4 million dollars, respectively. Other GCC countries suffered from continued weakness of contributions of manufacturing industries over the same period, whereas extractive industry sectors are still the main source of income.

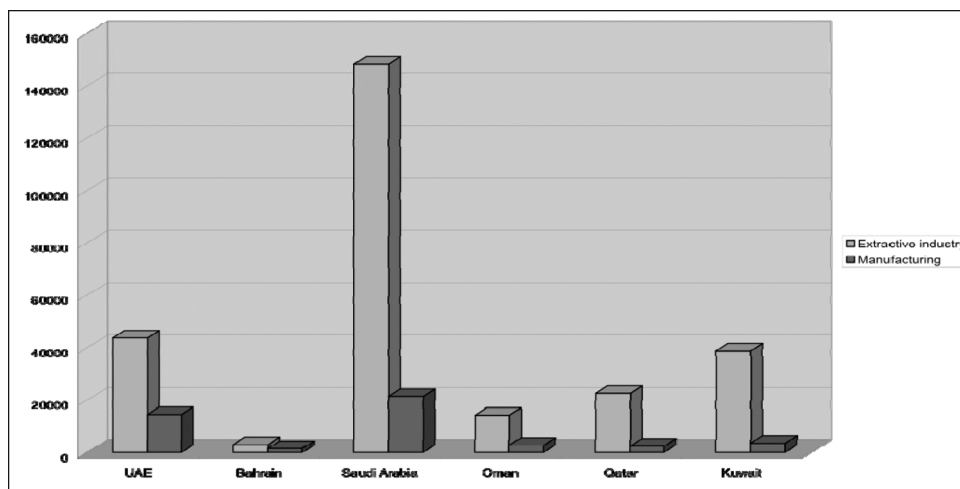
Figure (3) shows the important role of the extractive sector in GCC countries, whereas Qatar represents a significant ratio, which amounted to 61.7% of its total GDP on average in 1998-2008. Moreover, in respect of manufacturing industries, we note UAE and Bahrain have the highest ratios, which amounted to 13.8% and 12.6%, re-

(25) «Joint Arab Economic Report.» Arab League (Abu Dhabi) (2008), p. 45 (in Arabic).

spectively. This confirms the role of the manufacturing sector in these economies and the success of the diversification efforts compared with other GCC countries for the same period. However, we also note that Bahrain has focused on increasing its share of the manufacturing sector to raise the level of its commodity exports, as it suffers a weakness of crude oil exports compared with other GCC countries. Therefore, increasing the role of the manufacturing sector is considered a suitable strategy in order to raise the level of value added.

In Kuwait, we see an opposite scenario to that of Bahrain, whereas the level of the extracting industries sector achieved a high ratio of 59.5% and its contribution reached USD 38902.8 million, while its manufacturing sector only achieved USD 3661.4 million on average of value added for 1998-2008. We can conclude from this modest contribution the inability of the economic policies in Kuwait to increase the contribution of manufacturing industries. It was still too reliant on the oil sector during the time of the study. The following figure shows the average of value added of the industrial sectors in GCC countries in 1998-2008:

Figure (3)
Average of value Added in Industrial sector - 1998-2008, (Million USD)



Source: by researcher depending on table (4).

Through the above, we can say that reinforcement contributions of non-oil industrial sector will have a positive impact and achieve an increased value added, which will lead to a reduction in the imports level and enhance the level of trade balance. Therefore, it is apparent that attracting foreign direct investment to the industrial sectors in GCC countries could positively affect achieving more value added if these investments help to allocate advanced technologies with increasing levels of productivity. In other words, attracting FDI is a good substitution for imports, whereas, the host country will be able to increase local production and enhance foreign trade commodity gradually. However,

FDI is a significant way for financing and achieving economic reform programs in GCC countries.

In addition, foreign direct investments can lead to maximising industrial growth in GCC countries by creating a linkage between local and foreign companies, whereas the possibility of encouraging local investors for enhancing their relation with foreign investors. Meaning that, FDI is also a good way to expand the local economy towards the regional and global markets after enhancing production capacity of non-oil industrial sector in GCC countries.

5. FDI flows in GCC Countries

5.1- FDI Inflows to GCC Countries

FDI inflows to GCC countries are characterised by their fluctuations. In 1998-2008, Saudi Arabia was the main host country which is dominant on 44% of total foreign direct investment in GCC countries for the said period. UAE represents the second level, which amounted to 39.6% of total FDI of GCC. Kuwait represents a low ratio, less than 0.5%.

In respect of Saudi Arabia and UAE, we note that eliminating investment barriers in 1999 is a key reason for attracting more foreign direct investment. The main investors are France, Germany, India, Japan, UK and USA²⁶, while most investment is concentrated in manufacturing sectors. Similarly, Bahrain achieved an acceptable level in this respect. Table (5) shows FDI inflows in GCC countries in 1998-2008.

Table (5)
FDI inflows to GCC countries 1998-2008 (Million USD)

Year	UAE	Bahrain	KSA	Oman	Qatar	Kuwait	Total average
1998	257.66	179.52	94.00	101.44	347.30	59.06	—
1999	-985.34	453.72	123.00	39.01	113.25	72.28	—
2000	-506.33	363.56	183.00	83.20	251.60	16.30	—
2001	1183.84	80.40	504.00	5.20	295.52	-175.00	—
2002	1314.27	217.02	453.00	122.24	623.92	3.62	—
2003	4255.96	516.70	778.46	26.01	624.92	-68.00	—
2004	10004.08	865.31	1942.00	111.05	1198.97	23.75	—
2005	10899.93	1048.67	12097.00	1538.36	2500.00	234.00	—
2006	12805.99	2914.89	17140.00	1596.88	3500.00	122.00	—
2007	14186.52	1756.11	22821.07	3331.60	4700.00	116.00	—

To be Continued

(26) «Survey of Economic and Social Development in Western Asia,» *Economic and Social Commission for Western Asia (ESCWA)* (UN-New York) (2005), p. 84.

Continued

2008	13700.00	1793.88	38151.47	2358.91	4107.00	-51.00	—
98-2008	6101.51	926.34	8571.54	846.72	1660.22	32.09	18138.42
Share in total average (%)	33.6	5.1	47.3	4.7	9.1	0.2	100%
Share in average GDP	5.3	7.8	3.3	3.0	4.5	0.0	—

Source: UNCTAD, Data base of FDI.

«Statistic of Arab Investment and Exports Credit Guarantee Corporation,» AIECGC (2010) and «Database of Statistical, Economics and Social Research and Training,» SESRIC.

Table (5) shows that Saudi Arabia represents the first level in terms of attracting FDI for 1998-2008, especially for 2005-2008²⁷. This progress is attributed to the following reasons²⁸:

- 1- Establishment of important projects to meet local demand and support projects, aiming at increasing exports levels.
- 2- Exploiting comparative advantage of industries, which are based on crude materials such as crude oil and gas.
- 3- Encouraging increase in companies, which have advanced technology through partnership relations with foreign companies, or by gaining property rights.
- 4- Easing restrictions on foreign ownership²⁹.

UAE and Qatar are coming in the second and third level, respectively, where FDI represents about 33.6% in UAE and 9.1% in Qatar as a percentage of average total FDI flows to GCC countries during 1998-2008. While other GCC countries - Bahrain, Oman and Kuwait - witnessed weak contributions, which amounted to 5.1%, 4.7%, 0.2%, respectively, as shown in the Figure (4).

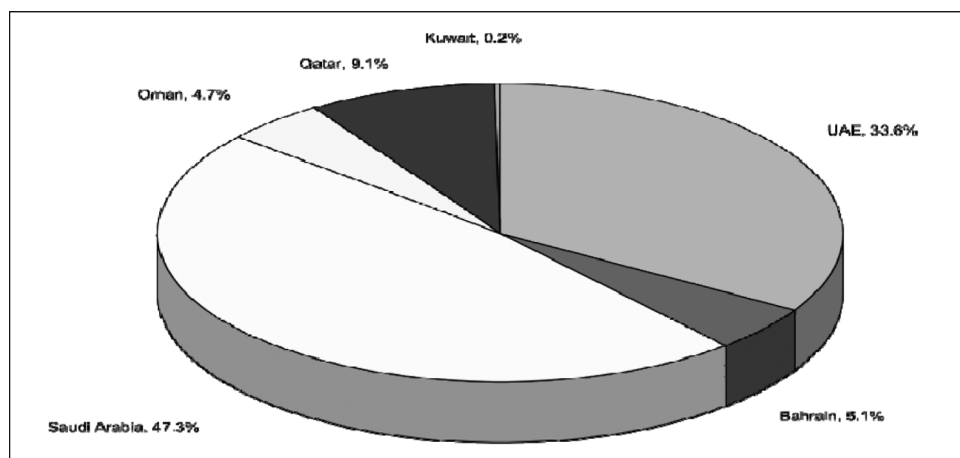
Figure (4) confirms the weak level of foreign direct investment flows to Kuwait, as well as, Bahrain and Oman. Accordingly, economic policies of these countries should be followed by real attempts to attract FDI flows, particularly in sectors, which have a low contribution to GDP, in order to enhance economic growth and diversify the structure of production. However, the role of FDI not only leads to an increase in the production, but is also a good way to overcome the problem of the narrowness of local markets in these economies and enhances the partnership between local and foreign investors to exploit competitive advantage of GCC countries - abundant labour and cheap energy resources.

(27) «World Investment Report,» UNCTAD (Geneva) (2010), p. 212.

(28) Safa Abdulrahman Al-hasham, «Doing Business in GCC: Gulf Outlook,» GCC (Saudi Arabia) (2009), p. 22.

(29) Omar Al-Nakib, «GCC Foreign Direct Investment Inflows Lower in 2009 But Outlook Remains Optimistic,» National Bank of Kuwait (Kuwait) (2010), p. 3.

Figure (4)
Relative contribution of FDI inflows to GCC countries - 1998-2008
(percentages)



Source: based on table (5).

Moreover, FDI inflows is considered a significant factor for funding many economic enterprises without government budget, as well as creating new job opportunities and expanding local market of the host economies. Hence, unified economic policies of GCC countries should attempt to increase the level of FDI inflows, especially in Kuwait.

In conclusion, FDIs have a significant role in these economies because of their small GDP size, which explains the big role of FDI in these economies despite their low level of FDI compared with Saudi Arabia and UAE. In other words, FDI has a good role in small economies such as Oman and Bahrain. However, if we go back to table (1) we will note that Bahrain, Oman, Qatar and Kuwait have small GDPs compared with Saudi and UAE, whereas we note that FDI has a positive effect on economies, which suffer narrowness of local market. Therefore, inflows of foreign investments to these economies enhance the level of economic growth. In this context, we can say that these investments enhance economic efficiency through optimal use of available resources, in order to increase the capacity of these economies. This means that FDI is a good stimulation for economic activities and, in turn, economic development.

5.2 - FDI out flows from GCC Countries

UAE and Saudi Arabia have dominated on a major ratio of total FDI outflows of GCC countries in 1998-2008, whereas, on average, UAE represents 38.5% of total FDI outflows and is considered the first investor in this respect. Accordingly, we note that the main reason for a high level of outflows is attributed to the role of emirates companies, such as International Petroleum Investment Company (IPIC), Abu Dhabi future company and Abu Dhabi Investment Authority (ADIA), whereas FDI outflows of

UAE have increased since 2002³⁰. Saudi Arabia is the second investor, with its share, on average, amounting to 23.7% of FDI outflows during the said period; the amount of these investments is about USD 2780.55 million. Table (6) shows FDI outflows during 1998-2008.

Table (6)
FDI out flows in GCC countries - 1998-2008 (Million USD)

Year	UAE	Bahrain	KSA	Oman	Qatar	Kuwait
1998	127.30	180.80	140.65	- 4.73	21.43	- 1866.86
1999	317.11	163.40	97.38	3.39	7.20	23.00
2000	423.67	9.57	1550.00	- 2.00	17.75	- 303.14
2001	213.70	215.96	45.63	54.99	17.21	- 242.00
2002	441.12	190.16	2020.03	0.03	- 21.04	- 78.00
2003	991.15	741.35	473.00	88.43	88.17	- 5016.00
2004	2208.30	1035.64	78.74	41.61	437.92	2581.00
2005	3749.49	1135.37	6602.86	233.55	351.91	5142.10
2006	10891.76	980.05	5397.57	274.64	127.43	8240.00
2007	14567.73	1669.14	12729.91	- 36.41	5160.25	10156.00
2008	15800.00	1620.47	1450.33	585.18	6028.68	8858.00
98-2008 ^(*)	4521.03	721.99	2780.55	112.60	1112.44	2499.95
Share in total (%) ^(*)	38.5	6.1	23.7	0.9	9.5	21.3
Share in Average GDP ^(*)	3.9	6.0	1.1	0.4	3.0	3.8

(*) Calculated by the researcher.

Source: AIECGC, Arab Investment and exports credit guarantee corporation, statistics.

SESRIC, Data base of statistical, economics and social research and training.

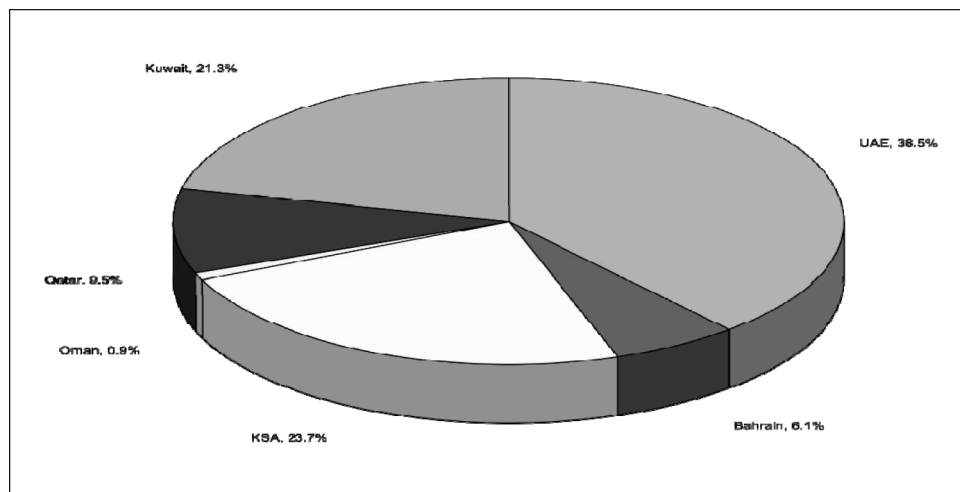
«World Investment Report,» UNCTAD (Geneva) (2009), p. 260.

In table (6) we note that Kuwaiti FDI outflows increased rapidly from USD 2581 million in 2004 reaching to USD (8858) million in 2008. Kuwait occupies 21.3% of total of average FDI outflows of GCC in 1998-2008, which is considered as third GCC investor³¹. We note that 2004-2008 are characterised by a continued positive increase. In this respect, we can refer the high level of Kuwaiti FDI outflows to increased oil exports revenues, which encourage more FDI outflows to meet notable weakness of FDI inflows in Kuwait, where it exploits its oil exports surplus abroad. Figure (5) shows relative contribution of FDI outflows of GCC countries in 1998-2008:

(30) Imran Sharif Chaudhry, Ali Malik and Muhammad Zahir Farid, «Exploring the Causality Relationship between Trade Liberalization, Human Capital and Economic Growth: Empirical Evidence from Pakistan,» *Journal of Economics and International Finance*, vol. 2, no. 8 (2010), pp. 175-182, < <http://www.academicjournals.org/jeif>. p12 > .

(31) Al-Nakib, «GCC Foreign Direct Investment Inflows Lower in 2009 But Outlook Remains Optimistic,» p. 3.

Figure (5)
Relative contribution of FDI outflows of GCC countries - 1998-2008
(percentages)



Source: Based on table (6).

In 1998-2008, foreign direct investment outflows from Qatar, Bahrain and Oman represent insignificant ratios. These countries have achieved averages of 6.1%, 9.5%, 0.9, respectively. However, we see that small size of GDP is the main reason for the low level of FDI outflows of the said economies. This case explains the positive relation between FDI and the level of local market represented by the size of GDP.

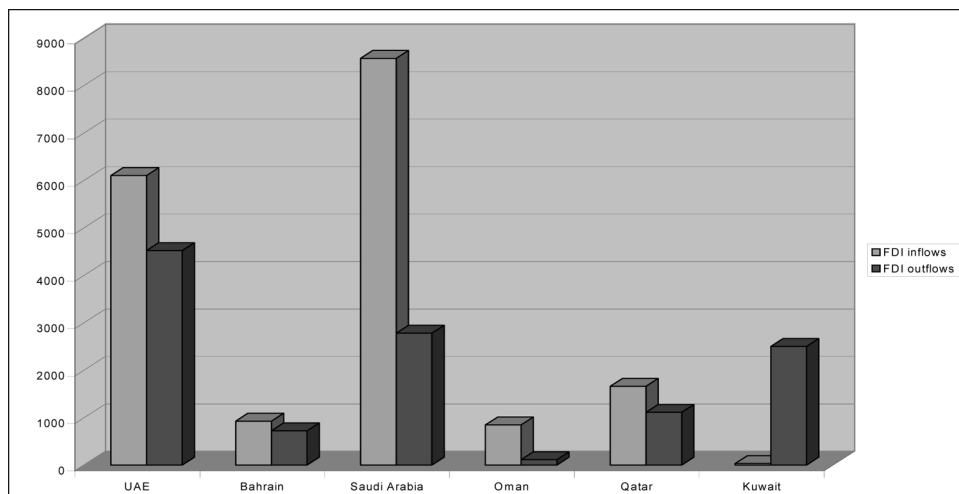
Furthermore, figure (5) illustrates the relatively high contribution of FDI outflows of Saudi Arabia and Kuwait. The significant issue in this regard is that FDI outflows show an importance for funding new investments across the country, which expresses the role of economic policies in its attempt to expand income resources and gain more non-oil revenues. In addition, it is considered a good catalyser for doing business and enhancing economic relations with countries, which host GCC's investments, whereas exploiting surplus of oil exports revenues in many projects leads to more value added, then reinforces the economic growth, particularly in Oman, Bahrain and Qatar in order to reduce the high share of extractive industry to GDP, as well as increasing level of foreign investments. However, FDI, Inflows and outflows is still a main target of GCC economies and important means to diversify the level of production. Figure (6) represents FDI outflows in comparison with FDI inflows as average in 1998-2008.

Figure (6) above confirms that, on average, both Saudi Arabia and UAE dominated the significant share of FDI flows in 1998-2008, while other GCC countries achieved low levels, especially Kuwait compared with Saudi Arabia and UAE.

Also, in terms of FDI out flows, we see that UAE and Saudi Arabia are the two main contributors, besides Kuwait, whose FDI outflows have emerged as a significant

ratio for 1998-2008. Meanwhile, Oman, Qatar and Bahrain showed a low level in this respect, as mentioned before.

Figure (6)
Average of FDI, inflows and outflows in 1998-2008 (Million USD)



Source: Prepared by the researcher based on tables (5) and (6).

Finally, we note that there is a positive relation between FDI and size of GCC economies, as measured by GDP. This issue clearly confirmed that Saudi Arabia and UAE are major economies in comparison with other GCC countries. This analysis is consistent with our previous analysis, which confirms that the size of GDP is a good motivation for attracting more foreign direct investment, as well as legislation which is associated with it, whereas its necessity is emerging in this regard and through it we can identify the reason for decreasing foreign direct investment inflows to Kuwait. As there is no competition legislation in Kuwait compared with other GCC countries, due to bureaucracy, stringent regulations, limited foreign ownership and inflexible labour laws³², it is trying to regulate a new law for foreign direct investment as a good means for attracting foreign companies for investing in Kuwait.

6. Relative Importance of FDI in GCC Countries

The relative importance of FDI and its role could be measured by two indicators, FDI as a ratio of fixed capital formation and GDP.

6.1- Ratio of FDI to Gross Fixed Capital Formation

The average of FDI in GCC countries ranges between 0.5% in Kuwait and 41.3% in Bahrain in 1998-2008. Table (7) shows the contribution of FDI as a percentage of

(32) Ibid.

fixed capital formation in GCC countries, where Bahrain represents a significant ratio of FDI compared with other GCC countries due to the role of economic reformation policies and legislation which are associated with FDI³³. These factors have facilitated attracting foreign direct investment to this country. UAE is coming in the second level in terms of its relative importance, where these investments concentrated in construction and sectors which are related with energy, such as iron and aluminium. Oman and Saudi Arabia dominate the third and fourth level, respectively³⁴.

Table (7)

FDI as a percentage of gross fixed capital formation 1998-2008 (Percentages)

Year	UAE	Bahrain	KSA	Oman	Qatar	Kuwait
1998	2.6	24.5	0.7	2.0	11.2	2.0
1999	7.8	50.5	2.5	1.7	5	1.6
2000	3.9	33.8	5.7	0.7	7.3	0.6
2001	9.1	7.7	0.1	3.3	7.6	-5.0
2002	6.5	23.0	1.9	0.9	19.7	0.2
2003	3.7	50.4	0.6	5.5	11.4	2.2
2004	4.6	41.1	4.3	-0.5	13.4	-0.5
2005	38.6	39.8	23.2	30.2	9.1	1.7
2006	30.4	92.2	29.7	30.4	1.0	0.8
2007	26.7	44.7	30.1	39.7	5.4	0.8
2008	55.0	46.9	45.6	28.5	26.3	1.2
98-2008	17.2	41.3	13.2	12.9	10.6	0.5

Source: SESRIC, Data base of statistical, economics and social research and training.

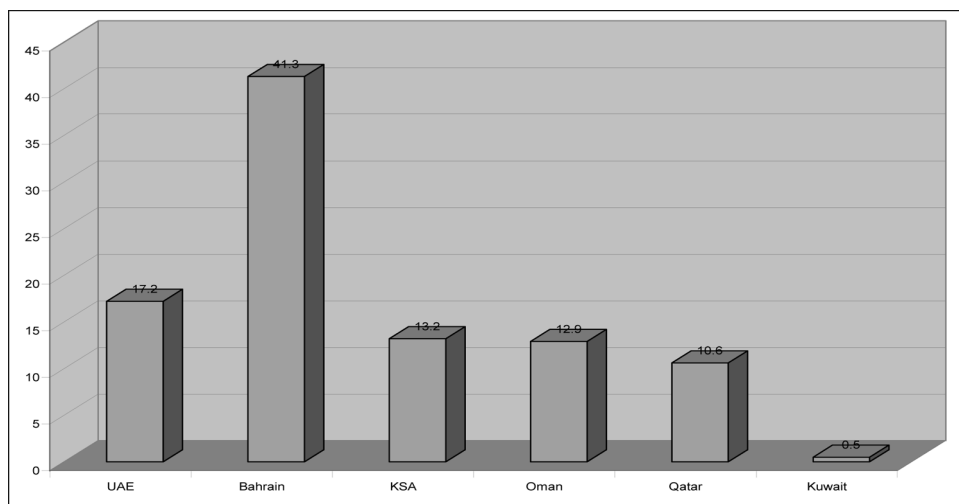
AIECGC, Arab Investment and exports credit guarantee corporation, statistics.

«World Investment Report,» UNCTAD (2004), p. 394; «World Investment Report,» UNCTAD (2005), pp. 320-321; «World Investment Report,» UNCTAD (2006), pp. 313-314 and «World Investment Report,» UNCTAD (2008), pp. 267-268.

Figure (7) shows the role of FDI flows as a ratio of gross fixed capital formation (GFCF), where Bahrain emerges with its significant contribution, which, on average, amounted to 41.3% in 1998-2008. However, FDI has a big role in increasing the level of value added, especially the Bahrain economy, which is not reliant on the oil sector as a main source of income. This feature confirms the importance of FDI flows in Bahrain. Accordingly, we can say that achieved economic growth in Bahrain during the time of the study is significantly associated with FDI flows, which stimulate economic activities, especially in non-oil sectors.

(33) «Foreign Direct Investment Report,» Economic and Social Commission for Western Asia (ESCWA) (UN-New York) (2008), p. 16.

(34) Ibid.

Figure (7)**FDI flows as a ratio of GFCF in GCC countries - 1998-2008 (percentages).**

Source: Based on table (7).

In Kuwait, we note that FDI has a modest ratio 0.5%, which proves that FDI has an insignificant impact on Kuwait's economy, because of its low level during the said period.

Accordingly, we note there is an important issue concerning the negative relation between the size of FDI flows and the gross fixed capital formation, which is linked to the size of the economy. Accordingly, we see that these investments achieve a clear contribution in the small economies of GCC - Bahrain, Oman and Qatar - while, in general, the role of FDI in GCC countries reflects the efficiency of foreign companies, as well as the pattern of these investments and the added value which could be achieved via FDI flows.

6.2 - Ratio of FDI to GDP

FDI as a percentage of GDP is characterised by its fluctuations in 1998-2008. The main reason for the different size of GDP in GCC countries, as well as the different law frameworks, is the help to attract foreign direct investments and the quality of foreign companies in respect of the level of value added.

Table (8) shows the state of fluctuations of FDI flows to GCC countries as a percentage of GDP, which ranges between 0.5% as the average in Kuwait to 45.1% in Bahrain due its high level of economic freedom, whereas it dominates on the first level in Arab homeland and ninth global level among 155 countries according to Heritage index for economic freedom in 2001³⁵.

(35) Jassim Hussein, «The Foreign Direct Investment in the Gulf,» *Journal of Economic Vision* (Alroya), no. 47 (2010), p. 3, <<http://www.alroya.com/node/929>>. (in Arabic).

Table (8)
FDI flows as a percentage of GDP 1998-2008^(*) (Percentages)

Year	UAE	Bahrain	KSA	Oman	Qatar	Kuwait
1998	1.0	5.8	0.2	0.7	3.6	- 6.9
1999	-1.5	9.3	0.1	0.3	1.0	0.3
2000	1.5	74.1	13.8	12.5	10.8	1.6
2001	2.0	60.2	0.3	0.6	2.0	- 1.2
2002	4.3	73.7	13.5	12.9	16.3	1.3
2003	4.4	72.4	12.1	12.6	16.0	1.2
2004	4.6	70.5	8.2	14.0	14.6	0.7
2005	21.1	11.9	8.5	13.3	16.2	0.9
2006	23.3	38.9	28.7	14.0	13.5	0.8
2007	25.2	65.9	20.2	14.7	10.7	0.8
2008	11.7	14.0	8.4	5.0	10.0	5.9
Average 98-2008 ^(**)	8.9	45.1	10.3	9.1	9.5	0.5

(*) 1998, 1999, 2001 and 2008 are calculated by the researcher depending on: SESRIC, Data base of statistical, economics and social research and training. AIECGC, Arab Investment and exports credit guarantee corporation, statistics.

(**) Calculated by the researcher.

Source: «World Investment Report,» UNCTAD (2004), pp. 406-407; «World Investment Report,» UNCTAD (2005), pp. 320-321; «World Investment Report,» UNCTAD (2006), pp. 313-314 and «World Investment Report,» UNCTAD (2008), pp. 267-268.

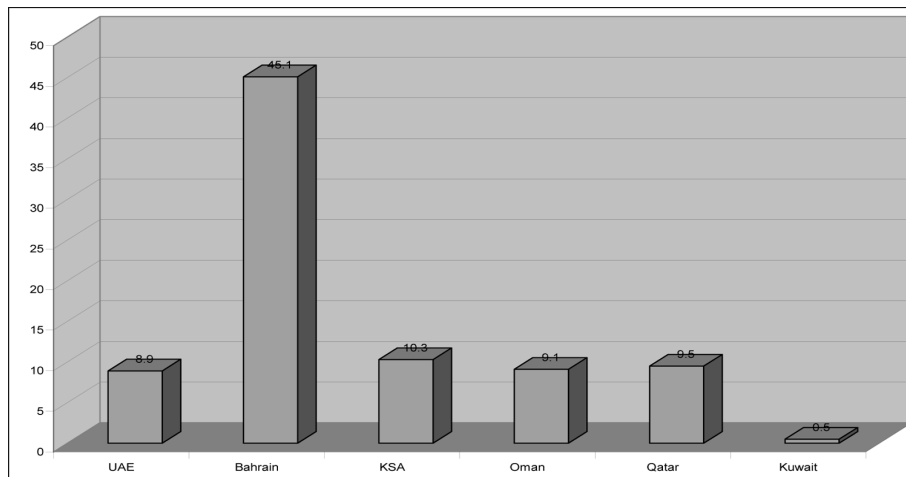
Moreover, Bahrain has applied a free trade agreement with the United States of America since August 2006; USA being the main exporter of FDI, which amounted to 30% of total world investment³⁶. Therefore, according to this agreement, we see that American investment prefers to invest in Bahrain.

In addition, we note there is a big drop in FDI flows to Kuwait compared to other GCC countries, whereas Bahrain, Saudi Arabia and Qatar represent a significant relative importance in terms of the average of FDI as a percentage of GDP in 1998-2008. However, Bahrain dominates the first level, while Saudi Arabia comes in at second level (10.3%). Qatar also occupies the third level, which represents 9.5%. Figure (8) shows FDI flows as a ratio of GDP in 1998-2008.

From figure (8), we note that Bahrain's economy is more integrated with the world economy via FDI's, whereas the economic policies of this country has aimed at attracting more foreign investment to overcome its economic problems, in terms of its small size of GDP. Therefore, in this case FDI could lead an increase in the level of economic growth, on the one hand. However, on the other hand, we see that this high reliance on FDI in Bahrain could be affected negatively in the case of the flight of these investments in conditions of economic crisis which occur regionally and globally, whereas the host country will be effected and lead to the status of non-economic stability, then dropping the level of economic growth.

(36) Ibid.

Figure (8)
FDI flows as ratio of GDP in GCC countries - 1998-2008 (Percentages)



Source: Based on data of table (8).

In Kuwait, FDI's have an obvious role, while in Saudi Arabia and UAE, we can say that these investments could be affected positively through the increased level of value added and enhanced growth of GDP and vice versa in the case of its failure, whereas it may have a negative effect on GDP of the host economy and its growth. In Oman and Qatar, we see that FDI achieved a close relative contribution compared with Saudi Arabia and UAE, (10.3% and 8.9%), respectively.

However, we can say that the increased share of FDI in GDP contributes in reducing fluctuations, which affect industrial sectors in GCC countries, especially the extracting industry sectors, due to oil exports fluctuations, which have a negative effect on the local economy in GCC countries, therefore, the role of FDI should concentrate on improving non-oil sectors and achieve stable economic growth. However, FDI significantly contributes to enhancing economic activities and reduces fluctuations resulting from high reliance on crude oil exports revenues. In conclusion, the role of foreign direct investment is specific to the country; therefore, we will examine that role empirically in the next article by adding FDI, inflows and out flows as independent variables to find out the real impact of foreign direct investments in GCC countries over the period of study.

7. The Model

The specific model combines foreign trade commodity and foreign direct investment in 1998-2008. We have built this model according to literature reviews which emphasise the positive effect of FDI and foreign trade, as well as, neoclassical and endogenous growth theories. To examine the role of FDI in GCC countries, the model will include foreign direct inflows (FDIn), and foreign direct investment outflows (FDout) as a ratio of GDP in 1998-2008.

In respect of foreign trade, we will use three independent variables, which include non-oil commodity exports (noilx), oil exports (oilx) and commodity imports (M). All mentioned variables are independent, while gross domestic product (GDP) will be a dependent variable of the specific model of this study.

7.1 - Model Estimation

The model has been estimated by using ordinary least squares (OLS) with panel data technique. By using SPSS software, we have obtained the model shown in table (9).

Table (9)
Regression result for the model

Country	Model	Unstandardized Coefficient		t	Sig.
		B	Std. Error		
UAE	(Constant)	0.173	0.441	0.391	0.698
	FDin	1.662E-02	0.009	1.897	0.066 (***)
	FDout	5.284E-02	0.015	3.455	0.001 (*)
	Oilx	3.819	0.550	6.941	0.000 (*)
	Noilx	6.035E-02	0.102	0.593	0.557
	M	0.150	0.174	0.866	0.393
Bahrain	FDin	-2.19E-03	0.007	-0.311	0.758
	FDout	4.698E-03	0.010	0.476	0.637
	Oilx	0.166	0.104	1.590	0.121
	Noilx	-2.39E-02	0.113	-0.211	0.834
	M	0.923	0.200	4.619	0.000 (*)
Saudi Arabia	FDin	-5.56E-02	0.012	-4.496	0.000 (*)
	FDout	5.123E-03	0.037	0.137	0.892
	Oilx	0.401	0.144	2.793	0.008 (*)
	Noilx	-1.54E-03	0.026	-0.059	0.953
	M	0.734	0.172	4.272	0.000 (*)
Oman	FDin	-2.78E-03	0.012	-0.236	0.815
	FDout	0.119	0.098	1.217	0.232
	Oilx	0.517	0.108	4.803	0.000 (*)
	Noilx	3.966E-02	0.032	1.235	0.225
	M	0.552	0.124	4.434	0.000 (*)
Qatar	FDin	2.298E-02	0.018	1.274	0.211
	FDout	3.967E-04	0.014	0.028	0.977
	Oilx	0.747	0.091	8.219	0.000 (*)
	Noilx	2.898E-02	0.036	0.798	0.430
	M	0.341	0.092	3.721	0.001 (*)
Kuwait	FDin	2.621E-02	0.1380.015	0.189	0.851
	FDout	3.039E-02	0.112	2.037	0.049 (*)
	Oilx	0.620	0.041	5.535	0.000 (*)
	Noilx	1.362E-02	0.155	0.335	0.740
	M	0.460		2.969	0.005 (*)

Source: prepared by using SPSS software and panel data technique.

(*) indicate statistically significant at (1%), (5%) and (10%) levels, respectively.

$R^2 = 0.998$ adjusted. $R^2 = 0.996$ $F = 483.075$ $P = 0.000$ $D.W = 2.281$

In Table (9), estimated values show that this model is statistically significant at the level of 0.01. In addition, (F) value is 483.075, while the adjusted R^2 is about 0.996. This means there is a significant relation between independent variables and dependent variable of this study, which shows the importance of using this model in analyzing the effect of FDI and foreign trade on GDP growth. Moreover the (D.W.) value is about 2.281, which confirms that there is no auto-correlation because the (D.W.) value is located within the accepted statistics area. Therefore, we can rely on this model in analysing the impact of independent variables on GDP and economic growth in GCC countries in 1998-2008.

7.2 - Model Analysis

The most estimated variables are statistically significant at the 0.01 level; however, the impact of each variable on GDP has a different influence in GCC countries, as we will note by the following specific analyses:

UAE: There are three significant coefficients: FDI inflows, FDI outflows and oil exports. In respect of FDI outflows, the (t) test refers to strength relationship and significant effect of this variable compared with FDI inflows. We can explain this issue from the evident role of FDI outflows, which are linked with the local economy because most of FDI outflows are owned by the public sector, whereas UAE invests surplus of crude oil exports revenue, which have achieved a positive effect on GDP in 1998-2008.

In addition, we note that FDI inflows reflect a weak impact on GDP of UAE, whereas increasing FDI inflows by one time leads to an increase in GDP by 0.001662 times. While FDI outflows coefficient indicates that an increase of FDI outflows by one time will lead to an increase GDP in UAE by 0.00528 times. This result confirms an important issue. This means that the size of FDI does not reflect the real picture of its role in the local economy. Moreover, FDI inflows have achieved a positive growth, which reached about 5 %^(*) in 1998-2008, whereas the average of FDI inflows of UAE is about USD 6101.51 million. In contrast, average of FDI outflows amounted to USD 3099.03 million and its growth rate amounted to be 2%. However, we found that FDI outflows have a more positive effect compared with FDI inflows over the period of study. In addition, it is worth noting in this context, that economic policies of GCC countries, especially in UAE, aims at attracting more foreign direct investments, which is considered a good indicator for the decision-makers, and is an obvious evidence of the success of investment and trade policies in UAE³⁷. Furthermore, UAE is considered as a gateway for regional markets.

Furthermore, oil exports coefficient is statistically significant at 0.01 level and it has a strong relation with the dependent variable compared to the independent variables above, whereas increasing oil exports revenues by one time leads to an increase in GDP by 3.819 times. In this respect, we can say that oil exports revenues still represent a significant source of income of UAE economy despite its big efforts to diversify the structure of production. In contrast, we note the weak role of non-oil commodity exports, whereas its

(*) Calculated by the researcher based on the table (5),

(37) «Foreign Direct Investment in the UAE, 2005-2006.» Ministry of Economy (UAE) (2008), p. 32, <<http://www.economy.ae/english/documents/FDI/E-FDI%202005-2006.pdf>> .

coefficient is insignificant in this model because of a high reliance on oil exports revenue, which, on average, dominate with about 29.2%^(*) of GDP for 1998-2008.

Finally, we see also that the economic growth level in UAE is still reliant on oil sector and its exports revenue, whereas rising global oil prices reflect high revenues, which feed other economic sectors, as well as engaging the surplus to increase FDI out flows. In other words, there is a positive relation between the increase in oil prices, GDP growth and FDI out flows of UAE and vice versa in the case of a drop in oil prices; therefore, UAE economy is still influenced by global oil prices and its fluctuations.

Bahrain: In respect of Bahrain's economy, all of model coefficients were statistically insignificant, except the commodity imports coefficient, which was statistically significant at 0.01 level; whereas increasing commodity imports by one time lead to an increase in GDP in Bahrain of about 0.923 times. This result confirms the positive role of imports and its evident effect on the economic growth in Bahrain.

In this respect, we see that this result is related to the increasing level of capital imports, which include machinery and transportation equipment, and amounted, on average, amounted to 28%^(**) of total commodity imports. Also manufacturing goods to 15%, while food and beverages were, on average, about 7% in 1998-2008. In this context, we note that the capital imports represent the significant relative importance of the main total imports of Bahrain; therefore, this analysis is compatible with the specific model. This means that capital imports of Bahrain reflect a positive effect on GDP, whereas these imports have activated the production process and enhanced the level of GDP growth over the period of study.

Moreover, we have noted already that Bahrain's economy only represents 2% of the average total of GDP of GCC countries in 1998-2008, whereas it is considered a smaller economy compared with other GCC countries. Therefore, capital imports have improved economic activities, which enhance GDP in Bahrain. In addition, crude oil exports are not considered of high importance compared with other GCC countries. Estimated model has enhanced this fact in that oil exports coefficient is statistically insignificant, which confirms the weak role of the oil sector in Bahrain, as mentioned before.

Finally, we can conclude that the small size of GDP of Bahrain is the main reason for its greater dependence on imports, rather than other economic variables.

Saudi Arabia: The estimated model refers that FDI inflows have a slight negative effect on the Saudi economy in 1998-2008, whereas increasing FDI inflows by one time leads to a drop in GDP by 0.0005 times. However, this effect is relatively weak, because, as we can conclude of the big role of FDI inflows in competing with the local investment in Saudi Arabia. This affects the Saudi economy despite the huge size of FDI inflows compared with other GCC economies, whereas, on average, FDI inflows have risen from 0.3% in 1998 to 46% in 2008, of fixed capital formation in 1998-2008. Therefore,

(*) Based on data of the Unified Economic Report of Arab countries, and «Annual Statistical Bulletin Organization of the Petroleum Exporting Countries,» OPEC (2008), different pages.

(**) Based on data of the Arab Monetary Fund (AMF), < <http://www.amf.org.ae> > .

we can justify the negative role of FDI for this reason. In addition, this result confirms that there is no significant linkage between FDI inflows and the local economy represented by GDP, which indicates that most of the profit of foreign direct investment in Saudi Arabia is going back to their motherlands. Accordingly, we can conclude that foreign investors' strategies are not compatible with the strategy of economic development of Saudi Arabia in 1998-2008. However, empirical result shows that FDI inflows in Saudi Arabia have not achieved the required result, which is aimed at diversifying commodity production, because it has not increased non-oil commodity foreign trade; the estimated model confirms its insignificant coefficient.

Through the above, the foreign direct investment inflows have not achieved a developmental role, whereas its impact has a negative effect on the Saudi economy by competing with the local investments, which lack expertise enjoyed by foreign investors.

In respect of oil exports variable, the estimated model indicates that it is statistically significant at 0.01 level and, accordingly, its impact will be important, whereas increasing crude oil exports by one time leads to an increase in the Saudi GDP by 0.401 times. This reflects the necessity of this variable and its positive effect in enhancing the economic growth in Saudi Arabia. This result is acceptable practically, because Saudi Arabia is considered as a main oil exporter in the Middle East in general, whereas Saudi oil exports have achieved a high growth rate, which amounted to 20% in 1998-2008. In addition, relative importance of oil exports form about 55.3%^(*), as an average of total oil exports revenues of GCC countries during the said period.

The third significant coefficient is the commodity imports, which has a clear positive effect on Saudi's GDP, whereas increasing the commodity imports by one time leads to increase GDP by 0.734 times. This result confirms that Saudi imports have a big role in enhancing the Saudi economy, as a result for relative importance of capital imports, the average of which was about 49%^(**) as the average of total commodity Saudi imports in 1998-2008.

Oman: In Oman, the result of the estimated model shows that the role of oil exports is statistically significant at 0.01 level, which confirms the positive impact of Oil revenues in increasing Oman's GDP, whereas raising crude oil revenue by one time leads to an increase in GDP by 0.517 time. This result ensures the strength of the relationship between oil exports and growth of GDP. This is consistent with the real situation, which indicates that oil exports revenues form 38.5%^(***), as the ratio of average GDP of Oman, in 1998-2008. Moreover, these revenues have achieved a growth rate of 17%^(****) over the said period, which shows the significant economic role of crude oil revenue, and has a positive effect on Oman's GDP and enhances other economic activities in general.

(*) Calculated based on OPEC, «Annual Statistical Bulletin Organization of the Petroleum Exporting Countries,» OPEC (2010), p. 81.

(**) Based on: «Data of Foreign Trade of GCC,» Arab Monetary Fund (AMF) (Kuwait), different tables.

(***) Based on: «Joint Arab Economic Report,» Arab League, different issues.

(****) Based on: «Joint Arab Economic Report,» Arab League, different issues.

In other words, it is clear that the economic growth in Oman is still associated with the oil sector and its growth. Furthermore, obtained model result indicates that the intention to diversify Oman's economy by increasing the share of non-oil commodity exports has not reached an acceptable level in this regard, because the coefficient of non-oil commodity exports were statistically insignificant, which confirms the real situation of Oman's economy.

In addition, imports coefficient refers to its positive role, whereas increasing the commodity imports level by one time leads to an increase in Oman's GDP by 0.552 times. In this context, on average, commodity imports of machinery and transportation equipment amount to about 28% in 1998-2008, while manufacturing imports amounted to 24%, food and beverages 15% over the period of study, whereas capital imports dominated the highest ratio, and thus reflects its role in enhancing GDP growth.

Qatar: Crude oil exports represent a big effect on Qatar's GDP, whereas an increase in oil exports revenue by one time leads to an increase in GDP by 0.747 times; this result confirms the important role of the oil sector in Qatar.

In respect of commodity imports, we note that it has a positive impact on GDP growth in 1998-2008, whereas its increase has led to an increase in GDP by 0.341 times.

Other variables, FDI inflows, FDI outflows and non-oil commodity exports are statistically insignificant, as shown in the estimated model, whereas the economic situation in Qatar is not different in comparison with other GCC countries, as oil exports revenue is the predominant source of income. Accordingly, we can say that FDI, inflows and outflows have no positive effect on GDP and its growth over the study period.

Kuwait: The coefficient of FDI outflows is significant statistically, which reflects its limited positive effect on Kuwait's GDP, whereas increasing FDI outflows by one time leads to an increase in GDP in Kuwait by 0.003093 times, as shown in the estimated model.

It is worth noting that FDI outflows increased from USD 1866.86 million in year 1998 to USD 8858.00 million in year 2008 (AIECGC, 2010). In this context we can say that the positive effect of FDI outflows in Kuwait is based on the linkage between these investments and the local economy, whereas the model result shows that FDI outflows reflected positively on Kuwait's economy in 1998-2008.

Oil exports coefficient is statistically significant and has a positive signal, which confirms the major role of crude oil exports revenues on GDP over the said period; an increase by one time leads to an increase in GDP of 0.620 times. In respect of the commodity imports, we note through the estimated model that the coefficient was statistically significant. This means that an increase in commodity imports by one time raises Kuwait's GDP by 0.460 times, which reflects the role of capital commodity imports in improving the production level and growing GDP in general. The commodity imports of Kuwait represent the third rank, after Saudi Arabia and Oman. However, on average, machinery and transportation equipment dominated 40 %^(*) of total commodity imports in 1998-2008, while manufactur-

(*) Calculated based on: Statistical Tables of Arab Monetary Fund, (AMF), < <http://www.amf.org.ae> > .

ing goods were about 13%, beverage and food about 34%. The significant ratio represents the big role, which enhances various economic activities resulting in an increasing size of GDP.

There is no doubt, as we have noted empirically, the important role of crude oil exports revenue has a positive influence on the size of GDP in Kuwait and the rest of GCC countries. Oil exports coefficients are significant in all GCC countries, except Bahrain, whereas the necessity of these revenues emerged to meet the shortage of various goods, especially the capital goods. In general, the results of the model have proven the continuous reliance of GCC countries on the oil sector. In other words, the significant role of foreign trade, oil exports and commodity imports, is the coefficients of which were statistically significant, except Bahrain. Moreover, this analysis is compatible with our analytical approach, which already confirmed the high reliance of GCC countries on the oil sector and its revenue in 1998-2008.

Therefore, we can say that the results of the estimated model and analytical approach have proved that GCC countries are more integrated with non-GCC countries as a result of their crude oil exports, which means that GCC countries are still reacting to oil market fluctuations and their effect on their local economies due to the change in global oil prices, which occur from time to other and that the economic growth level in GCC countries will remain positive in relation to the global economic growth.

Conclusions

1. The foreign direct investments, inflows and outflows have achieved a significant role in UAE, in which there is a positive relation between FDI and GDP variables. As for Kuwait, we have concluded that the positive effect on GDP was only achieved by FDI outflows as a result of its rapid increase in 1998-2008.

2. The estimated model confirms the negative relation between FDI inflows and GDP of Saudi Arabia because FDI inflows caused unequal competition in respect of the local investment, as well as the weak linkage between FDI inflows and the local economy, whereas most of FDI profits were going to the home country of the foreign investors.

3. The model confirms the continuous role of crude oil exports in growing GDP of GCC countries, except Bahrain, in 1998-2008. Its importance is obvious in UAE, Qatar and Kuwait, which proves the significant share of oil exports in GDP of GCC countries.

4. There are insignificant levels of non-oil exports coefficients in all of GCC countries, which show the failure of GCC efforts to improve non-oil commodity sectors. However, this result disagrees with the main target of the unified economic policies in GCC countries over the study period.

5. The commodity imports have achieved a positive effect in growing GDP in GCC countries, except UAE, which is explained by importance of commodity imports - practically capital imports, which influence or activate production of various goods - and thus increasing GDP of GCC countries.