

FDI Inflows to the UAE: Determinants and Policy Issues

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Abstract: The paper's purpose is to define the main determinants of FDI flows to the United Arab Emirates (UAE), to examine FDI impact on the UAE economy and to explore how the representatives of Multinational Enterprises (MNEs) operating in the UAE perceive government initiatives towards FDI. The paper examines FDI flows to the UAE over the last three decades. Then, it reports on an empirical study based on 101 MNEs which have conducted FDI. Based on the eclectic paradigm, it aims at finding out the main characteristics of the company, internalization, and location factors which affect MNEs' decision to undertake FDI in the UAE. The results show the importance of factors such as the existence of specific assets of an intangible nature, human capital, skills, reputation and public image, and technological and innovative capabilities. They also show that entering new markets, being located close to markets, reducing costs, and securing strategic alliances are relevant in the choice of FDI over alternative forms of FDI. Institutional factors (political stability), business environment factors (business attitudes and access to banking services), infrastructure factors (telecommunications and transportation/logistics factors) are key factors for selecting the UAE. Meanwhile, foreign investors' representatives think that a more liberalized FDI regime is needed. Further, the co-integration test results suggest a negligible role for FDI on the UAE economy. This paper has important policy implications, not only for policy makers in the UAE, but also for policy makers in other countries with similar circumstances, especially the Gulf Co-operation Council (GCC) ones.

Keywords: Foreign Direct Investment (FDI); United Arab Emirates (UAE), Eclectic paradigm, Co-integration analysis

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I - Introduction:

Economic and financial globalization creates more opportunities for investment around the world. This makes global trends in foreign investment of significant relevance, not only to capital scarce countries, but also to capital abundant countries which may not always have adequate opportunities for foreign investors.

Global Foreign Direct Investment (FDI) flows have sharply increased over the last three decades, when they rose 70 times, from \$26 billion in 1975 to \$1,833 billion in 2007 (UNCTAD, 2008). However, the international distribution of FDI is highly concentrated. Globally, FDI is dominated by developed countries, not only as donors, but also as recipient countries. Furthermore, FDI flows are even more concentrated within developing countries. As a sub-group of the developing world, Arab countries have been receiving the smallest share of FDI to date. Among Arab countries, the UAE has not been an exception. However, in the past few years, it has been recognized as a possible and even as a FDI attractive destination. In 2001, the UAE received \$257 million of FDI inflows. This figure soared to more than \$10 billion in 2004, and then it increased again to \$13.3 billion in 2007. How can this exceptional rise in FDI inflows to the UAE be explained? This paper aims at shedding some light on this issue. It seeks to address three questions:

First, what are the main determinants of FDI in the UAE?

Second, what - if any - is the impact of FDI on the UAE's economic performance?

Finally, how do foreign investors perceive the UAE's government towards FDI?

The answer to these questions will help in identifying the weaknesses and strengths of the UAE as a potential destination of FDI. This, in turn, will shed light on the areas on which the UAE's government needs to focus in order to increase the economy's competitiveness and to establish a major, favorable FDI hub in the region. The issue has important policy implications not only for the UAE, but also for other countries with similar circumstances, particularly the GCC countries. The paper is organized as follows: section II reviews the literature on FDI factors determinants. Then, after presenting an overview of FDI flows to the UAE and UAE initiatives towards FDI in section III, the empirical

methodology is commented upon in section IV. In section V, the main results are presented and discussed. Section VI concludes the paper with the main conclusions and policy recommendations

II - Determinants and Impact of FDI:

A. Determinants of FDI:

Foreign Direct Investment has been one of the core features of globalization and it has grown at an unprecedented pace in the last three decades. This world trend has led to substantial interest by international literature about economics to answer questions regarding the main determinants of FDI and why a business undertakes international activity.

Shatz and Venables (2000) argue that there are two main reasons why a firm would want to become a multinational one. The first reason is to better serve the local market and the other is to get lower-cost inputs. Based on this, they distinguish between **horizontal** FDI and **vertical** FDI. Foreign direct investment that serves the local market is often called horizontal FDI as it normally involves building duplicate plants in foreign countries to supply the market there. The rationale is to lower the costs involved in supplying the market (avoiding tariffs and transport cost) or to become more competitive. In this context, FDI will be more likely to replace exports, given that the market is large enough. Vertical FDI is FDI that searches for low-cost inputs. That is, it involves slicing the vertical chain of production and relocating part of the chain to a low cost location. Vertical FDI is normally export-oriented, frequently to the multinationals' home markets and tend to be unaffected by the market size of the country. In light of the above argument, access to local market and low cost inputs may be identified as determinating factors of FDI.

One attempt to integrate all possible factors affecting FDI into a single scheme is the **electic paradigm** of Dunning (Dunning, 1979,1980,1988,1993, 1997, 1998). The electic model proposes that undertaking FDI is determined by the realization of three groups of advantages: **Ownership Advantages, Internalization Advantages, and Location Advantages.**

Ownership advantages refer to factors within the firm that enable it to grow and diversify more successfully than others at home or abroad. These advantages are essentially monopolistic in character and are

related to advantages in areas such as Research and Development (R&D), large capital expenditure, capital intensity of the production process (proximity of advanced techniques) and human and managerial skills. Internalization advantages refer to advantages that are specific to the capacity of the firm to undertake and coordinate activities internally in the value added chain. They are related to the integration of transactions into multinational hierarchies through FDI (Galan and Gonzalez-Benito, 2001). Finally location advantages refer to factors in the host country that make the country the best location for the firm to produce across countries.

A number of studies have argued that host-country market size plays an important role in attracting FDI, especially when the host-country market allows the exploitation of economies of scale for import-substituting investment. Other studies have identified the cost of local labor as significantly important in location considerations, and in particular when investment is export-oriented. It has also been found that investors prefer to operate in countries where the government maintains liberal policies for the employment of expatriate staff.

Ewe-Gheelim (2001) argues that major location requirements relate to labor cost and quality, infrastructure, economic and political factors, and quality of life. Campos and Kinoshita (2003) examine the importance of agglomeration economies and institutions vis-à-vis initial conditions and factor endowments in explaining the location choices of foreign investors. Using a unique panel data set for 20 transition economies between 1990 and 1998, they find that the main determinants are institution, agglomeration, and trade openness.

Economic and political stability is also found to be one of the most important determinants of foreign investment location. For example, Chan and Gemayel (2004) demonstrate that instability associated with investment risk is critical in explaining the level of FDI for the Middle East and North Africa (MENA) countries. Based on the concept of potential FDI for each country and using its deviation from actual, Demekas et al. (2005) find that gravity factors explain a large part of FDI inflows in Southeastern Europe. Keys are policies that relatively affect unit labor costs, corporate tax borders, infrastructures, and trade regimes.

Using Dunning's eclectic paradigm framework, Elo (2007) empirically verifies that firms' FDI decisions are determined by the level of capital control and investors' willingness to share risk. He finds that increasing levels of capital control reduce the life-span of FDI at each level of country risk and increase foreign investors' willingness towards risk sharing. Watt (2007) argues that in weak intellectual property rights (IPR), the imitation of proprietary technology by domestic firms is a deterrent for FDI.

Campos and Kinoshita (2008) investigate the role of structural reforms, financial reforms, trade liberalization, and privatization as determinants of FDI inflows based on newly construed data set for 19 Latin American and 25 Eastern European countries between 1989 and 2004. Their findings suggest a strong empirical relationship with reforms to FDI.

A survey of investors conducted by various business institutions have indicated that the most important determinants of FDI are political and macroeconomic stability, GDP growth, large market size, a regulatory environment, the ability to repatriate profits, the cost of labor, the openness of the country, FDI policies, the existence of an affective, equitable legal system, and the presence of an efficient, well-functioning banking and financial system. Furthermore, investors view exchange controls, restrictions on the repatriation of earnings, local content, and local ownership requirements as serious disincentives to FDI (Development Business, 1999).

B. FDI and Economic Performance:

In general, FDI is thought of as a composite bundle of capital stocks, know-how and technology, and hence its impact on growth is expected to be manifold. The ultimate impact of FDI on output growth in the recipient's economy depends on the scope for efficiency spillovers to domestic firms, by which FDI leads to increasing returns in domestic production and knowledge spillover.

The following channels may be identified as a conduit through which FDI promotes economic growth.

- FDI is believed to be a very important source of human capital augmentation and technological change in the recipient country as it encourages the use of more advanced technologies by domestic firms,

and provides specific productivity-increasing labor training and skill acquisition (Luiz, 1997).

- FDI accelerates the host-country's growth by augmenting domestic saving and investment. In addition, through capital accumulation in the host's economy, FDI is expected to be growth-enhancing by encouraging the incorporation of new inputs and technologies in the production function of the recipient economy (Feenstra and Markusen, 1994).
- FDI promotes economic growth by helping the transfer of technology from leaders. Technological improvement is generally defined in terms of product innovations in technologically advanced economies: "the leaders", or equivalently, the process by which new products are created via R&D activities (Krugman, 1979).

Recent empirical work has generally tended to find a positive correlation between FDI and economic growth. Using panel data analysis for both technological leaders and followers, De Mello (1996) finds a positive impact of FDI on output growth in both groups of countries, which is suggestive of a dominant complementary effect between FDI and domestic investment. Also, FDI appears to have a positive impact on capital accumulation in the panel of technological leaders.

Another theme is the type of trade regime involved as a determinant of FDI and its impact on economic growth. Balasubramayan, et al. (1996) found that FDI's growth contribution is significantly greater in outward-oriented or neutral trade regimes as compared to those pursuing import-substituting strategies.

Blomstrom and Kokko (1998) find that there is a positive and statistically significant impact of FDI on economic growth, and the higher the level of development of the host country, the stronger the impact is.

Using different measures of Total Factor Productivity (TFP) Ayhan et. al (2008) find a positive association between FDI and TFP. The findings are based on extensive data set for a large sample of countries. Ostry et. al. (2008) find that economic growth duration is positively related to a number of variables that include the degree of equity of income distribution, export orientation, macroeconomic stability and greater openness to FDI.

C. The UAE's Government's Attitudes towards FDI:

Although the laws and regulations governing FDI in the UAE are evolving, there is no official FDI policy at the federal or the local level. Some reports declare that the UAE offers some of the most favorable sets of incentives for FDI (UNDP, 2002). By and large, these incentives include an attractive, business-friendly environment, a high quality infrastructure, a liberalized trade policy, protected property rights, stable macroeconomic policy, and easy procedures for establishing new businesses. Notably important are the free zones. The UAE's thriving network of free zones continues to attract significant foreign investment. By the end of 2008, there were 29 free zones in the UAE, which attracted many companies and their FDI, as well as expanding non-oil exports. Among the seven emirates, Dubai has emerged as a business and economic center in the Middle East by attracting foreign investors from all parts of the globe. Dubai has, unconventionally, attempted and succeeded to a large extent in becoming a diversified economy, rather than following the stereo-typical oil-centric economies of the Gulf countries (UNDP, 2002).

Not surprisingly, out of the free zones in the UAE, 19 are located in Dubai and the lion's share of the UAE's non-oil foreign trade is based there, too. Free zones have a variety of attractions. These include 100% foreign ownership, 100% repatriation of capital and profits, no corporate taxes for 15 years, renewable for an additional 15 years, Intellectual Property Rights (IPRs), protection governed by the UAE's IPR's federal laws, and the availability of high-quality public services. The impetus for change in the UAE government's attitude and policy toward FDI can be traced to the country's efforts to diversify the economic base and to modernize the economy. These recent developments in the UAE's government regime towards FDI can partially explain the substantial increase in FDI inflows to the UAE in the recent years.

Although they are absolutely necessary, such developments that have taken place in the UAE's initiatives toward FDI are not sufficient alone to ensure greater, more effective FDI flows to the states. That is, there is a number of issues that need to be tackled which include, but are not limited, to the following:

- Restrictions of FDI in some activities.
- Restrictions on the expansion of foreign banks.
- Restrictions on foreign ownership of shares.

Table 1. FDI Inflows to the UAE, GCC and Other Selected Countries (1970-2007) \$ Million

Country	1970-75	1976-80	1981-85	1986-90	1991-95	1996-2000	2001	2002	2003	2004	2005	2006	2007
Bahrain	1.6	-49	68	30	370	675	80	217	517	865	1,049	2,915	1,756
Kuwait	4.4	0.7	0.5	0.9	11	103	-175	3.6	-68	24	234	122	123
Oman	8.5	86	144	104	101	70	5.2	122	494	229	1,688	1,623	2,377
Qatar	9.4	5.3	0.3	-4.3	76	294	296	624	625	1,199	1,298	159	1,138
Saudi Arabia	-427	-704	5,582	-176	373	104	504	453	778	1,942	12,097	18,293	24,318
UAE	7.7	73	15	54	204	-140	1,184	1,314	4,256	10,004	10,900	12,806	13,253
Brazil	815	1,943	1,977	1,282	2,202	24,000	22,457	16,590	10,144	18,146	15,066	18,822	34,585
Hong Kong	170	473	1,093	3,687	5,176	24,619	23,777	9,682	13,624	34,032	33,618	45,054	59,899
Korea	103	99	133	676	862	5,722	4,086	3,399	4,384	8,997	7,055	4,881	2,628
Mexico	370	870	2,138	2,745	6,808	13,275	29,483	23,049	16,594	22,883	20,945	19,291	24,686
Singapore	226	579	1,349	3,333	6,373	12,762	15,621	7,200	11,664	19,828	13,930	24,743	24,137
United Kingdom	2,480	5,562	4,358	20,493	14,869	67,745	52,623	24,029	16,778	55,963	177,901	148,189	223,966
United States	1,915	7,524	19,316	54,346	39,310	191,934	159,461	74,457	53,146	135,826	104,773	236,701	232,839

Source: UNCTAD. <http://www.stats.unctad.org/fdi>.

Table 2. FDI Inflows to the UAE, GCC and Other Selected Countries as Percentage of GDP (1970-2007)

Country	1970-75	1976-80	1981-85	1985-90	1991-95	1996-2000	2001	2002	2003	2004	2005	2006	2007
Bahrain	-	-13.6	1.8	0.9	7.5	10.6	1.0	2.6	5.3	7.7	6.5	0.0	0.0
Kuwait	0.2	0.0	0.0	0.0	0.1	0.3	-0.5	0.0	-0.1	0.0	0.3	0.0	0.0
Oman	0.5	2.6	1.7	1.2	0.8	0.4	0.0	0.6	2.3	0.9	5.5	0.0	0.0
Qatar	1.7	0.1	0.0	-0.1	1.0	2.6	1.7	3.2	2.7	3.8	3.1	0.0	0.0
Saudi Arabia	-1.6	-0.4	3.8	-0.2	0.3	0.1	0.3	0.2	0.4	0.8	3.8	5.2	0.0
United Arab Emirates	0.1	0.4	0.0	0.3	0.5	-0.2	1.7	1.8	4.8	9.6	8.4	0.0	0.0
Brazil	1.0	1.0	0.8	0.4	0.4	3.4	4.1	3.3	1.8	2.7	1.7	1.8	0.0
Hong Kong, China	2.2	2.3	3.5	6.5	4.1	14.7	14.3	5.9	8.6	20.5	18.9	23.7	0.0
Korea	1.0	0.2	0.2	0.4	0.2	1.3	0.8	0.6	0.7	1.3	0.9	0.5	0.0
Mexico	0.7	0.7	1.1	1.5	1.9	3.0	4.7	3.6	2.6	3.3	2.7	2.3	0.0
Singapore	6.0	6.3	8.3	12.5	9.9	14.3	18.3	8.2	12.6	18.5	11.9	18.7	0.0
United Kingdom	1.4	1.5	0.9	2.5	1.4	4.8	3.7	1.5	0.9	2.6	8.0	6.2	0.0
United States	0.1	0.3	0.5	1.1	0.6	2.1	1.6	0.7	0.5	1.2	0.8	1.8	0.0

Source: UNCTAD. < <http://www.stats.unctad.org/fdi> > and author's calculations.

Table 3. Inward FDI Stock as a Percentage of Gross Domestic Products (1980 - 2007)

Country	1981-85	1986-90	1991-95	1996-2000	2001	2002	2003	2004	2005	2006	2007
Bahrain	4.5	14	36	77	76	73	69	67	62	70	66
Kuwait	0.1	0.1	0.4	1.7	1.2	1	0.8	0.7	0.8	0.8	0.8
Oman	9.5	16	16	15	13	9.2	11	9.77	7.98	12	15
Qatar	1.19	1.17	3.32	12	12	16	15	15	14	12	11
Saudi Arabia	10.0	24	15	11	9.4	9.4	8.6	8.17	11	15	20
UAE	1.7	2.9	3.3	3.7	3.2	4.8	8.8	17	22	23	25
Mexico	2.1	8.7	10	15	23	25	28	29	26	25	30
China	0.9	3.6	9.8	16	15	15	14	13	12	11	10
Hong Kong	573	342	185	189	252	205	240	273	294	391	573
Korea	1.8	2.0	2.0	4.9	11	11	11	13	13	13	12
Taiwan	5.0	5.5	5.7	6.7	12	10	12	12	12	14	13
India	0.3	0.4	0.9	3.0	4.2	5.0	5.3	5.5	5.5	5.7	6.7
Singapore	53	72	76	105	141	154	159	160	164	165	155
United Kingdom	12	17	18	24	35	33	33	33	38	47	49
United States	3.8	6.1	7.0	9.57	13	13	13	13	13	14	15

Source: UNCTAD. <<http://www.stats.unctad.org/fdi>>.

Table 4. Inward FDI Flows as a Percentage of Gross Fixed Capital Formation (1970 - 2007). Source: UNCTAD.

Country	1970-75	1976-80	1981-85	1986-90	1991-95	1996-2000	2001	2002	2003	2004	2005	2006	2007
Bahrain	0.4	-6.4	6.3	5.0	38.2	83.9	7.6	14.9	27.0	36.4	39.8	92.2	44.7
Kuwait	1.2	0.0	0.0	0.1	0.3	2.3	-3.7	0.1	-0.9	0.3	1.7	0.8	0.8
Oman	2.3	9.5	6.8	7.0	5.1	2.7	0.2	4.7	14.5	4.6	30.2	30.4	39.7
Qatar	4.4	0.5	0.0	-0.5	4.6	8.9	7.4	15.7	8.8	12.5	9.1	1.0	5.4
Saudi Arabia	-18.4	-2.1	15.6	-1.1	1.4	0.3	1.5	1.3	2.0	4.7	23.2	29.7	30.1
UAE	2.1	1.2	0.1	1.0	2.0	-0.8	7.2	7.7	21.4	45.2	38.6	30.4	26.7
China	0.0	0.0	1.1	2.7	10.9	12.6	10.3	10.0	8.3	7.7	7.7	6.4	5.9
Hong Kong, China	10.1	8.8	12.5	27.0	14.8	53.6	55.7	26.4	40.6	96.4	90.4	108.6	142.8
Korea	4.5	0.6	0.5	1.2	0.6	4.1	2.9	2.1	2.4	4.5	3.0	1.9	0.9
Singapore	16.6	16.9	18.4	38.3	29.3	40.9	60.8	31.9	52.3	77.7	53.7	79.9	60.0
Mexico	3.2	2.8	5.5	8.3	10.8	14.8	23.7	18.5	13.7	17.1	12.3	9.8	13.3
United Kingdom	6.8	8.0	5.3	12.5	8.6	28.1	22.0	9.2	5.7	15.7	46.2	34.6	44.8
United States	0.8	1.5	2.8	5.8	3.4	10.9	8.2	4.0	2.7	6.3	4.3	9.1	9.0

Table 5. Inward FDI Potential and Performance International Tanking of the UAE, GCC and Selected Countries (1990-2007)

Country	Inward FDI Potential Index									Inward FDI Performance Index								
	1990	1995	2000	2002	2003	2004	2005	2006	2007	1990	1995	2000	2002	2003	2004	2005	2006	2007
Bahrain	23	30	32	29	29	30	29	30	--	25	44	45	75	61	32	21	12	12
Kuwait	47	29	30	35	40	42	31	29	--	104	125	129	137	138	138	136	135	134
Oman	35	50	55	52	54	57	124	125	--	42	98	125	126	112	99	103	88	83
Qatar	19	21	19	9	10	10	74	69	--	115	67	99	88	73	56	25	21	32
Saudi Arabia	30	28	28	30	31	35	122	122	--	118	105	132	130	129	123	122	112	120
UAE	26	19	26	24	23	27	12	11	--	96	90	136	114	64	25	18	22	34
Hong Kong	20	16	13	13	14	15	11	10	--	3	13	2	3	8	6	3	2	1
Singapore	15	3	2	2	5	5	54	53	--	1	2	5	6	6	7	30	28	49

III - The Development of FDI Flows to the UAE:

In this section, this paper provides some stylized facts on FDI flows to the UAE. In particular, it examines the development of FDI flows since the early 1970s until the present time. To put these facts in context, the paper compares the UAE with other GCC economies.

A. Salient features of FDI in the UAE:

Table 1 presents FDI inflows to the UAE, GCC Countries and other selected countries during the period 1970-2007. Tables 2 and 3 show FDI inflows as a percentage of GDP and Gross Capital Formation (GCF) respectively, and Table 4 presents FDI Stocks as a percentage of GDP.

The information shown above suggests the following:

- FDI inflows to the UAE and other GCC Countries proved to be volatile until the end of the past century, yet they showed an **"unstable upward trend"** from 2000 to 2007. In particular, there was a sharp increase in FDI inflows to the UAE, where they increased from \$1.314 billion in 2002 to \$4.256 in 2003. Then they soared to \$10.004 billion and to \$13.253 billion in 2004 and 2007 respectively. Comparatively, the UAE comes as the second largest recipient of FDI among GCC Countries.

The fluctuations of FDI to the UAE and GCC countries may be attributed to a number of factors. These factors include international economic development, the early 1990s recession, financial crises (Asian financial crisis from 1997 to 98), political instability, and conflicts in the region (Gulf War I, Gulf War II and the Iraqi War). The higher levels of FDI to the UAE and GCC Countries in the past few years may be partially explained by significant improvements in infrastructure, favorable economic prospects, and political stability.

- During the period 1970-2000, FDI inflows and stocks to the UAE and GCC increased in pace neither with the world's total nor with developed and developing countries. However, over the period 2001-2007, FDI inflows to the UAE increased at an accelerated rate which outpaced that of developing countries. That is, FDI inflows increased eleven-fold over the period 2001-2007.
- Also notable (table 4) is the small role FDI played in the UAE and other GCC countries until the turn of the millennium. That is, FDI inflows to the UAE account for a small percentage of gross capital

formation where it did not exceed 2.1% during the period 1970-2000). However, they comprised more than 25% of the UAE's gross capital formation on average during the period 2001-2007.

- It is clear that the UAE achieved only limited success in attracting FDI until 2000. In the 1980s, the average annual FDI inflows to the UAE were \$34.5 million, where it ranks fourth among the GCC countries in attracting FDI inflows, after Saudi Arabia, Oman and Bahrain. In a broader comparison, FDI inflows to the UAE were much lower than other developing countries over the same period: average annual FDI inflows were \$2,341 million, \$2,442 million and \$2,390 in Singapore, Mexico and Hong Kong respectively. Throughout the 1990s, the average annual FDI inflows to the UAE were the lowest among the GCC countries, where they amounted to \$32 million, and were not comparable to other countries, such as Singapore and Hong Kong, where they reached \$9,568 million and \$14,898 million respectively over the same period.
- Data on FDI inflows might explain the relatively low FDI stock as a percentage of GDP in the UAE during the period 1980-2000, where it did not exceed 3 percent on average. As for FDI stock as a percentage of GDP, the UAE ranks fourth among the GCC countries over the same period, while the stock of FDI relative to GDP was close to 90 percent in Mexico, and over 76% and 322% in Singapore and Hong Kong respectively.

Notwithstanding the significant increase in the FDI as a percentage of GDP in the UAE over the period 2002-2007, when it gradually increased from 4.8% in 2002 to 8.8% in 2003, and then jumped to 23 percent and 25 percent in 2006 and 2007 respectively, which exceeded all the GCC countries, except Bahrain, and other countries, such as China and Taiwan.

B. FDI Inflows to the UAE: Performance and Potential:

It is not an easy task to assess whether a country is receiving FDI inflows which are equivalent to its potential or not. UNCTAD devised two indices to overcome this difficulty: the FDI Performance Index and the FDI Potential Index.

The FDI Potential Index measures and ranks the potential of a country in attracting FDI. This index is based on several economic

indicators, such as GDP growth per capita income, infrastructure facilities, such as communications, roads, ports, airports, energy use, and machine imports. The FDI Performance Index ranks countries by the FDI they receive, relative to their economic size, measured as the ratio of the country's share in global FDI flows relative to its share of global GDP.

Having a high FDI potential ranking implies that the country's potential for attracting FDI is promising, while having a high FDI performance ranking means that the country has been successful in attracting FDI that is consistent with its share of global GDP, and vice versa.

For a country, it is always preferable to have a FDI performance ranking which is higher than its FDI potential ranking, or equal ranking in both performance and potential. Having a FDI performance ranking lower than FDI potential ranking means that the country is receiving FDI inflows less than its potential, i.e. the country is receiving less than what it could attract.

Table 5 shows the development of the UAE's and other selected countries' world ranking based on FDI performance and potential indices over the period 1988-2007.

An examination of Table 5 reveals the following:

- The UAE improved its potential for attracting FDI during the period 1990-2006, where it ranked 26 in 1990 and ranked 11 in 2006.
- The UAE performed below its potential, yet the gap between performance and potential shrunk.

Having a gap between performance and potential implies that more FDI could be hosted by the UAE than it gets.

- With slight fluctuations, the potential of all GCC countries except Kuwait has deteriorated during the period in question. For example in 1990 Saudi Arabia ranked 30, while it ranked 35 and 122 in 2004 and 2006 respectively.

IV. Empirical Methodology:

Generally, the empirical work on FDI determinants and their impact on economic performance take two forms: investors' surveys and econometric case studies. In this study, we make use of both of these

methods, but with limited use of the latter due to lack of data. While an investors' survey is utilized to identify the most important determinants of FDI, a **co-integration analysis** is employed to examine whether there is an association between FDI and economic growth.

A. Investors' Survey:

This paper uses a revised and extended version of the eclectic paradigm. According to the framework proposed, there are three main groups of factors affecting FDI, i.e. characteristics of the company, internalization factors, and location factors which have been further divided into five subgroups: economic factors, infrastructure, institutional factors, regulatory framework and the government's role, and the business environment, which are essentially those determining the decision to undertake FDI.

Premise 1:

Characteristics of the company are supposed to answer the question "Why undertake FDI?"

Premise2:

The internalization factors are assumed to answer the question "How to undertake FDI?"

Premise3:

The location factors are assumed to answer the question "Where to undertake FDI?"

It must be taken into consideration that the three decisions are strongly interconnected and are not made separately, so that each group of factors will actually affect the whole decision-making process. This approach has already been used in previous work (Galan, and Gonzales-Benito, 2001). It is also worth mentioning that these three decisions are not necessarily made in the order stated above. Rather they are made jointly since there are important links between them (Galan, and Gonzales-Benito, 2001).

The survey was considered the most appropriate research design for obtaining empirical evidence on critical factors in FDI decisions. The targeted population was extracted from the Ministry of Economy and Commerce data base and the Dubai Business Handbook. Research procedures were conducted to cover a sample of Multinational

Enterprises (MNEs) that are currently working in the UAE. The targeted population was divided into two categories:

- Foreign companies operating in the UAE; and
- Foreign companies operating in Free Zones (mainly JAFZ and DAFZ).

The reason for this was to allow a comparison of the answers obtained from firms operating with the privilege of 100 percent ownership and those without that privilege. The survey was applied to 618 companies which are geographically dispersed in three Emirates: Abu Dhabi, Dubai, and Sharjah, including the free zones located in these areas. The factors that were to be included in each group, such as characteristics of the company, internalization factors, and location factors, were selected after exhaustive analysis of the literature. Each company was asked to value each of these factors according to the importance they had for their decisions about FDI. They were also asked questions regarding their perceptions about the UAE's government initiatives towards FDI, e.g. what they think of the existing legislation on FDI, and what additional incentives would benefit investors locating to the UAE.

A total of 101 (16%)⁽¹⁾ companies returned the completed questionnaires. An illustrative methodology is used to analyze the data. Three main measures were constructed for each factor and all measures used are basically driven from a frequency analysis.

1. Degree of Relevance of the Factor: An average score was given to each factor by the companies in the sample. It is worth mentioning that a linear transformation was applied in order to make it range from zero to ten. This measure allows identifying the importance of each factor in each group.

2. Degree of Significance of the Factor: This refers to the percentage of companies which have ranked the factor as very high, high, neutral, low, or very low, with regard to how significant the factor was in deciding to undertake FDI in the UAE.

(1) The response rate might seem relatively low, yet it should be seen in light of the institutional settings in developing countries and the resistance or unwillingness to disclose information. Almost all sample companies were contacted several times to get their responses.

3. Importance Ranking: How important is the factor relative to other factors? It allows us to know the main factor influencing the decisions.

D. Co-integration Analysis:

Testing for the existence of statistical relationships among the variables is done in two steps. The first step is to verify the order of integration of the variables. The second step involves testing for cointegration. Evidence of co-integration rules out the possibility that the estimated relationship is “spurious”.

A pre-condition for the co-integration of time series is for the series to be integrated in the same order. In other words, if two series are co-integrated of order d [i.e. $I(d)$] then each series has to be differenced d times to restore stationarity. For $d = 0$, each series would be stationary in levels, for $d = 1$, first differencing is required to obtain stationarity and so on. To drift towards a long-term equilibrium, non-stationary variables must be converted into stationary processes.

The most commonly used approaches to test for stationarity are the Augmented Dickey and Fuller (ADF) test, and the Phillips-Perron (P-P) test. These tests are known as unit-root tests as they test for the presence of unit roots in the series.

The aim of the co-integration test is to determine whether a group of non-stationary series is co-integrated or not. The paper uses the co-integration test proposed by Johansen (1991, 1995a). The research plan is to apply the cointegration test to FDI variables and to the main macroeconomic variables: economic growth measured as real GDP growth rate, exports, and employment rates. However, due to the unavailability of a time series for employment, the co-integration test is applied only to FDI variables and GDP growth rates.

The Johansen-Juselius system-based procedure was applied with constant, monthly dummies, and trends. Recent studies suggest that results from the Johansen co-integration technique are sensitive to lag specification. Hall (1991), for example, finds that whereas the results of coefficient estimates are not very sensitive to lag specification, the likelihood ratio test statistics used to carry out tests on the parameters of the co-integrating vectors can be sensitive to the choice of the vector auto regression (VAR) lag. In this paper, the lag-length in the VAR was

determined using Akaike's minimum Final Prediction Error (FPE) criterion.

V. Results and Discussion:

A. Survey's Results:

1. Descriptive Analysis:

With regard to the activity of companies in the sample, 22 percent were in financial services, 5% in manufacturing, 18.5 percent in energy and utilities, and the rest (54.5%) in other services. Services include a wide variety, such as assembly activities, distribution and marketing, and sales. This is roughly similar to the distribution of foreign companies in the UAE.

The size of companies was examined based on their global turnover in 2004. The sample consists of a good range of company sizes with a minimum turnover of US \$1million to a maximum of US \$16 billion. Of all these companies, 17.6% have a turnover of less than US \$10 million, 14.4% are between US \$10 million and US \$100 million, 14.6% are between US \$100 million and US \$1 billion, and 53.4% have a turnover of more than US \$1 billion. This shows that the companies in the sample tend to be relatively large.

As far as the geographical location is concerned, 81 percent are located in Dubai, Abu Dhabi, and the Free Zones, some are in both Dubai and Abu Dhabi, and the rest are spread over the other emirates. More specifically, 48 percent are located in Jabel Ali Free Zone (JAFZ), 11% in Dubai, 14% in Abu Dhabi and 8% in both Dubai and Abu Dhabi. This geographical distribution reflects the significance of free zones in attracting FDI.

With respect to the company's country of origin, 32 percent are American, 13.6% are French, 8.5% are German, and 6.8% are from the UK. This is consistent with the fact that the USA is globally the main source and destination of FDI.

2. Determinants of FDI in the UAE:

a. Characteristics of the Company: Why Undertake FDI?

The data in Table 6 shows that within the characteristics of the company, the most important factors in deciding whether to undertake FDI are human capital and skills, followed by reputation and public

image, and then technological and innovative capabilities. Thus, the decision to enter foreign markets is mainly promoted by the experience accumulated in human capital, reputation, and technological capabilities. On the other hand, the factors with the lowest rank are economies of scale, financial structures, the reputation of top managers, and market leadership.

The previous analysis implies that three factors should be pointed out: the growing importance of intangible assets (human capital and skills, public image, technological and innovative capabilities), the weak determinant power of the economies of scale, and market leadership.

With reference to the relevance of factors, that is the average score assigned to each factor by the companies in the sample, the data in Table 4 confirms the previous analysis. In addition to having weak determinant power, economies of scale and financial structure also seem to have little relevance to the decision to undertake FDI.

Table 6 shows the **significance level** in terms of the percentage of companies which assigned very high to a factor. Since some companies gave the same significance level to different factors, the sum of the percentages does not equal 100%.

**Table 6. Measures of Relevance and Determination
(Characteristics of the Company)**

Characteristics of the Company	Determina- tion	Relevance	Importance Ranking
Technological and innovative capabilities	43.1	5.58	3
Reputation and public image	42.4	6.28	2
Human capital and skills	50.8	7.98	1
Market leadership	34.5	5.20	4
Low costs for production for large volume (scale economies)	5.2	3.25	7
High capabilities and reputation of top managers	25.0	4.23	5
Sound financial structure	36.8	3.89	6

3. Internalization Factors: How to Undertake FDI:

This section is devoted to analyzing factors motivating the selection of FDI instead of other forms of internationalization, e.g. exports or licensing. Table 7 below shows that two of the factors considered in the analysis seem to be determinants in the selection of FDI against other forms: entering new markets, locating close to markets, reducing costs and securing strategic alliances. On the other hand, there are other factors which weakly determine the form of internalization. They are related to currency fluctuations and the existence of tariffs against foreign goods. The data in Table 7 reveals the low importance of currency fluctuations and avoiding tariffs. This seems consistent with the fact of stable exchange rates in the UAE and the liberal trade policy, whereas the tariffs on foreign products are at their minimal level. However, it must be noted that there are transaction costs which are implicitly associated with the most significant determinant factors in the case of locating close to markets, reducing costs and securing strategic alliances. These contribute to reducing uncertainty, so that costs for searching for information, and negotiating and controlling contracts can be reduced to a large extent. The analysis of relevance and significance level does not provide much additional information, since, to a large extent, it replicates the importance-ranking information.

**Table7. Measures of Relevance and Determination
(Internalization Factors)**

Internalization Factors	Determina- tion	Relevance	Importance Ranking
To locate close to markets, reduce cost and to secure new strategic alliances	56.70	7.24	2
To avoid currency fluctuations	1.80	2.79	5
To develop new products and delivery	17.20	4.72	3
To enter new markets	65.00	7.59	1
To avoid tariffs	5.30	3.41	4

4. Location Factors: Where to Undertake FDI:

Because of the importance and implications of the wide variety of

location factors, they have been broken down into five subgroups: economic factors, infrastructure, institutional factors, regulatory framework, the role of government, and business environments. With regard to the selection of a location to FDI, three groups of factors stand out from the five in importance ranking, significance and relevance levels: institutional factors, the business environment, and the infrastructure. The last two include inter-connected factors.

The low importance of economic factors which have been given the least rank might seem surprising. However, this can partially be explained by two facts: first, the size of the UAE market is relatively small compared to other destinations. In this regard, the UAE does not have dominating advantages over other locations with high populations and moderate per capita GDPs. Second, the UAE, to a large extent, is considered to be a regional trade and capital center that can serve the whole region.

Within *institutional factors*, political stability has gained the highest rank and relevance. This is clearly consistent with the fact the UAE has the most stable political environment when compared with neighboring countries. Regarding the *business environment*, three factors appear to be determinants: business relations are ranked first, followed by business attitudes, and then access to banking services. This might reflect the UAE's friendly business environment, and the modernization and expansion of the UAE's financial system that has taken place recently. Factors related to *infrastructure* also dominate the determinant factors, where telecommunications and transportation/logistics facilities are assigned the highest rank. The critical importance of such factors is not questionable in attracting FDI where they are among the main *pull* factors in any country. That is, it is hard to think of smoothly-functioning businesses where there is a lack of efficient and modern telecommunications and transportation facilities.

Table 8. Measures of Relevance and Determination (Location Factors)

Location Factors	Determination	Relevance	Importance Ranking
Economic Factors:	63.11		
Economic outlook and prospects	60.70	8.12	1
Size of host market and growing demand (potential growth)	37.70	4.27	2
Cost of labor	5.10	3.19	5
Availability of labor	6.70	3.81	3
Quality of labor	5.00	3.49	4
Cost of raw materials, energy and water	12.50	3.14	6
Cost and availability of land and premises	6.30	3.08	7
Infrastructure	69.52		
Transportation/logistic facilities	35.40	6.87	2
Telecommunications	37.50	7.23	1
Technological advances (learning potentials)	12.50	4.59	3
Educational facilities	14.60	4.57	4
Healthcare	8.30	3.76	5
Sports and recreational facilities	4.20	3.27	6
Institutional Factors	71.04		
Political stability	65.30	7.48	1
Standard of living	28.60	5.17	2
UAE specific: consumer preferences	8.30	2.95	6
Community attitude towards company	12.50	3.81	3
Cultural affinity	10.40	3.13	5
Multi-lingual environment	18.80	3.24	4
Regulatory Framework and the Government's Role	58.56		

Table 8. Measures of Relevance and Determination (Location Factors)

Location Factors	Determination	Relevance	Importance Ranking
Zero taxation	38.80	7.53	1
100% repatriation	34.70	7.14	2
Environmental policies	8.20	3.28	5
International trade agreements	6.10	3.28	5
Contract enforcement policies	20.40	3.71	3
Intellectual property laws	10.20	3.41	4
Real Estate - Foreign ownership policy	8.20	3.17	7
Ministry charges and fees	6.80	3.17	7
Ministry bureaucracy	8.20	3.23	6
Business Environment and Services	70.14		
Low level competition	8.30	3.01	7
Access to legal business services	6.30	4.46	4
Access to banking services	22.90	5.02	3
Access to insurance services	6.30	3.04	6
Reliability of suppliers	6.30	3.53	5
Business attitude in terms of flexibility and practicality	29.20	5.71	2
Business relations and honesty	39.60	6.82	1

Some classical factors appear with a relatively low degree of relevance, such as cost of labor, size of host market (economic factors), zero taxation, and 100 percent repatriation which are frequently referred to in location theory. However, this notion should not be misunderstood based on the following:

- The growing importance of institutional, business environments and infrastructure factors do not mean disregarding others, such as economic factors- Foreign investors in the UAE, as will be discussed, are encountering problems in the areas of regulations and laws governing FDI activities.

In addition to that, the companies in the sample were asked some open questions:

How do you rank the existing legislation on FDI in the UAE? (Very encouraging, encouraging, discouraging, highly discouraging). Of companies' representatives, 63 percent think that it is discouraging, 12 percent think that it is highly discouraging, 18 percent think that it is encouraging, and 7 percent think that it is very encouraging. This might reflect the absence of a formal, comprehensive, and liberalized FDI policy on the local or the federal level.

What improvements would you advocate to the present investment laws in the UA, if any? In your opinion, what additional incentives would be beneficial to inward investors locating in the UAE?

The following improvements have been suggested;

- Fewer/no restrictions on foreign investment and ownership;
- No preferences based on nationality; equal treatment for all companies;
- Revision of the UAE's Commercial Law;
- More transparency;
- No restrictions on real estate ownership;
- Agent requirement restrictions on foreign ownership, etc. represent barriers to the free flow of FDI;
- More freedom in incorporating companies, and clearer tax regimes;
- Reducing restrictions on visa and sponsor requirements.

Do you consider the current federal laws to be efficient in regulating the relationship between foreign investors and the government?

Of companies' representatives, 68 percent consider current federal laws to not be efficient, 11 percent consider them to be efficient, and 21 percent are not sure.

B. Co-integration Analysis Results:

To determine if a series is stationary, McKinnon critical values should be compared with the ADF test statistic. If the McKinnon critical values (in absolute terms) exceed the ADF statistic, the null hypothesis (that $\alpha = 0$) is not rejected; that is, the series exhibits a unit root, which is another way of saying that the series is non-stationary. On the other hand, if McKinnon critical values are less than the ADF statistic, the null hypothesis is rejected. That is, the data do not exhibit a unit root, which

is to say that the data are stationary. In this paper, allowances are made for all three variations of the ADF tests: no trend or intercept, an intercept, and an intercept and linear time trend.

Table 9. Unit-Root Test Results

Series/ Variable	ADF Test			P-P Test
	(1)	(2)	(3)	
GDP growth rate	Y	Y	Y	Y
GDP per capita growth	N	Y	Y	Y
Exports/GDP	N	N	Y	Y
Gross Capital Formation/GDP	Y	Y	Y	Y
FDI/GDP	Y	Y	Y	Y

ADF: Augmented Dickey-Fuller Unit Root Test

P-P The Phillips-Perron Unit Root Test

“N” indicates a rejection of the null hypothesis of a unit root (non-stationarity) at 0.05 level.

“Y” indicates the hypothesis of a unit root cannot be rejected.

(1) ADF test with no trend and no intercept.

(2) ADF test with intercept.

(3) ADF test with intercept and trend.

Table 9 shows the results of the ADF and P-P tests. In this table, the “Y” entry indicates the data do not reject the hypothesis of a unit root at the 0.05 significance level. The unit root hypothesis cannot be rejected for all variables, at least in one variation of the test, which implies that these variables are non-stationary or I (1), or are integrated of order 1.

For the purpose of analyzing the FDI-economic performance link, the FDI/Gross Domestic Product (FDI/GDP) is employed as a FDI variable. GDP growth rate (GDP) and GDP per capita growth rate (GDPP) are used as economic growth variables. In addition, Exports of Goods and Services/GDP is used to measure export performances, while Gross Capital Formation/GDP is used to measure the contribution of FDI to domestic capital formation.

The data set covers the period 1973-2007 due to the lack of data. Data were extracted from the UNCTAD and World Development Indicators 2008 (WDI) C-D Rom.

It is now possible to examine the possibility that FDI variables and

economic performance variables share a common stochastic trend. Briefly stated, a set of variables is said to be co-integrated if they are individually non-stationary and integrated of the same order, and yet their linear combination is stationary. Evidence for co-integration suggests the presence of a long-run relationship between the variables under consideration. This means that any deviations from this long-run equilibrium relationship will be corrected. Moreover, the presence of co-integration statistically rules out non-causality between the variables. That is, if two variables are co-integrated, then there must exist temporal causality in the Granger sense between them in at least one direction. This indicates two important channels that might cause changes in the variables. One channel indicates the response of one variable due to changes in another variable, which is viewed as the short-run interaction between them. The other channel indicates the adjustment taken by the variables to correct any deviations from an equilibrium path. The absence of co-integration suggests there might only be short-run interaction between the variables.

To determine the number of co-integration relationships in the system, (Johansen, 1999) suggests two tests: the Trace Test, and the Maximum Eigenvalue Test. The Trace statistic tests the null hypothesis that there are at most r co-integration vectors against the alternative of r more co-integrating vectors. Meanwhile, the Maximal Eigenvalue Statistic tests for r co-integrating vectors against the alternative of $r + 1$ co-integrating vectors. The number of co-integration relationships in the system is chosen in the procedure by the Likelihood Ratio (LR) test.

Table 10: Cointegration Results for FDI and Macroeconomic Variables

	Trace Test (The Number Of Cointegration Equations)	Trace Test (The Number Of Cointegration Equations)
FDI/GDP & GDP	None	None
FDI/GDP & GDPP	None	None
FDI/GDP & EX/GDP	None	None
FDI/GDP & GCF/GDP	None	None

GDP: GDP growth rate

GDPP: GDP per capita growth rate

EX/ GDP: Exports/GDP

GCF/GDP: Gross Capital Formation/GDP

None entry means that Likelihood Ratio (LR) indicates that there is no co-integration equations

1, 2... refer to the number of co-integration equations

Table 10 presents co-integration test results for FDI variables and economic performance variables. “N” entry means that Likelihood Ratio (LR) indicates that there is no co-integration equation, while “1,” “2,” and “3” refer to the existing number of co-integration equations. Both tests indicate that no co-integration relationship exists for FDI variables, FDI inflows/GDP and FDI inflows stock/GDP and economic performance variables, GDP growth rate, GDP per capita growth rate, exports, and gross capital formation. These results suggest the non-existence of long-run co-movements among the selected variables.

The previous results suggest that FDI has not significantly affected the UAE’s economy. These results are not surprising in light of the small levels of FDI inflow to the UAE during the period 1973-2002. While FDI inflows have significantly increased in the past few years, for the FDI to affect the economy, it needs to be relatively stable for a reasonable period of time and not for a few years.

VI. Conclusions and Recommendations:

A. Conclusions:

By and large, the determinants of FDI are well documented in the literature. This study aims to explore the following:

-First, the relative importance of the main factors affecting key decisions related to undertaking FDI by MNEs in the UAE.

-Second, how do foreign investors or their representatives perceive existing government initiatives toward FDI?

-Third, how does FDI affect the UAE’s economic growth, exports and capital formation?

The main conclusions reached with this study can be summarized as follows:

- In spite of explicit efforts by the government to lure investors, the UAE has received far less FDI than it could have, both relative to its economy’s potential and in comparison with other countries.
- The majority of MNEs or their branches, in the UAE are in service activities, especially in financial services.

- Free zones, and the Emirates of Dubai and Abu Dhabi host most of the foreign companies operating in the UAE.
- The USA is the main exporter of FDI to the UAE, followed by France, Germany, and the UK.
- The characteristics of a company come at the top of the main determinants of FDI, followed by location and internalization factors.
- Within the characteristics of the company, the analysis shows the great importance of specific, intangible assets. Accumulated human capital and skills, reputation, public image, and the availability of technological and innovative capabilities seem to spur companies to enter the UAE market. On the other hand, economies of scale, financial structure, and market leadership hardly influence the behavior of foreign companies undertaking FDI in the UAE.
- The selection of FDI as the form of internationalization is mainly motivated by the need to enter new markets, to be located close to markets, to reduce costs and to secure new strategic alliances. It should be mentioned that this is of special importance for service companies, which are the dominating ones in the UAE according to the sample. This should also not be in contradiction with the low importance given to the economies of scale because of the special nature of service activities. That is, most of these services cannot be stored or exported.
- As regards location factors and the selection of destinations for FDI, institutional factors are ranked first, followed by business environment factors, and infrastructure. Not surprisingly, regulatory framework, the government's role, and economic factors come late in the list. This can be explained on the basis of the regulatory difficulties foreign investors encounter and the relatively small size of the UAE's economy.
- Among institutional factors, political stability is the most significant factor, the business-friendly environment and access to banking services come at the top of the business environment factors, and finally telecommunications and transportation/logistics facilities are ranked first within infrastructure factors.
- Classical factors, such as the size of the host market, cost of labor, and zero taxation have moved to the bottom of the list. This might reflect

the increasing importance of other factors, rather than the decreasing importance of these factors.

- The majority of foreign companies' representatives in the UAE think that the existing legislation on FDI in the UAE is discouraging or highly discouraging.
- The main improvements to be made, as perceived by those representatives, are removing restrictions on foreign investment and ownership, equal treatment for all companies, revision of the UAE's Commercial Law, more transparency, fewer restrictions on real estate ownership, and abolishing agent requirements.
- In light of the co-integration analysis results, no long-run relationship can be detected between FDI and economic growth. Similar results are found in the case of co-integration between FDI, exports and capital formation, that is no long run relationship exist between FDI and exports, and between FDI and capital formation in the UAE. This implies that FDI inflows have not significantly affected the UAE's economy.

B. Recommendations:

The following specific, high priority, recommended actions are needed to bring the UAE's FDI policy (initiatives) up to the best international practices:

- A formal, comprehensive, and liberalized policy towards FDI is needed more than ever before. This policy should be designed in the context of a broader economic strategy and in the light of world dynamics and the globalizing environment, with consistency on local and federal levels.
- At present, the most significant challenge for the UAE is to switch from traditional approaches for luring FDI to modern, dynamic ones. The former involve relying heavily on free zones, and on top of that, relying on the specific privileges offered to FDI. The new approach would require providing foreign investors with a generic environment conducive to attracting high-quality FDI.
- In the context of the new approach, the UAE needs to undertake a comprehensive review of its FDI regime. The suggested approach for the most effective instruments for attracting FDI neither includes tax concessions nor other types of preferential treatment for foreign investment. Rather a reasonable, transparent and stable tax system is

necessary to attract modern FDI, and extremely low rates or special treatment is not effective. As the analysis shows, zero taxes are not one of the determinant factors of FDI in the UAE.

- Legislation that promotes the UAE's investment and regulates foreign investment needs to be enacted. This legislation should provide foreign investors with a more stable, certain investment climate and make the UAE more open to foreign investors who would provide economic benefits, such as increased productivity or technology. This legislation should categorize investment activities into the following:
 - i - Activities reserved for the UAE's federal and local governments;
 - ii - Activities reserved for UAE nationals;
 - iii - Activities permitting minority foreign ownership;
 - iv - Activities permitting full foreign ownership.

Activities in each category should be identified in the light of both economic strategic interests and the expected benefits of FDI.

- Revision of agent requirements, commercial laws, and residency requirements is very necessary. Simultaneously while considering easing most of the above-mentioned restrictions, the UAE government should eliminate specific privileges offered to national companies.
- The suggested FDI policy should be enhanced by a FDI legal framework in line with the best international practices, with enforceability of contracts and property rights.
- Schemes that are guaranteed to cover non-commercial risks should be maintained and extended.
- The current areas of strength should be kept and improved on. These include political and economic stability that provides reasonable predictability for making decisions, improving the government's behavior to facilitate business rather than harass it, and the provision of a highly- developed, physical, infrastructure network.

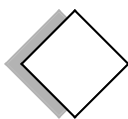
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تدفقات الاستثمار الأجنبي المباشر إلى دولة الإمارات العربية المتحدة: محددات وتحديات

كمال الوصال

الملخص:

تستهدف هذه الدراسة تعرف المحددات الرئيسية لتدفقات الاستثمار الأجنبي المباشر إلى دولة الإمارات العربية المتحدة بالإضافة إلى تعرف آراء ممثلي الشركات متعددة الجنسية حول التشريعات التي تحكم عمل الاستثمار الأجنبي.

بداية تقوم الدراسة بعرض لتطور تدفقات الاستثمار الأجنبي إلى دولة الإمارات العربية خلال العقود الثلاثة الأخيرة، ويبي ذلك عرض لمنهج ونتائج الدراسة التطبيقية، التي اعتمدت على استقصاء لآراء ممثلي 101 من الشركات متعددة الجنسية حول أهم الاعتبارات التي أدت إلى قرار الاستثمار في دولة الإمارات.

وتظهر نتائج الدراسة أن عوامل مثل الرغبة في دخول أسواق جديدة، والوجود بقرب الأسواق، وتقليل تكاليف الإنتاج، كانت وراء تفضيل الاستثمار الأجنبي المباشر عن الأشكال الأخرى من الاستثمار، كما توضح نتائج الدراسة أيضاً أن الاستقرار السياسي والبيئة الملائمة المشجعة للاستثمار والبنية التحتية المتطورة، كانت عوامل أساسية وراء اختيار دولة الإمارات دون غيرها من البلدان الأخرى. وأخيراً فإن ممثلي الشركات متعددة الجنسية يرون أن توجهاً نحو مزيد من التحرير وتبسيط القواعد التي تحكم عمل الشركات متعددة الجنسيات بات أمراً ضرورياً.

وتنبع أهمية الدراسة من حقيقة أن النتائج والتوصيات التي توصلت إليها لا ينبغي حصرها في السياق الاقتصادي لدولة الإمارات العربية فقط، حيث إنها تنطبق إلى حد كبير على الدول ذات الظروف المشابهة، وخاصة دول مجلس التعاون الخليجي.

المصطلحات الأساسية: الاستثمار الأجنبي المباشر، الشركات متعددة الجنسيات، تحليل الاستقصاء، الإمارات العربية المتحدة.