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Manuel Fernandez

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Manuel Fernandez
Skyline University College, Sharjah, UAE
E-mail: qln_manuel@yahoo.com
Tel: +971 6 5441155

Robinson Joseph
Skyline University College, Sharjah, UAE
E-mail: mrobinjose@gmail.com
Tel: +971 6 5441155

Abstract

In this era of globalization and high competition each and every nation is trying to attract maximum investments from overseas for the development and growth of the economy. Most of the Middle East economies are in the growth mode and are dependent on the revenue from oil, but the current decline in oil prices have very badly affected these economies and all are targeting to secure maximum foreign direct investments (FDI). Many of the developed nations and Multinational Corporations are in the search for the best destinations for their investments. The purpose of this study to identify the attractive destination for FDI in the Middle East.The flow of FDI into a country depends on the availability of a number of factors. This study probes into the existence of each of these factors in the various countries in the Middle East. Secondary data is used to rank each country on the basis of the parameters that attract FDI. The findings indicate that the UAE is the attractive FDI destination in the Middle East

Keywords: Foreign Direct Investment, Multinational Corporations, Middle East, United Arab Emirates

1. Introduction

In this era of globalization, there is a great flow of investments between countries, investments flowing to destinations which are relatively more attractive than others. The investors whether it be individuals or corporates or nations will always prefer to invest in assets that give attractive returns on investments and are relatively less risky. Every asset or corporate or country have different characteristics that attract different investors differently at different times. Many studies have been conducted to find out the different factors attracting the investments and have come out with results drawing attention to a number of factors.

Foreign Direct Investment (FDI) is defined as the investments made by a company in the investor country into a foreign, host country. It can take the form of acquisition of already existing host firms or establishment of new companies in the host country or entering into a joint venture with an existing host firm. The importance of FDI is growing because of the beneficial impact on both host country's economy and a firm's performance and profitability

The inflow of FDI gives developing countries access to capital that would otherwise be not available, as Transnational Corporations (TNCs) often have privileged access to capital from the international banking sector. Similarly, FDI provides needed foreign exchange and therefore helps to adjust some of the macroeconomic imbalances in developing countries. All the countries in the Middle East are in the growth mode but the resources available for development with them are limited and insufficient, hence each and every nation is competing against each other to make the investment climate better and project itself as the most favored destination for the FDI.

The Middle East is a loose term, not always used to describe the same territory. It usually includes the Arab countries from Egypt east to the Persian Gulf, plus Israel and Iran. Turkey is sometimes considered part of the Middle East, sometimes part of Europe. Sometimes the Middle East includes North Africa as well. For the purpose of this study, the Middle East is generally confined to the ten most competitive economies of the Middle East namely, Algeria, Bahrain, Iran, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The United Arab Emirates (UAE) is located in the middle of the Arabian Gulf. The UAE is a federation of seven Emirates including Abu Dhabi, Dubai, Sharjah, Ajman, Umm al-Quwain, Ras al-Khaimah and Fujairah, which are governed by the Federal Supreme Council (FSC) of rulers. Abu Dhabi and Dubai, the largest and the wealthiest two Emirates, dominate the UAE economy. It is a rich and open economy with a high per capita income and a sizable annual trade surplus. Oil and Gas account for nearly 25% of GDP, 45% of export earnings and 40% of government revenue. Since the discovery of oil in the UAE, it achieved a profound transformation from a small desert region to a modern state with a very high standard of living ('www.gulfbase.com').

The basic objective of this study is to find out the most attractive FDI destination in the Middle East in general and specifically the most attractive destination in the GCC. The study proposes to rank all the Middle East countries on various parameters that attract FDI and highlight the most attractive destination in the Middle East so anyone looking out for investment destinations in the Middle East can make use of the findings of this study to arrive at the most suitable decisions.

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

2. Literature Review

Foreign direct investment is widely perceived as a powerful development engine for many receiving (host) countries.FDI can play a key role in improving the capacity of the host country to respond to the opportunities offered by global economic integration, a goal increasingly recognized as one of the key aims of any development strategy. Virtually all countries are actively seeking to attract FDI, because of its expected favourable effect on income generation from capital inflows, advanced technology, management skills and market know-how (Cho, 2003).

Numerous studies have been conducted in different parts of the world and majority of the studies have inspected the effects of determinants of FDI inflow and found that relevant determinants include the size and growth potential of the host market, economic stability, economic growth, geographic location, infrastructure, human capital, interest rate, degree of openness, per capita income, exchange rate, wage rate, quality of institutions, etc.,

The presentation of the literature review is sequenced in such a manner that the literature relating to market size is presented first, followed by literature relating to the degree of openness, then exchange rate volatility, followed by political stability and then all literature relating to all other factors are arranged chronologically.

Market size is expected to have a positive relationship with FDI. Market-oriented FDI aims to set up enterprises to supply goods and services to the local market. The general implication is that host countries with larger market size, faster economic growth and a higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and therefore, will attract more market-oriented FDI (OECD,2000). The study by Resmini

(2000), looking into manufacturing FDI, finds that countries in Central and Eastern Europe with larger populations tend to attract more FDI. The studies by Kravis, and Lipesey, (1982), and Na and Lightfoot, (2006) revealed that FDI inflow has been largely attracted by the market size and market potential. Thus one may presumethat large host countries attract higher foreign direct investment due to larger potential demand.

Trade openness and foreign direct investments are interconnected according to Neumayer and Indra (2005). The authors show the importance of liberalizing economies with the objective of streamlining foreign direct investments. There is a sense of skepticism expressed by authors in relation to closed systems of trade considering the opportunities available as a result of trading overseas. Similarly, Resmini (2000), studying manufacturing investment in Central and Eastern Europe, found that increasing openness is beneficial for vertical FDI flows as in these sectors international trade flows in intermediate and capital goods are important.

The high volatility of the exchange rate of the currency in the host country discourages investment by the foreign firms as it increases uncertainty regarding the future economic and business prospects of the host country (Banga, 2003). The study by Campa (1993) examined how exchange rate uncertainty affected FDI and his study revealed that greater exchange rate uncertainty increased the option for firms to wait until investing in a market, depressing current FDI. Thus it can be said that TNCs prefer to do business with those countries with stable currency so that the home country profit is not widely affected by the exchange rate volatility.

Political stabilityand reliability determine the FDI inflows. TNCs prefer stable government so that their investment is protected. Political instability may be in the form of the negative attitude of the government towards TNCs, non-allowance of fund transfer, currency convertibility, war, bureaucracy and corruption. Political stability can also be measured by the number of changes of democratically elected governments (Gedam, 1996). The study by Root and Ahmed (1979), and Schneider and Frey (1985), looking at aggregate investment flows into developing economies found that political instability significantly affects FDI inflows.

Dunning (1973) studied econometric models using a statistical analysis of surveys on the determinants of FDI and found that market force such as market size, growth and per capital income in the host country, and cost factors like labor cost and inflation as factors attracting FDI.

Tax policiesincluding corporate and personal tax rates influence inward FDI. Other things being equal a country with lower tax rates should stand a greater chance of attracting FDI project than a country with higher rates (Chopra, 2003).

The study by Makki *et al*., (2004) on US food processing industry found that market size, per-capita income, and openness significantly affected US food processing firms' decisions to invest abroad.

According to Neumayer andIndra (2005), availability of raw materials provides investors with an added advantage with regards to producing efficiently.

The location is an important determinant of FDI inflows in the Gulf region and provides stakeholders with opportunities for growth as long as the right procedures are followed in terms of boosting growth (Mina, 2007).

Casi and Resmini (2010) inspected the determinants of FDI in the EU region and found that the main determinants are GDP growth rate, labor costs, and market potential.

Khachoo and Khan (2012) conducted a study to examine the determinants of FDI in 32 developing countries from 1982 to 2008 using an econometric model. Their empirical results showed that market size, total reserve, and infrastructure were positively related to FDI inflows.

The study made by Uwubanmwen and Ajao (2012) shows that trade openness, interest rate, government size, and GDP exerted a positive control on cross-border investments in Nigeria and a negative relationship was found between FDI and exchange rates.

According to Milner (2013), the presence of a productive labor force is one of the determinants that influence the scope of FDI in a country.

Now let us have a glimpse at a few of the literature on advantages of inflow of FDI. Theforemost advantage of FDI is increased revenues that can be used for expanding growth opportunities in the investment destination. According to Almutawa*et al*., (2014), investments by foreigners refers to additional revenue that supports various economic projects of a country. According to Muysken and Samia(2006), unemployment ratesare reduced as a result of capital injections and job opportunities from foreign-based companies. FDI also increases the competitive advantage of a country by developing financial and business hubs that boost economic growth. Mina (2007) points out that FDI promotes the economic growth of a nation by stimulating various sectors of the economy such as manufacturing and tourism. The study by Raphael *et al*., (2013) promotesthe view that FDI increases investor confidence in a given economic bloc such as the Gulf by attracting new investment stakeholders in the long run.

In brief, the trend in FDI flows differs by region and country. Although FDI has innumerable effects on the economy of host countries and although most countries are trying hard to attract FDI, the inflow of FDI continues to be uneven, with some countries getting the lion's share and others barely getting any. The UAE has made tremendous efforts in terms of encouraging direct investments for accelerating economic growth (Blaine,2008). The realization to attract FDI came after the government developed an economic growth plan that would help steer the country as a major destination for investments in the Arab region. These aspects have prompted this study to find out the attractive FDI destination in the Middle East.

3. Methodology

The objective of this study is to find out the attractive destination for FDI in the Middle East. This study is solely based on secondary data collected from local, regional and international agencies like UAE Government, Central Bank of the UAE, World Economic Forum, International Monetary Fund, Transparency International, World Bank group, United Nations and various publications of the statistical departments, governments, and the press. The study covers the period from 2014 to 2016. The collected data are tabulated and analyzed using appropriate analytical tools.

4. Analysis and Discussions

Determinants

The Global Competitiveness Report 2014-2015 published by the World Economic Forum assesses the competitiveness landscape of 144 economies, providing insight into the drivers of their productivity and prosperity. The Report series remains the most comprehensive assessment of national competitiveness worldwide. Table 1gives the competitiveness ranking for the top 10 countries in the world during 2014-15 based on parameters like intensity of local competition, extent of market dominance, effectiveness of anti-monopoly policy, effect of taxation on incentives to invest, total tax rate as percentage of profits, number of procedures to start a business, number of days to start a business, agricultural policy costs, prevalence of trade barriers, trade tariffs as percentage duty, prevalence of foreign ownership, business impact of rules on FDI, burden of customs procedures, imports as a percentage of GDP, degree of customer orientation and buyer sophistication

Table 1: The 10 Most Competitive Middle East and North African Economies in 2014-2015

Country	Global Rank*
United Arab Emirates	12
Qatar	16
Saudi Arabia	24
Kuwait	40
Bahrain	44

Oman	46
Jordan	64
Morocco	72
Algeria	79
Iran, Islamic Rep	83

Source: The Global Competitiveness Report 2014-2015
*Note: 2014-2015 rank out of 144 economies

The Global Competitiveness Report 2014-2015 ranks the UAE as the most competitive nation in the Middle East and 12thglobally. It may be noted that UAE is ranked ahead of most EU countries, including the UK, France, Italy and Spain, and also doing better than Japan, South Korea, China and India. An analysis is made into various determinants of FDI beginning with market size.

4.1 Market Size, Growth and Efficiency

Market size, growth in market size and market efficiency are important determinants of FDI. The market size and the growth prospects of the market of the host country are important pull factors and are positively related to the level of FDI flows (Dunning, 1993 and Chandalert, 2000). A huge market size allows the attainment of economies of scale, and transaction costs are lower in countries with higher levels of economic development (Caves, 1971; Zhao and Zhu, 2000). The UAE is the second largest Arab economy and the 31st largest in the world. The population of the UAE is more than 9 million, the GDP is US$396.2 billion and GDP per capita income is US$ 43,875.93according to the International Monetary Fund; World Economic Outlook Database (April, 2014). The market size can be measured by the growth of population of the country, but the UAE deserves a different treatment as it is one of the most favored tourist destinations in the Middle East and since it is a tax-free country tourist prefer to do a lot of shopping as the prices are relatively lower because of the tax advantage. Hence in this study the market size or the population is considered to include the citizens of the country, the residents, and tourists.

The UAE domestic market has grown over the years, considering the exponential growth in population. A larger population means a better domestic market that can consumegoods and services provided by investors. The populations of the UAE includes people from more than 200 countries, thus it a melting pot of different culture with diverse needs and preferences and thus has a much diversified consumer pattern. The UAE market has seen changes in terms of consumer patterns in which diversification has become commonplace. A diversified consumer economy is good for business and more so those with the intention of investing abroad. Provisions are being made by the government in terms of including regulations that govern activities in the domestic market to avoid problems that emerge between manufacturing companies and consumers.

Expanding the domestic market is a priority in relation to improving the investment climate in the UAE and has been reflected by investments in the financial and other emerging sectors. The transition from the primary sector of oil is a signal that changing the domestic market is in the pipeline and is aimed at improving the situation of investors. Engaging the domestic market has been done with the needs of both local and foreign investors in mind. For example, the liberalization undertaken in the markets has been done in tandem with international market systems. This would not only change the landscape but also improve the final output.

As part of expanding the domestic market, the UAE government has developed mechanisms of boosting tourism in the country for the purpose of earning more revenues. In the tourism sector, the UAE has continued to launch a wide range of tourism projects and entertainment destinations with some 20 million tourists visiting the seven emirates according to statistics issued by the local tourist authorities. The sector continues to consolidate the country’s status as one of the world’s most important travel destinations with the support of the transportation, aviation, marketing and exhibitions industries and bolstered by the UAE’s strong international relations and many international friendships. Thus the initiatives of the government and other stakeholders in the UAE, have boosted the arrival of tourists and the performance of the tourism industry in the recent past and it is expected to grow at an exponential rate in the near future as UAE would be hosting the World Expo 2020. The total investment needed for the event is $8.8 billionapproximately. Dubai Expo 2020 expects to create 277,149 jobs between 2013 and 2021. 40% of the employment opportunities generated would be in the travel and tourism sector. Dubai Expo 2020 expects to attract more than 25 million visitors and also attract more job seekers into the country. Thus the growing population, of the residents and the tourists, brings plenty of opportunities for the investors both domestic and international. This definitely will attract more FDI. Table 2gives the ranking for the top 10 countries with the best market efficiency in the world during 2014-15.

Table 2: Top 10 Goods Market Efficiency Economies in the world in 2014-2015

Country	Global Rank *
Singapore	1
Hong Kong SAR	2
United Arab Emirates	3
Qatar	4
Luxembourg	5
New Zealand	6
Malaysia	7
Switzerland	8
Netherlands	9
Ireland	10

Source: The Global Competitiveness Report 2014-2015
*2014-2015 rank out of 144 economies

The UAE is top ranked among the nations in the Middle East and globally it has the third best position as far as market efficiency for goods is concerned.

4.2 Infrastructure

Infrastructure is a major determinant of FDI. Excellent infrastructure plays a major role in the profitability of Multinational Corporations (MNCs), and thus, their decision about FDI location. Table3gives the ranking for the top 10 countries with the best infrastructure in the world during 2014-15 based on quality of roads, quality of railroad infrastructure, quality of port infrastructure, quality of air transport infrastructure, available airline seat for comfortable travel to different parts of the world, quality of electricity supply, mobile telephone subscriptions, fixed telephone lines, etc.

Table 3: Top 10 Infrastructure in the world in 2014-2015

Country	Global Rank *
Hong Kong	1
Singapore	2
United Arab Emirates	3
Netherlands	4
Switzerland	5
Japan	6
Germany	7
France	8
Spain	9
United Kingdom	10

Source: The Global Competitiveness Report 2014-2015
*2014-2015 rank out of 144 economies

The UAE has an excellent infrastructure and the Government is continuously investing in infrastructure projects so as to have the best infrastructure in the world. Currently, it is ranked the third best in the world and the only one from the Middle East to find a place in the top 10 countries. Now let us look into the Logistics Performance Index to see the UAE's position.

4.2.1 Logistics Performance Index

The Logistics Performance Index (LPI) is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The LPI is based on a worldwide survey of operators who provide feedback on the logistics "friendliness" of the countries in which they operate and those with which they trade. The LPI is an indicator of logistics sector performance, combining qualitative and quantitative data on six core performance components. The six core components are: (1)The efficiency of customs and border clearance, (2) The quality of trade and transport infrastructure, (3) The ease of arranging competitively priced shipments, (4) The competence and quality of logistics services, (5) The ability to track and trace consignments, (6) The frequency with which shipments reach consignees within scheduled or expected delivery times. Table 4gives the ranking for the top 10 Middle East Economies in 2016.

Table 4: Logistics Performance Index - Top 10 Economies in the Middle East in 2016

Country	LPI Global Rank*	Filtered Rank
United Arab Emirates	13	1
Qatar	30	2
Bahrain	44	3
Oman	48	4
Saudi Arabia	52	5
Kuwait	53	6
Jordan	67	7
Algeria	75	8
Morocco	86	9
Iran, Islamic Rep.	96	10

Source: Logistics Performance Index, 2016, the World Bank
*2016 rank out of 160 economies

In the Logistics Performance Index, the UAE is ranked first among the Middle East countries and 13th globally among 160 countries based on six different parameters. The parameter-wise detailed ranking is given in Table 5.

Table 5: Logistics Performance Index - Parameter-wise Ranking of Top 10 Economies in the Middle East in 2016

Country	Global Rank*					
	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
UAE	12	13	7	18	18	18
Qatar	21	28	26	29	35	35
Bahrain	41	48	41	33	44	51
Oman	61	34	40	38	57	57
Saudi Arabia	68	40	48	54	49	53
Kuwait	56	56	24	70	53	55
Jordan	83	62	49	61	62	71
Algeria	108	80	77	59	72	91
Morocco	124	90	54	91	122	83
Iran	110	72	88	82	111	116

Source: Logistics Performance Index, 2016, the World Bank
*2016 rank out of 160 economies

4.3 Stable Currency

The flow of FDI is influenced by the volatility of the exchange rates. Currency depreciation may make a country's assets undervalued, thereby encouraging FDI but at the same time, a depreciating currency mayalso signal future depreciation of that currency to investors, thereby negatively influencing FDI. Investors prefer a stable and less volatile currency which ensures that their profitability is least affected by the vagaries of exchange rate fluctuations and they need not spend their time and money in managing the forex risk.

The currency of the UAE is pegged to the US dollar. Hence the investors are assured an exchange rate of US$ = 3.67 UAE dirhams. This pegged exchange rate will continue to act as an important attraction for inflow of FDI into this country.

4.4 Openness of the Economy

The size, growth and other characteristics of the domestic market play an important role in attracting FDI, but domestic market factors are predictably less relevant in export-oriented firms. Many studies have suggested the importance of an open economy in attracting FDI in export-oriented sectors (ODI, 1997; Erdal and Tatoglu, 2002; Singh and Jun, 1995). In an open economy, it is easier to import raw materials and capital goods which are necessary for domestic and foreign investment. Singh and Jun (1995) found that export, particularly manufacturing exports, are significant determinants of FDI flows. Thus friendly import-exportpolicies significantly influence the flow of FDI.

The UAE is achieving growing global and regional influence by focusing on being an active part of the global community and working towards the transparent values that allow individuals the security of the rule of law. The UAE has diplomatic relations with 107 countries and follows principles of tolerance and openness to the rest of the world. The UAE has taken a strong position against religious extremism and is standing up for the values of open thinking and stability, which are designed to reject the negativism of radical terrorists.

In the words of Sheikh Abdullah bin Zayed, "The UAE's success story is one of every individual that treaded this land and we wouldn't have reached it without our guests who came from around the world. We can't live isolated and it is our duty as Arabs and Muslims to be open and help countries for the advancement of humanity." (The National,**2015)**

The World Trade Organization (WTO) commended the important role played by the UAE in global trade and its commitment to the principles of the multilateral trading system, as well as the adoption of economic policies for promoting efficient trade movement locally, regionally and internationally which have made the country an important global trade hub. HE Eng. Sultan bin Saeed Al Mansouri,Minister of Economy in his closing speech at the recently concluded Third WTO Trade Policy Review in Geneva emphasized that, "the UAE will continue to pursue economic strategies characterized by openness and enhance enablers for working according to free-market mechanisms, in light of its belief that an open economy increases our national competitiveness," (emiratesreview.ae, 2016). The UAE's policy based on openness, tolerance, and stability is attracting the best from all walks of life from around the world

4.5 Political Risk

TNCs usually assess political risk before investing in a certain country. There are many forms of political risks, but the extreme form is the possibility that the host country will take over a subsidiary. However, this form of political risk is an extreme case and not very common in today's global world. The more common forms of political risk include the negative attitude of the host government to TNCs, blockage of fund transfer, currency inconvertibility, war, bureaucracy, and corruption.

The United Arab Emirates is a federation of seven emirates: Abu Dhabi, Dubai, Sharjah, Ras Al Khaimah, Ajman, Fujairah, and Umm Al-Qaiwain. The federation was formed and became independent in 1971.The Federal Supreme Council (consisting of the Rulers of the seven Emirates) and the Council of Ministers constitute the executive of the UAE government. The President and the Vice President/Prime Minister are chosen by the Rulers. The Federal Supreme Council ratifies legislation and the appointment of Ministers and Judges of the Federal Supreme Court.The Federal National Council performs a consultative role – considering draft legislation, proposing amendments, questioning Ministers, scrutinizing the executive. It consists of 40 members drawn from across the emirates roughly in proportion to population. Half of the members from each emirate are appointed by its Ruler. The other half are elected by voters who are designated by the Rulers. For the last election, in 2015, the Electoral College comprised about 225,000 voters. Till date there had been no major political unrest in the country and one does not expect things to go wrong in the near future because of the strong political will and farsightedness of its rulers in formulating strategies for the growth of the country and prosperity of all citizens and residents. Political unrest springs up only when there is discontent among the citizens of the country and as far as UAE nationals are concerned most of them are content and happy with plenty of opportunities to fulfill their dreams provided they can put effort to convert their dreams into realities.

Hence the international investors can be sure that they will get a warm welcome in the UAE, their funds will not be blocked, enjoy easy convertibility, least bureaucracy bottlenecks,and the lowest corruptions.

4.6 Corruption

Corruption distorts competition and investment and hinders free and fair trade. The study by Mauro (1995) found that corruption lowers investment and thereby economic growth. The study by Tanzi and Davoodi (1997) shows that corruption increases public investment while reducing its productivity. In regard to foreign direct investment, studies have shown that there exist economic consequences of corruption, such as its effect on the composition of FDI. A study by Smarzynska and Wei (2001)revealed that foreign investor’s choice of entry mode may be affected by the extent of corruption in a host country. Corruption makes dealing with government officials, for example, to obtain local licenses and permits, less transparent and more costly, particularly for foreign investors. In this case, having a local partner lowers the transaction cost, such as the cost of securing local permits. At the same time sharing ownership may lead to technology leakage. Both costs of local permits and losses from technology leakage are positively related to the extent of corruption in a host country (Smarzynska and Wei, 2001).

When corruption level is sufficiently high no investment will take place. The UAE is the least corrupt country in the Arab world and offers a business-friendly environment, with an effective and efficient public administration. However, foreign companies must rely on local sponsorship if they want to succeed, and ruling families' involvement in the economy creates an uneven playing field. The UAE Penal Code criminalizes active and passive bribery, embezzlement and abuse of functions. Anti-corruption and anti-fraud legislation is enforced, and practices of bribery and petty corruption are uncommon. Gifts and hospitality are regulated under the UAE's anti-corruption framework. Facilitation payments are treated as bribes and are thereby illegal(business-anti-corruption.com, 2016).

Transparency International (TI) has published the Corruption Perceptions Index(CPI) since 1995, annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as "the misuse of public power for private benefit.” Table 6displays the ranks assigned to the GCC countries during the last five years.

Table 6: Corruption Ranking for the GCC, 2011 to 2015

Country	Global Rank				
	2011	2012	2013	2014	2015*
Bahrain	46	53	57	55	50
Kuwait	54	66	69	67	55
Oman	50	61	61	64	60
Qatar	22	27	28	26	22

Country	Global Rank				
	2011	2012	2013	2014	2015*
Saudi Arabia	57	66	63	55	48
United Arab Emirates	28	27	26	25	23

Source: The Corruption Perceptions Index 2011 to 2015 by Transparency International
*2015 rank out of 168 countries

The ranking by the Corruption Perceptions Index reinforces that the UAE and Qatar havethe lowest level of corruption in the Middle East and both are improving year by year in reducing corruption.

4.7 Productive and Diversified Labor Force

A vibrant labor force in the UAE has attracted foreign direct investments. The labor force in the UAE has been trained in terms of handling various skilled jobs that matter to international investors. When international investors look for an investment destination, considerations about the skilled nature of the labor force are a matter of priority that determines their scope of success in a country (Brakman *et al.*,2008). The UAE has made strides in terms of developing and attracting a labor force that can handle all forms of tasks and also align their knowledge with international trends. The education sector in the country has received government support in the last few years with the emphasis being placed on how to train graduates so that they can be absorbed in the expanding job market. The need to improve productive labor force in the UAE has been evidenced by government policies related to education such as incorporating skills in the learning curriculum and at the same time understanding trends in the market and then matching the latter with learning conditions. As a way of making changes in the productive labor force area, the government has been pushing for reforms in terms of training and vocational centers that provide support to those making transitions in the job market. 85% of the labor force in the country is made up of expatriates. The country had been bringing in all possible improvements in tandem with international best practices so as to provide the best work environment that attracts professionals from all walks of life and both skilled and unskilled workforces from all parts of the world. Of recent the labor laws have become more friendly and liberal and hope it will continue to become better in the future. Table 7gives the ranking for the top 10 countries with the best labor market efficiency in the world during 2014-15 basedon cooperation in labor-employer relations, flexibility of wage determination, hiring and firing practices, redundancy costs, effect of taxation on incentives to work, pay and productivity, reliance on professional management, country capacity to retain talent, country capacity to attract talent andthe ratio of women in labor force.

Table 7: Top 10 Labor Market Efficient Economies in the World in 2014-2015

Country	Global Rank *
Switzerland	1
Singapore	2
Hong Kong SAR	3
United States	4
United Kingdom	5
New Zealand	6
Canada	7
United Arab Emirates	8
Rwanda	9
Qatar	10

Source: The Global Competitiveness Report 2014-2015 by World Economic Forum
*2014-2015 rank out of 144 economies

The UAE ranks the top among the Middle East economies on the basis of labor market efficiency and globally it is the eighth best. An efficient labor market, easy availability of skilled labor, the ready availability of training facility and capacity to attract and retainright talentfrom other parts of the globe are the most important factors that attract international investors to the UAE.

4.8 Availability / Easiness to Import of Raw Materials

Availability of raw materials means that international investors can do business in the country without having concerns for the supply of production materials. In the UAE, there is a range of raw materials that can be used for manufacturing processes and has motivated many investors abroad to invest in the country. The country is endowed with natural resources such as oil and minerals that are vital to the manufacturing sector and these materials are available cheaply as compared to other regions where the cost of materials is high. The government of the UAE has been on record in terms of making subsidies with regards to raw material acquisition by foreign investors (Sader, 2000). Resource mobility has been emphasized by the UAE government in terms of availing resources with the objective of providing leverage to investors coming into the country. The Government of the country has been giving special attention to ensure the availability of raw materials in the country knowing that this will boost the economy in the long run.

4.9 Geographical Location /Global Connectivity

Location advantage is another factor that determines the accessibility by manufacturers and provides them with cost benefits as compared to regions where there is no location advantage for raw materials. A review of all raw material sources in the UAE shows connections with location merits that are much needed by foreign companies for staying competitive. The geocentriclocational advantage of the UAE provides investors with opportunities to maximize production and trade efficiencies through the application of cost reduction methods. Over two-third of the world's population lives within eight hours flight from UAE and one-third lives within four hours.

4.10 Technological Readiness and Innovation

Technology is an important consideration made by foreign investors because it determines the scope of operational efficiency. In the UAE, the government has allocated resources for boosting technology just like in other developed market economies. From an investment perspective, the lack of efficient technology systems implies that operations would be slow and costly, and, thus, there will be a need for choosing destinations with a higher level of technology. Partnerships and investment conferences conducted by the UAE government to market the country have shown time and again that technology is prevalent in the country and that foreign investors should not be worried about technological readiness and efficiency issues. Such a message shows the dedication of the country in terms of boosting direct investments (Moran *et al.*,2005).Table 8 gives the ranking for the top 10 technological readiness countries in the Middle East during 2014-15 basedonavailability of latest technologies, firm-level technology absorption, FDI and technology transfer, individuals using the internet, fixed broadband internet subscriptions, international internet bandwidth and mobile broadband subscriptions.

Table 8: Top 10 Technologically Ready Economies in the Middle East in 2014-2015

Country	Global Rank *
United Arab Emirates	24
Qatar	31
Bahrain	34
Saudi Arabia	45
Oman	57
Jordan	73
Kuwait	74
Morocco	78
Iran, Islamic Rep.	107

Country	Global Rank *
Algeria	129

Source: The Global Competitiveness Report 2014-2015
*2014-2015 rank out of 144 economies

UAE is the best in the Middle East as far as technological readiness is concerned. Now let us look into how the country facilitates and promotes innovations. Since its inception in 1971, the United Arab Emirates has constantly been distinguished as an icon for innovation and creativity, enhancing its social and economic status and transforming into a primary destination for talents and businesses in record time. Believing that innovation is the future of human investment, HH Sheikh Mohammed Bin Rashid Al Maktoum launched the National Innovation Strategy in August 2014, by saying: “The UAE is already the most innovative Arab nation. Our target is to be among the most innovative nations in the world. The competitiveness race demands a constant flow of new ideas, as well as innovative leadership using different methods and tools to direct the change,” which was later followed by proclaiming 2015 to be the Year of Innovation in the UAE by the President HH Shaikh Khalifa Bin Zayed Al Nahyan (Holzer, 2016). With the Government support and encouragement, the country is swiftly transforming itself from an oil-based economy to an innovative, knowledge-based economy which is evident by the fact that knowledge-based industries and services now account for a greater part of the UAE’s GDP than oil revenues, having grown from 32.1 percent in 2001 to 38.6 percent in 2014.According to the World Economic Forum, the UAE’s global competitiveness ranking has improved drastically in the last 5 years on the back of an innovation-led business environment, with marked advancements in the quality of scientific research, university-industry collaboration, and availability of scientific and engineering staff.Table 9 gives the ranking for the top 10 innovation affable countries in the Middle East during 2014-15 basedoncapacity for innovation, quality of scientific research institutions, company spending on R&D, university-industry collaboration in R&D, Gov’t procurement of advanced tech products, availability of scientists and engineers, PCT (patent cooperation treaty) applications made for patents.

Table 9: Top 10 Innovation Friendly Economies in the Middle East in 2014-2015

Country	Global Rank *
Qatar	14
United Arab Emirates	24
Saudi Arabia	33
Jordan	41
Bahrain	60
Oman	64
Iran, Islamic Rep.	86
Morocco	90
Kuwait	111
Algeria	128

Source: The Global Competitiveness Report 2014-2015
*2014-2015 rank out of 144 economies

UAE ranks as the second best in the Middle East for innovations just behind Qatar. Now let us look at the ranking of by Global Innovation Index 2014 co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO, an agency of the United Nations). Table 10gives the ranking of the top 10 economies in the Middle East in the Global Innovation Index 2014.

Table 10: Top 10 Economies in the Middle East in Global Innovation Index,2014

Country	Global rank *
United Arab Emirates	36
Saudi Arabia	38

Country	Global rank *
Qatar	47
Bahrain	62
Jordan	64
Kuwait	69
Oman	75
Morocco	84
Iran, Islamic Rep.	120
Algeria	133

Source: The Global Innovation Index 2014
*2014 rank out of 143 economies

The UAE's efforts have culminated in its ranking first among the Middle East countries and 36th globally among 143 countries in terms of performance in the 2014 Global Innovation Index. With the determination to further advance this position all initiatives in 2015 have been aligned with the national innovation strategy and targeted innovation in the key sectors, with events such as: The Abu Dhabi Solar Challenge (a design and drive competition of solar-powered cars), Masdar's 2015 Engage Blogging Contest (describe your city in 2030), Zayed Future Energy Prize (a platform that recognizes and rewards innovators), Mohamed Bin Zayed International Robotics Challenge (international robotics competition), Innovator (annual presentation of unique innovations from UAE), and Defence Innovation and Technology Conference (the latest in defence innovation and advance technologies) (Holzer, 2016).Hope these initiatives would result in bettering UAE's position in the near future. The UAE's total investment in innovation is estimated at AED14 billion yearly, AED7 billion of which are allocated for Research and Development.

4.11 Developed Financial Market

Table 11gives the ranking for the top 10 countries with well-developed financial markets in the Middle East during 2014-15 basedon the availability of financial services, affordability of financial services, financing through local equity market, ease of access to loans, venture capital availability, soundness of banks, regulation of securities exchanges and legal rights.

Table 11: Top 10 Financially Developed Markets in the Middle East in 2014-2015

Country	Global rank *
Qatar	13
United Arab Emirates	17
Oman	28
Saudi Arabia	30
Bahrain	31
Jordan	66
Morocco	69
Kuwait	77
Iran, Islamic Rep.	128
Algeria	137

Source: The Global Competitiveness Report 2014-2015 by World Economic Forum
*2014-2015 rank out of 144 economies

UAE ranks second best in the Middle East for financial market development where Qatar tops the list.

4.12 Low Tax Rates & Clarity of Taxation Policies

4.12.1 Income Tax

UAE is a tax-free nation; the individual incomes are not taxed. This attracts plenty of high income earning professionals and skilled workers to this country. This also reduces the cost of running a business in the UAE because at the time of salary negotiations the prospective employee looks at the after-tax annual pay package offered. The country proposes to continue this status with the intent to attract highly talented and skilled workforce needed for the domestic and MNCs operating in the country.

4.12.2 Corporate Tax

The corporate tax charged by the country is zero or relatively very low. No corporate taxes for local companies.The international banks operating in the country are charged 20% and those firms operating in the oil and gas sector are charged 55% corporate tax. All hotels operating in the country have to pay 10% municipal tax on hotel revenues. These corporate tax rateshad been consistent from 2006 to 2016, the rationale of this policy is to ensure that the cost of doing business is fair and justified in relation to revenues earned by foreign companies.

4.13 Availability of Land and Buildings at Subsidized Rates

The cost of buildings and land is another factor that domestic companies and multinational corporations take into consideration before making investment decisions. Companies would prefer an investment destination that is less costly and does not take up much expenditure (Razin *et al*., 2007).As a factor of production, the land is crucial in terms of boosting investments made in a country and this applies to the UAE also. The provision of land and building discount is an approach used by the UAE government for attracting new investors into the country, given that offering discounts would reduce the cost of doing business in the country. The discount offered varies from case to case and emirate to emirate.

4.14 Lower Interest Rates

Highinterest rates tend to slow the growth of an economy and reduce the demand for the TNC's products and thus can negatively impact the flow of FDI. High loan interests translate into the cost burden of a company and have been evidenced by the companies that decide to halt operations and move to other regions with low interest rates. From the perspective of an investor, low interest rates are better as compared to high rates because returns are high when the interest charges are low. Reduction of interest on loans was introduced by the government of the UAE for the purpose of creating an ideal location for international investments. Destinations with such incentives are bound to attract more investors as compared to destinations that charge high interest on loans.

Moreover presence of financial institutions with sufficient liquidity and transparency to grant quick loans at competitive rates is an important determinant. The investors, market participants, and analysts have generally been very comfortable with the UAE banking sector comprising of 23 locally incorporate banks and 26 foreign banks, with 957 branches between them, catering to their ever-growing needs. Liquidity is the essential lubricant of the financial engine. From it, all else follows – cash for investment, growth funding, corporate borrowing, right down to mortgage and rent payments and supermarket bills. Halt liquidity, and you halt the economy.The Central Bank of UAE, the supportive regulator always appears to spot the early warning signs and act promptly to protect all-important liquidity in the UAE financial infrastructure. Banking system liquidity remains at comfortable levels with the ratio of liquid assets to total assets at 15.6% as at the end of 2014. The funding profile of UAE banks remains prudent and well diversified with the loan to deposit ratio at less than 100% and limited reliance on foreign and capital market funding. (Central bank, 2014).

Table 12gives the ranking for the top 15banks in the GCC by the Gulf Business magazine which is one of theleading regional business magazinesand is the preferred magazine for decision-makers, corporate leaders and high-ranking government executives in the region.

Table 12: Top 15 banks in the GCC 2015

BANK	ASSETS($000)	NET PROFIT($000)	RANK	COUNTRY
Qatar National Bank	133,614,471	2,889,461	1	Qatar
National Commercial Bank	115,967,489	2,344,851	2	Saudi Arabia
National Bank of Abu Dhabi	102,395,511	1,518,886	3	UAE
Emirates NBD	98,835,010	1,399,137	4	UAE
Al Rajhi Banking Corporation	82,056,415	1,822,979	5	Saudi Arabia
National Bank of Kuwait	74,323,098	933,653	6	Kuwait
Kuwait Finance House	58,621,244	546,144	7	Kuwait
Samba Financial Group	57,973,021	1,334,687	8	Saudi Arabia
First Gulf Bank	57,764,362	1,553,236	9	UAE
Riyad Bank	57,223,811	1,160,642	10	Saudi Arabia
Abu Dhabi Commercial Bank	55,545,729	1,143,856	11	UAE
Banque Saudi Fransi	50,340,507	937,691	12	Saudi Arabia
Saudi British Bank	50,029,138	1,137,616	13	Saudi Arabia
Arab National Bank	43,911,561	767,241	14	Saudi Arabia
Dubai Islamic Bank	33,729,202	763,334	15	UAE

Source: http://gulfbusiness.com

Five out of the top 15 GCC banks are UAE local banks operating successfully. Many of the banks are thinking of merger to become big and more competitive. The proposed merger of First Gulf Bank (FGB) and National Bank of Abu Dhabi (NBAD) creates the biggest bank in the Middle East and North Africa region, with approximately $175 billion of assets.The merger brings together two successful UAE banks to create a new, well-balanced bank with the financial strength, expertise, and global network to fuel growth in the UAE economy and drive the country’s international business relationships. One can expect much more similar mergers in the near future to take advantage of the synergies of merger and acquisitions, which will further enhance the strength and attractiveness of UAE banking sector.

4.15 Ease of doing Business

The World Bank Group’s Doing Business report tracks the regulatory and bureaucratic systems of nations by conducting detailed annual surveys with the goal to provide an objective basis for understanding and improving the regulatory environment for business around the world.Doing Business report captures several important dimensions of the regulatory environment as it applies to local firms. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (Table 13). These reports provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas

Table 13: What Doing Business Report Measures

Parameters	What Doing Business Measures
Starting a business	Procedures, time, cost and paid-in minimum capital to start a limited liability company
Dealing with construction permits	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the cost of electricity consumption
Registering property	Procedures, time and cost to transfer a property and the quality of the land administration system

Parameters	What Doing Business Measures
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time and total tax rate for a firm to comply with all tax regulations
Trading across borders	Time and cost to export the product of comparative advantage and import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
Resolving insolvency	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency

Source: Doing Busies Report, World Bank Group

Doing Business Report 2015 ranks economies based on their ease of doing business, from 1–189. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings are determined by sorting the aggregate distance to frontier scores on 10 topics, each consisting of several indicators, giving equal weight to each topic. The rankings for all economies are benchmarked to June 2015.Table 14gives the ranking for the top 10 Middle East Economies

Table 14: Ease ofDoing Business - Top 10 Economies in the Middle East in 2015

Economy	Ease of Doing Business Global Rank*	Filtered Rank
United Arab Emirates	31	1
Bahrain	65	2
Qatar	68	3
Oman	70	4
Morocco	75	5
Saudi Arabia	82	6
Kuwait	101	7
Jordan	113	8
Iran, Islamic Rep.	118	9
Algeria	163	10

Source: Doing Business Report 2015, World Bank Group
*2015 rank out of 189 economies

The UAE's focused vision, supporting strategies and continuous efforts have culminated in its ranking first among the Middle East countries and 31st globally among 189 countries in terms of ease of doing business based on 10 different parameters details of which is given in Table 13and parameter-wise detailed ranking is given in Table 15.

Table 15: Ease ofDoing Business - Parameter-wise Ranking of Top 10 Economies in the Middle East in 2015

Economy	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
UAE	2	1	1	1	3	2	1	7	1	7
Bahrain	12	3	8	2	5	8	4	5	10	6
Qatar	7	2	12	3	12	10	1	10	12	1
Oman	15	6	6	5	10	13	5	3	6	8
Morocco	1	5	4	7	5	6	12	8	3	11
Saudi Arabia	10	4	2	4	1	5	3	13	8	17
Kuwait	14	16	16	6	5	3	6	12	2	10
Jordan	5	11	5	13	18	17	9	2	14	14
Iran	4	8	10	10	3	16	16	16	5	13
Algeria	13	13	17	18	14	18	20	18	11	4

Source: Doing Business Report 2015, World Bank Group

Doing Business data for the past 12 years shows that in 2003, it took an average of 51 days worldwide to start a new business. This has now been more than halved to 20 days.

5. Conclusion

Over the years, the UAE has emerged as an attractive hub for businessmen from all corners of the world and a magnet for foreign investment. With its high-quality investment climate and diverse and enormous investment opportunities, the UAE leads the Middle East in attracting FDI.

A number of global business indexes and global ranking agencies have recognized the advantages offered by the UAE and has duly ranked the UAE as the attractive FDI destination in the Middle East. The parameters making the UAE the attractive destination in the Middle East are growing market, an expanding infrastructure,an extremely safe environment with low political risk, negligible bribery and corruption, high productive and diversified labor force, competitive labor cost, well-developed financial market, low interest rates, technological readiness and innovation, friendly import-export policies, no restrictions on profit transfer or repatriation of capital, no income taxes, no or very low corporate taxes, very low import duties, availability of the best possible choices of accommodation, air travel connectivity provided by the world's best local airlines like Emirates and Etihad and by the world's most reliable low cost airlines like Air Arabia and Fly Dubai, the potential to host any global spectacular events and a currency, the Dirham, that is stable, secure and pegged to the US dollar. These factors, combined with a strategic geographic location and the ambitious leadership that leads the country with proper vision and long terms strategic plans, make the UAE an ideal destination for Foreign Direct Investment.

In addition, the hosting of the World Expo 2020 will also give the country greater respect as more people will visit it and realize how it is a key nexus of commerce, investment, and tourism. The ongoing projectsand developments in preparation for this mega event are quite tremendous; at this rate of progress by 2020, UAE will either be the most vibrant and progressive country in the world or very close to it.

This study has its limitations as it isfocused only on the factors favoring the flow FDI into a country. It would have been more holistic if factors hindering FDI was also included. There is plenty of scope for further studies in the future, which may be studied on factors hindering the flow of FDI into the Middle East.

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