MARGIN OF ECONOMIC FREEDOM IN THE GCC: IS IT ENOUGH TO ATTRACT FDI

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dx.doi.org/10.18374/JIFE-21-1.2

ABSTRACT

The paper aims to examine the determinants of Foreign Direct Investment in the Gulf Cooperation Council and explore whether the margin of economic freedom in the GCC is enough to attract FDI from the period 2000-2018. The data was collected from secondary sources of the World Bank databases and the United Nations Conference on Trade and Development. To explain the link between FDI and economic freedom in the long and short run, the study used different models of cointegration including VECM, FMOLS, DOLS, FMLS. The study found that there exists a long relationship between FDI and Gross Domestic Product (GDP) per capita, gross fixed capital formation, inflation, degree of openness and economic freedom. The degree of adjustment was found to be 0. 37 percent, meaning that any deviation for FDI from its long run path will be corrected by 0.37 percent each year. The study also confirmed that GDP per capita, and gross fixed capital formation, and degree of openness have a positive impact on FDI, whereas inflation and economic freedom have a negative impact. The implication of the study is that the margin of economic freedom in the GCC is not that large enough to attract more FDI. The GCC must introduce many policy and institutional reforms to attract more FDI which will facilitate the economic diversification of the GCC economies and foster their economic growth and development.

Keywords: *Economic freedom, FDI, VECM, FMOLS, DOLS, GCC*