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# Globalization and Foreign Direct Investment in the GCC Countries: A Recipe for Post COVID-19 Recovery

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## Abstract

This study investigates the long-run relationship between the de jure economic, political, and social globalization and foreign direct investments in the Gulf Cooperation Council (GCC) to establish whether policies that foster trade and investment relations among geographical entities can help revive the GCC countries from the prevailing economic debacles of the COVID-19 pandemic. This study is driven by the GCC's quest to fully overcome the economic challenges occasioned by the outbreak of the global pandemic and position itself as the most potent regional economic bloc in the Middle East and North Africa (MENA) region. The study employs the panel data of the six GCC countries of Bahrain, United Arab Emirates, Kuwait, Qatar, Oman, and Saudi Arabia from 1971 to 2017. The findings of the panel fully modified ordinary least square regression estimation show that the de jure economic and social globalization have a significant positive impact on the region's foreign direct investment inflows. The impact of the de jure political globalization on foreign direct investment is statistically significant but negatively signed. Based on the preceding findings, we offer some holistic policy recommendations to the GCC region as recipes for timely recovery from the economic impact of COVID-19 and beyond.

**Keywords:** Globalization, Foreign Direct Investment, De Jure, COVID-19, GCC

**JEL Classification Code:** E61, F13, F15, G18

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## 1. Introduction

Covering a wide range of distinct political, economic, and cultural trends, the term “globalization” remains crucial to contemporary political, economic, and academic debates. In contemporary popular discourse, globalization often functions as little more than a synonym for one or more of the following phenomena: the pursuit of classical liberal (or “free market”) policies in the world economy (“economic liberalization”), the growing dominance of western forms of political, economic, and cultural life; a global political order built on liberal notions of international law (the

“global liberal order”), the proliferation of new information technologies (the “Internet Revolution”), as well as the notion that humanity stands at the threshold of realizing one single unified community in which major sources of social conflict have vanished (“global integration”).

Globalization is the process by which ideas, knowledge, information, goods, and services are spread around the world. In business, the term is used in an economic context to describe integrated economies marked by free trade, the free flow of capital among countries, and easy access to foreign resources, including labor markets, to maximize returns and benefit for the common good. Globalization as it is known in some parts of the world is driven by the convergence of cultural and economic systems. This convergence promotes, and in some cases necessitates increased interaction, integration, and interdependence among nations. The more countries and regions of the world become intertwined politically, culturally, and economically, the more globalized the world becomes (Clark, 2000). Since its inception, several decades ago, various countries have embraced globalization to grow their international visibility to advance their social, political, and economic capital. As a result, countries have initiated enabling policies and climates to foster increased

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prominence and the concomitant benefits. For globalization to thrive, national policies on trade liberalization, foreign investments, and capital movement are critical (Marginean, 2015). Most emerging nations are reducing their protectionist stance to attract foreign direct investment, increase foreign reserves, generate job opportunities, improve aggregate demand, and reduce inflation and poverty, to achieve long-term economic growth.

Recognizing the immense economic and social potentials of globalization, the Gulf Cooperation Council (GCC), which is a political and economic union established in 1981 among six Arab countries bordering the Gulf, has placed itself in a vantage position to harvest the gains of globalization through the initiation of policies and the establishment of enabling institutional frameworks. The countries include the United Arab Emirates, Saudi Arabia, Oman, Qatar, Kuwait, and Bahrain. The GCC countries have individually and collectively pushed for different globalization policies in their quest for improved foreign direct investment inflows. The efficacy or otherwise of such globalization initiatives in achieving the intended goals and how the countries can leverage them to overcome the economic challenges occasioned by the global COVID-19 pandemic is the crux of this study. Therefore, this paper seeks to investigate the impact of the GCC's globalization policies on foreign direct investment (FDI). The discovery of oil and the desire to attract foreign labor force have largely shaped the Gulf's liberalization policies. The liberalization measures have led to the intensive movement of capital and different factors of production. Globalization has not only helped the GCC countries to transport their petroleum products to other parts of the world but has also facilitated the attraction of foreign direct investment since the inception of the union.

This study is motivated by the following reasons. First, despite their cultural conservatism, the GCC countries have continued to free up their economies to the international community through various anti-protectionist policies to harness the gains of globalization. For example, the UAE ranked 19<sup>th</sup> in the world in FDI competitive index by Kearney's 2020 FDI Global Competitive Index of top 25 countries. It was ranked alongside the developed countries such as the USA, Canada, UK, Japan, France, Germany, Spain, China, Australia, etc. The country returned to the index after being absent in 2018 and 2019 and rose two points up from its 21<sup>st</sup> position in 2017 despite the negative effect of the global COVID-19 pandemic. Similarly, the Q1 2020 report of Arab Investment and Export Credit Guarantee Corporation (DHAMAN) lists Saudi Arabia as the highest in FDI among the GCC countries (IMF, 2018). The GCC's foreign trade has been expanding robustly, but FDI inflows have stalled in recent years despite policy efforts taken to

reduce administrative barriers and provide incentives to attract FDI. Tariffs are relatively low; however, several non-tariff barriers to trade persist and there are substantial restrictions on foreign ownership of businesses and real estate. Against this backdrop, this study investigates the degree to which globalization policies influence the long-run growth of FDI.

Second, previous studies on globalization and economic growth (Mah, 2017; Zahonogo, 2018; Gbosi, 2019) have limited their conceptualizations of globalization to economic globalization, ignoring other aspects of globalization such as social and political globalization, which are necessary for economic globalization to be effective. The economic growth objectives must be in sync with the socio-political dynamics of a country for the effective realization of a country's overall growth. This study takes a holistic view of globalization by incorporating all the three principal components of economic, social, and political globalization and their impact on FDI.

Third, apart from Bataka (2019), no other study, to the best of the researchers' knowledge has examined the impact of de jure globalization and FDI. The complexity of globalization requires its decomposition into its structural variants of de facto and de jure globalization. While the former measures actual international flows and activities, the latter measures the policies and conditions that facilitate the flow of globalization outcomes (Gygli et al., 2019). The crux of this study favors de jure globalization because the authors seek to evaluate the impact of policy measures on FDI. We toe the path of similar studies like Gygli et al. (2019) and Feld and Voigt (2003), who observed that the de facto and de jure globalization indices produce different results.

Fourth, most prior studies have primarily focused on developed countries (Swadźba, 2020; Hayaloglu et al., 2015; Dreher et al., 2008). To the best of our knowledge, no deliberate empirical inquiry has focused on the impact of de jure globalization on the FDI of the GCC apart from general economic briefs and extracts by rating agencies and consulting firms. Hence, the need for an in-depth study into this area.

Finally, the impact of COVID-19 on world economies rages on. This study examines the propensity to which globalization policies will assist in rejuvenating the economic fortunes of the GCC countries in the post-COVID-19 era.

## 2. Literature Review

### 2.1. Globalization: Meaning and Measurement

Despite its ubiquitous literature spanning several decades, the term *globalization* remains controversial, in terms of its meaning, measurement, benefits, determinants, and drawbacks. It is therefore imperative to clarify the various

perspectives of globalization and hinge its discussion on the variants that align with the objective of the study.

According to Marginean (2015), defining and measuring globalization is a complex issue. This complexity bifurcates into two. First, there is the absence of a single, generally accepted definition of globalization, thereby resulting in different dimensions of globalization in terms of economic, social, political, technological, financial, and cultural dimensions of globalization which are either quantified separately or aggregated via indexes. This occurs at different levels, which are either individual, local or global. This means that globalization entails more than just the deregulation of a country's economy; it also entails the active participation of individuals and companies in international activities facilitated by government policy. The second complexity stems from the composition of each of the dimensions of globalization. This has resulted in varied indexes of globalization with different components depending on the authors' arguments and objectives.

There has been several attempts at defining globalization. However, our study favors Gygli et al. (2019) thus:

*“Globalization describes the process of creating networks of connections among actors at intra- or multi-continental distances, mediated through a variety of flows including people, information and ideas, capital, and goods. Globalization is a process that erodes national boundaries, integrates national economies, cultures, technologies, and governance; and produces complex relations of mutual interdependence”* (p. 546).

The above definition is closely related to those of Norris (2000) and Deher (2008). This study resonates with Deher (2008) which decomposes globalization into three dimensions of economic, social, and political globalization. Economic globalization focuses on the flow of goods, services, capital, and information across long distances. Social globalization connotes the transfer of ideas, information, images, and people. Political globalization is characterized by the diffusion of government policies to lower restrictions and frictions between countries.

According to Scholte (2008) and Caselli (2012) globalization differs from closely associated concepts such as internationalization, liberalization, universalization, or westernization. According to them, globalization is the spread of trans-planetary or supra-territorial connections between people. Internationalization refers to an increase in transactions and interdependencies between countries. Liberalization denotes the process of removing officially imposed restrictions on movements of resources between countries. Universalization describes the process of

dispersing various objects and experiences to people that inhabit all parts of the earth. Westernization is interpreted as a particular type of universalization, in which social structures of Western societies are spread across other parts of the world. All of these concepts are close to each other and sometimes used interchangeably. A clear distinction would be helpful but is difficult to achieve. We, therefore, agree with Figge and Martens (2014) and Gygli et al. (2019), who claim that a distinction of all these concepts is not needed when a pluralistic and multiscale definition of globalization is employed. Regardless of the multiplicity of opinions, what is clear is that globalization facilitates the interdependence of sovereign geographical entities for mutual economic, social and political benefits.

Measurement of globalization is a vexed issue among a critical mass of globalization literature. Just as there is no unanimity of opinions on a single definition of globalization, researchers and international organizations, as well as regional economic groups, have devised means to quantify the complexity of globalization. Marginean (2015) observes that prior studies have attempted to measure globalization from two standpoints. The first measures an aspect of globalization while the second measures the different aspects of globalization. Both approaches construct indexes of globalization based on the vast repository of information by international organizations such as the World Bank, International Monetary Fund, Organisation for Economic Co-operation and Development, United Nations Conference on Trade and Development, European Union, other research institutions, universities, and NGOs. Prominent among these indexes are KOF Globalisation Index (1970–2019), Maastricht Globalisation Index (2000, 2008, 2012), A.T. Kearney/Foreign Policy Globalisation Index (2002–2007), GlobaIIndex (1970–2002), CSGR Globalisation Index 1982–2004, New Globalisation Index (1995–2005) and DHL Connectedness Indicator (2005–2015). Each measure differs in terms of the number of countries, years, and variables. However, KOF Globalisation Index has the highest coverage with a total of 43 variables for a period of 50 years and across 203 countries. This is largely responsible for its vast appeal among researchers. Therefore, our study uses the KOF Index because of its comprehensive ranking of countries and the easy accessibility of the huge datasets. Another fascinating aspect of the KOF Index apart from its decomposition of globalization into economic, social, and political is the disaggregation of globalization into de facto and de jure taxonomy for each of the triad of globalization. As stated earlier, de facto globalization measures actual international flows and activities while de jure globalization measures the policies and conditions that enable the flows and activities to take place (Gygli, et al. 2019). Our study favors de jure globalization.

## 2.2. Snippets of Globalisation Policies and FDI in the GCC Countries

With the signing of the charter in 1981 to form what is now known as the GCC, the collaborative agreement has provided the six countries with a platform to promote economic cooperation and integration within the region and beyond. Over the last four decades, GCC has evolved into a strong regional economic bloc with similar legal and economic systems as well as coordinated investment policies and relations (IMF, 2018). With the establishment of the GCC Customs Union in 2003 and the GCC Common Market in 2008, the countries further strengthened their ties to promote regional movement of labor and capital. The GCC also made inroads into the global space in its drive to attract FDI from outside the regional bloc. In this regard, all the GCC countries became members of the World Trade Organisation (WTO), with Saudi Arabia being the last to join in 2005. The GCC countries signed a free trade agreement with Singapore, which became effective in 2013. Similarly, all GCC countries have preferential trade agreements with Russia, Australia, Kazakhstan, and Turkey.

Several FDI-friendly reforms have been introduced by the GCC governments to open the region to increased FDI inflows. Some of the reforms include the reduction in bureaucratic bottlenecks associated with the establishment of business by foreign firms. For example, the UAE has established special economic zones with independent, liberalized regulations and well-established infrastructure to attract foreign investments. However, foreign investors' access to the region varies among member countries. While the UAE and Bahrain are most liberal, Saudi Arabia and Kuwait are most conservative. Bahrain and the UAE in 2016 and 2020 respectively relaxed their foreign ownership restrictions to give 100% foreign ownership of business except for selected sectors.

The GCC has also made significant improvements in governance and legal reforms aimed at strengthening the rule of law, creating effective safeguards against corruption, and improving transparency in decision-making by government ministries, departments, and agencies. In 2003, Bahrain enacted a law to sanitize government procurement processes. The law prescribes up to 10 years jail term for official corruption. In 2017, Saudi Arabia formed an anti-corruption committee and whistleblower protection to encourage members of the civil service to report official corruption perpetrated especially by senior civil servants. In addition, Kuwait has criminalized official corruption, and former public officials have been investigated by the Anti-Corruption Authority established through the enactment of law number 2 of 2016.

A plethora of investment treaties has been signed by the GCC countries to safeguard foreign investors. These include

the right to make hitch-free financial transfers, international law standards for expropriation and compensation, and access to international arbitration (IMF, 2018). Heuser and Mattoo (2017) however note that the GCC legislation is ambiguous and gives rise to excessive regulatory discretions, which affect investment and trade even though there is no explicit discrimination against foreign firms.

Despite the multiplicity of economic, institutional, and legal reforms established by the GCC region, there are some concerns regarding their implementation to the fullest. For example, the courts are perceived as slow and inefficient (IMF, 2018). There is also the problem of underutilization of the arbitration and mediation mechanisms that should have resulted in a significant drop in pending litigations in courts. Notwithstanding the establishment of the GCC Commercial Arbitration Center to resolve commercial disputes in accordance with global best practices, not many cases are registered with the body. In response to this challenge, Saudi Arabia in 2017 created special commercial courts in three major cities to fast-track speedy resolution of commercial disputes to win investors' confidence.

Another major concern to investors is the weak competition protection mechanisms (IMF, 2018). Casoria (2017) argues that despite the vast legal framework to mitigate possible anti-competition practices in all the GCC countries, the implementation of the relevant laws as well as the enforcement agencies is still in its infancy.

## 2.3. Review of Empirical Literature

Since no country or economic bloc exists in isolation, a country's economy is always linked to the world economy through external economic activities such as foreign investment and foreign trade (Nguyen, 2020). A major limitation of this study is the dearth of empirical literature that explores the relationship between globalization policies and FDI. Most of the studies either examine the nexus between globalization policies and economic growth or the association between by-products of globalization policies (e.g. openness, infrastructure, human capital, market size, and wage) and FDI. We argue that first, FDI is a key component of the GDP and it accounts for a significant contribution to the overall growth of emerging economies. Therefore, GDP and FDI can be used interchangeably within the context of capital inflows to an economy. Second, we also argue that the outcomes of globalization as mentioned above can be used as proxies for globalization. This is tenable against the background that openness, infrastructure, human capital, etc. are largely driven by a country's economic, political and social policy thrusts. This section examines some related empirical literature in line with the already established prelude.

Globalization can be interpreted from different optics namely, economic, social, political, financial, and cultural.



But the literature is dominated by the first three which we refer to in this paper, as the triad of globalization. We believe that both financial and cultural globalization are micro components of economic and social globalization respectively. Dreher et al (2008) and Bakata (2019) posit that economic globalization is the abolition of all restrictions to trade and capital liberalization, FDI, and portfolio investments and information that facilitates these activities. On the other hand, social globalization involves the transfer of ideas, images, culture, and interpersonal relations through telecommunications to foster mutually beneficial relationships. While political globalization deals with the diffusion of government policies the engagement of countries in international missions as well as their dispositions to international agreements, treaties, and institutions. It suffices to mention that FDI connotes the value of cross-border transactions related to direct investment during a given time, usually a quarter or a year (Ta et al., 2020).

Since the birth of globalization, attempts have been made at investigating its impact on economic growth, which is a principal motivation for its emergence. This section reviews some of the latest literature in this respect. Dreher et al. (2008) examined the association between the KOF Globalisation Index and the economic growth of 123 countries between 1970 and 2000. Using the globalization triad, the study reveals that there is a strong association between economic and social globalization and economic growth, while political globalization shows no effect. These findings are corroborated by those of Gurgul and Lach (2014). Their study showed that social globalization proxied by such variables as the Internet, television, newspapers have a significant positive relationship on the economic growth of Central and Eastern European Countries (CEECs) for two decades. Zahanogo (2018) using a dynamic growth model examines the effects of globalization on the economic growth of 42 Sub-Sahara African countries from 1980 to 2012. The study finds that whereas there is a strong positive relationship between globalization and economic growth, this relationship is non-linear. This non-linearity points to the fact that the economic benefits of globalization are not instantaneous and vary with a country's level of openness to international trade. Another interesting outcome of this study is that globalization-induced growth would reach a certain threshold above which a decline sets in. This implies that globalization policies of government must be reformed over time and in accordance with the prevailing macroeconomic dynamics to sustain a country's economic growth.

Similarly, Hassan (2019) investigates the impact of economic, social, and political globalization on the economic growth of South Asian countries from 1971 to 2014. The study finds that overall globalization, as well as its triad, have a long-run positive impact on economic growth but no significant impact in the short run. This is another testament

to the effect that globalization is not an end itself, but a means and must be fine-tuned periodically through enabling government policies to attain the desired goal of a country. Barry (2010) examines the impact of the KOF globalization index on the economic growth of 41 sub-Saharan African from 1995 to 2005 for 41 countries. The study reports a positive but insignificant relationship between globalization and the economic growth of Sub-Sahara Africa.

Polasek and Sellner (2011) analyze the influence of globalization on the regional growth of the 27 European Union countries from 2001 to 2006. The authors observe that globalization which they proxied with foreign direct investment and trade gap significantly determines the positive economic growth of the selected EU countries. Meanwhile, Moghaddam and Redzuan (2012) examine the determinants of globalization in selected countries of China, Brazil, Singapore, India, the Korean Republic, Malaysia, Turkey, and Iran. The study reveals that the positive growth in FDI in these countries was due to foreign trade policies and regional cooperation. Ying et al. (2014) examined the impact of short-run dynamics and long-run equilibrium relationships on globalization and the growth of ASEAN countries from 1970–2008. They discovered that all three types of globalization have a strong positive impact on economic growth.

### 3. Research Methodology

The dataset for this study comprises balanced panel data for the six countries of the GCC from 1971 to 2017. The annual data for the FDI was obtained from the official database of the World Bank, while the data for globalization policies were obtained from the database of KOF Swiss Economic Institute for the same period. Foreign direct investment refers to direct equity investment flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one country having control or a significant degree of influence on the management of an enterprise that is resident in another country. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. The data is in current U.S. dollars (World Bank, 2021).

Globalization policies on the other hand are measured by the KOF Globalisation Indexes. The KOF indexes have been largely favored by prior studies because of their geographical spread, large time series, and the number of constituent variables. The indexes consist of economic, social, and political (de fact and de jure) indexes of 203 countries from 1970 to 2017. This study uses the de jure indexes of the GCC countries for reasons adduced in the introductory section. Based on the theoretical proposition of

a strong positive relationship between globalization policies and FDI, we estimate the following econometric model:

$$FDI_{it} = \beta_{0i} + \beta_{1i}KEGI_{it} + \beta_{2i}KPGI_{it} + \beta_{3i}KSGI_{it} + \mu_{it} \quad (1)$$

Where FDI is foreign direct investment, KEGI is KOF de jure economic index, KPGI is KOF de jure political index, and KSGI is KOF de jure political index,  $it$  denotes the observation on the  $i - t$  cross-section unit at time  $t$ , as  $t = 1, 2, \dots, T$  and  $i = 1, 2, \dots, N$ .

$\beta_0$  denotes the intercept, while  $\beta_1$  to  $\beta_3$  represent parameter estimates.  $\mu$  represents the stochastic error term of the model. The model above was estimated using the dynamic panel data technique of panel Fully Modified Ordinary Least Squares (FMOLS).

#### 4. Data Analysis and Results

Before conducting the cointegration tests, we found it necessary to establish the order of integration of the variable in our model. This was important as all the variables in our model are trended and therefore, time series estimation techniques could result in spurious correlation in the absence of stationarity. Consequently, our cointegration analysis was conducted as follows.

First was the panel unit root test to establish the stationarity of the variables in our model. A stationary

time series is one whose properties (mean, variance and autocorrelation) are time-invariant. The second step was the panel cointegration test to establish whether an equilibrium relationship exists between single non-stationary variables. Next, a cointegration relationship was established. The results were then estimated using the VECM and FMOL regression techniques.

##### 4.1. Panel Unit Root Tests

To verify the presence of unit roots and avoid spurious regression results, we performed several unit root tests (Table 1). They include Levin et al. (2002), Im et al. (2003), ADF-Fisher, and PP-Fisher tests. We favor Levin et al. (2002) because of its ability to perform the pooled panel unit root test and the Im et al. (2003) because it allows for heterogeneity. The first set of tests consists of both the individual and the panel unit root tests separately. The fundamental difference between them being the assumption of common or different AR coefficients in the series (Bellocchi et al., 2021).

Table 1 shows the panel unit root test results for each of the variables under investigation for our panel countries. The tests were carried out both at levels and first difference. The null hypothesis is that the variable contains a unit root; meaning it is not stationary. The test was performed with constant regression specification.

**Table 1:** Panel Unit Roots Tests

	FDI	KEGI	KPGI	KSGI
	<i>p</i> -values	<i>p</i> -values	<i>p</i> -values	<i>p</i> -values
Assumption: individual effects (constant term)				
Test for the unit root of variables at levels				
Null: assumes common unit root process				
Levin, Lin & Chu <i>t</i>	0.0156	0.6777	0.2102	0.5336
Null: assumes individual unit root process				
Im, Pesaran and Shin <i>W</i> -stat	0.0000*	0.9667	0.9828	0.9895
ADF - Fisher $\chi^2$	0.0000*	0.9925	0.9918	0.9832
PP - Fisher $\chi^2$	0.0000*	0.9893	0.9940	0.9868
Test for the unit root of variables at 1st difference				
Null: assumes common unit root process				
Levin, Lin & Chu <i>t</i>	0.0000*	0.0000*	0.0000*	0.0000*
Null: assumes individual unit root process				
Im, Pesaran and Shin <i>W</i> -stat	0.0000*	0.0000*	0.0000*	0.0000*
ADF - Fisher $\chi^2$	0.0000*	0.0000*	0.0000*	0.0000*
PP - Fisher $\chi^2$	0.0000*	0.0000*	0.0000*	0.0000*

\*Null hypothesis rejection.

The  $p$ -values for the variables at levels show that only FDI was significant (i.e. does not have a unit root) both at the individual process and common process and therefore stationary at level. KEGI, KPGI, and KSGI are not stationary at levels. Therefore, we cannot reject the null hypothesis at the standard 5% level of significance. However, the results of the test at 1<sup>st</sup> difference indicate that all the variables are significant at 1%. Therefore, the null hypothesis of the presence of a unit root is rejected. We, therefore, uphold the outcome of the differenced test integrated of order one that both the dependent and the independent variables in our model do not have a panel unit root. Thus, they are stationary at levels. This suggests that since the time series are  $I(1)$ , there is a possibility of a long-run cointegrating relationship among the variables.

#### 4.2. Panel Cointegration Test

The essence of a cointegration analysis is to test the possibility of a long-run convergence of the variables in our model. Panel cointegration tests combine information on similar long-run relationships while allowing for heterogeneous short-run fluctuations and fixed effects among panel members (Bellocchi et al., 2021). Taking the heterogeneity of the cross-sections into cognizance is very necessary because, without it, it would lead to the erroneous assumption that the vectors of the cointegration are similar in all panel members (Pedroni, 1999). For a robust analysis, we performed the Johansen Fisher panel cointegration test (Table 2).

Table 2 shows the combined Johansen Fisher panel cointegration test results. We used the Akaike Information Criterion (AIC) to determine the optimal lag length of 2 for the model. The hypothesized number of cointegrating equations are none, at most 1, at most 2, and at most 3 respectively. The null hypothesis is that there is no cointegration between the variables. The probability values of the trace statistic and max-eigen statistic of 0.0009 and 0.0020 respectively reveal that at least one cointegrating equation exists at a 5 percent significance level.

We, therefore, reject the null hypothesis that none of the variables are cointegrated (i.e. there is cointegration between the variables). The results confirm a long-run relationship among the variables and they can be combined linearly. This implies that if there are short-run shocks in the series, which may affect the movement in the individual series, they would converge over time in the long run. Using the same analysis, the null hypothesis that there is at most one cointegrating vector cannot be rejected since the probability of 0.6954 value is less than 5 percent. Since variables can either have short or long run effects, a vector error correction model (VECM) was used to disaggregate these effects.

#### 4.3. Vector Error Correction Model (VECM)

The discovery of at least one cointegration equation in the preceding section implies that a VECM can be used. This is to allow us to distinguish between the short and long-run effects of the variables to establish the impact of globalization policies on foreign direct investment.

$$ECT_{t-1} = 1.0000FDI_{t-1} - 0.0907KEGI_{t-1} + 0.0379KPGI_{t-1} - 0.0853KSGI_{t-1} + 6.7967 \quad (2)$$

The above equation was obtained from the VECM estimation results of Eviews 10 and are presented in the order they appear in the results (see Appendix 1). It shows the cointegrating equation (i.e. the error correction term equation) signifying the long-run relationship among the variables.

##### 4.3.1. Long Run Cointegration

A summary of the long-run parameters in the model is reported in Table 3.

From Table 3, it is observed that the coefficient of FDI is negative and statistically significant. This implies

**Table 2:** Johansen Fisher Panel Cointegration Test

Hypothesized No. of CE(s)	Fisher Stat.* (from Trace Test)	Prob.	Fisher Stat.* (from the Max-Eigen Test)	Prob.
None	34.63	0.0005	33.90	0.0020
At most 1	12.54	0.4034	9.088	0.6954
At most 2	10.84	0.5426	8.548	0.7410
At most 3	14.69	0.2586	14.69	0.2586

\*Probabilities are computed using asymptotic Chi-square distribution.

**Table 3:** Results of Long Run Cointegration Equation

Variables	Coefficients in ECT	Error Correction Coefficients	Speed of Adjustment
FDI(-1)	1.0000	-0.6241	-0.6241
KEGI (-1)	-0.0907	0.0756	-0.0069
KPGI (-1)	0.0379	0.0371	0.0014
KSGI (-1)	-0.0853	0.0182	-0.0016

**Table 4:** Panel Fully Modified Least Squares

Variables	Coefficient	Std. Error	t-Statistic	Prob.
KEGI	84120666	0.026347	3.19E+09	0.0000
KPGI	-97497883	0.019390	-5.03E+09	0.0000
KSGI	3.15E+08	0.016443	1.91E+10	0.0000

that there is a convergence from short-run dynamics towards long-run equilibrium, and the speed of this adjustment is 62.4%. This shows a significant rate of return to long-run equilibrium in FDI despite the short-run disturbances.

Both KEGI and KSGI manifest some evidence of long-run equilibrium with a speed of adjustment of 0.069% and 0.016% respectively. Although there is a clear case of long-run equilibrium, the speed of adjustment for both variables is relatively low, and their coefficients are not statistically significant. KPGI shows a positive speed of adjustment to its long-run equilibrium. This positive sign indicates a long-run deviation from equilibrium. This outcome violates the theoretical assumption of long-run equilibrium in the event of a short-run shock. Since this is not statistically significant, it should not give any cause for concern. In addition, the overall model is statistically significant at 5% as evidenced by the *F*-statistic of 14.64.

The above result calls for a more robust analysis to examine the impact of the explanatory variables on the target variable.

#### 4.5. Panel Fully Modified Least Squares (PFMOLS)

Having established that the variables in the study are stationary at the first difference and exhibit long-run cointegration in the preceding sections, we now estimate the long-run impact of globalization policies on foreign direct investment in the GCC countries using the panel Fully Modified Ordinary Least Squares (FMOLS) estimator. The choice of the FMOLS over Ordinary Least Squares (OLS) estimator is based on the fact that the FMOLS has the dual advantage of correcting for both serial correlation

and potential endogeneity problems that may arise when the OLS estimators are used (Table 4).

The FMOLS estimation indicates that the long-term KOF economic globalization index, KEGI, is highly statistically significant and has a positive impact on FDI. This is consistent with our a priori expectation that improved de jure economic globalization policies will attract significant foreign direct investment to the GCC countries in the long run.

The effect of KOF political globalization policies, KPGI, on FDI is statistically significant but negatively signed. This inverse relationship may be associated with investors' perception of the true implementation of the political globalization policies. While it is true that the UAE and Bahrain hold significant memberships of international organizations and are signatories to several international treaties, the rest half of the membership of the GCC are still hesitant in this regard. Another possible reason for this outcome is that investors' experience has shown that most of the GCC countries do not have conventional commercial legal institutions for the resolution of trade and investment disputes. There is an inherent conflict between common law and civil law practice in the GCC. For the most part, the legal system of the GCC is based on civil law. However, many contracts are documented using common law principles which largely remain non-justiciable in civil courts. As a consequence, there is still a general apathy from international clients to initiate legal proceedings in local courts. As observed by Modugu and Dempere (2020), the GCC needs some legal policy rejigging and realignment to attract external investment into the region.

Notwithstanding the above challenges, international clients are favorably disposed to the courts of certain financial free zones, particularly those of the Dubai



International Finance Centre and the Abu Dhabi Global Market. Generally, the operations of these courts are quite similar to the English courts. More importantly, the proceedings are conducted in English, rather than Arabic, meaning that they are much more familiar to common law lawyers practicing in the GCC countries (Nagraj, 2019).

The KOF social globalization index is both positive and statistically significant, confirming our theoretical proposition. This implies that improvement in policies and infrastructure that enable direct interactions among people and corporations in different countries will galvanize foreign direct investment in such in GCC countries.

## 5. Conclusion and Policy Recommendations

In this study, we attempted at estimating the long-run effect of globalization policies on the growth of foreign direct investment in GCC countries. The findings suggest that the economic globalization policies of the GCC region have a significant positive impact on the region's foreign direct investment inflows. Impliedly, policies such as moderate trade regulation, low taxes, and tariffs, as well as free trade agreements will facilitate and promote investment flows between the region and foreign investors. In its quest to recover from the negative economic consequences of the COVID-19 pandemic amidst the dwindling crude oil prices, the GCC should continue to individually and collectively fine-tune its economic globalization policies to make the region more attractive to foreign investment. Similarly, the GCC region should complement the trade aspects of the economic globalization policies with its financial globalization dimension. By this, we mean that the region should expand its openness to international financial flows and investments while also ensuring that adequate measures are in place to implement the United Nations Security Council's resolutions concerning anti-money-laundering operations through financial transfers involving charitable organizations, suspect accounts, and sanctioned countries. Consequently, the region should as part of its post-COVID-19 recovery plan, initiate and sign more favorable international investment agreements and treaties on its road to full economic recovery and growth.

The social globalization policies also show a strong positive impact on foreign direct investment in the region. By inference, the GCC's social globalization policies in areas of mobile phones holding rate, Internet access, telecommunication subscriptions, and free movement of people across borders, international travel restrictions as well as international connectivity measured by the number of international airports and flights will greatly drive the region's foreign direct investment inflows. Other investment-friendly globalization policies include press freedom and the ability to tolerate foreign cultural and

religious practices to the extent that such practices align with the rights and freedom of other residents and citizens of the region. While the UAE is leading in this regard, other countries in the region should study the UAE model by harnessing its positives to drive the needed foreign direct investment towards recovery from COVID-19 economic devastation.

The negative but significant association between political globalization policies and foreign direct investment in the GCC is an indication that despite improved policies aimed at holding membership of international organizations and signing of bilateral treaties, this will rather lead to a dip in foreign direct investments. This is an area that the region needs to do more in the area of implementation and sincerity of purpose. While there are visible pieces of evidence of the region's involvement in international political events and bilateral relationships, the institutions saddled with the implementation of these agreements in the GCC will need to demonstrate without any ambiguity that they believe in the letters of the agreements freely entered into. The GCC pieces of legislation must not give room for excessive discretion and ambiguity. This will change any negative public perception and rekindle investors' confidence in the region.

Other potential policy priorities for the GCC to timeously grow its FDI and recover quickly from the ravaging effects of COVID-19 include:

- Improvement in business climate by further liberalizing foreign ownership, strengthening corporate governance codes and practices; reduce restrictions on the mobility of foreign workers to enhance competition and promote investments, and streamline business registration processes and procedures.
- Reduction in non-tariff trade restrictions and strengthen regulatory cooperation with trading partners and also contribute to the multilateral reduction of such protectionist policies, while engaging in trade negotiations with other nations with which they have high trade volume but no formal free trade agreements.
- Establish a virile legal framework that guarantees adequate protection for minority investors and provides for dispute prevention and resolution mechanisms with reasonable predictability. Added to this is the implementation of anti-corruption initiatives in public governance and the smashing of nepotistic tendencies.
- Finally, the region must continue to invest in human capital formation by strengthening the education system to deliver quality knowledge and skills required to grow the post COVID-19 economy. Education should also be made affordable to both the citizens and residents in the region.

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## APPENDIX 1

Vector Error Correction Estimates Sample (adjusted): 1974 2017

Included observations: 264 after adjustments Standard errors in ( ) & *t*-statistics in [ ]

Cointegrating Eq:	CointEq1				
FDI(-1)	1.000000				
	-0.090744				
	(0.04958)				
KOFECGIDJ(-1)					
	[-1.83041]				
	0.037865				
KOFPOGIDJ(-1)					
	(0.02354)				
	[ 1.60841]				
	-0.085262				
KOFSOGIDJ(-1)					
	(0.03652)				
	[-2.33465]				
C	6.796709				
Error Correction:		D(FDI)	D(KEGI)	D(KPGI)	D(KSGI)
		-0.624102	0.075567	0.037106	0.018222
CointEq1		(0.08392)	(0.05293)	(0.06257)	(0.04889)
		[-7.43716]	[ 1.42770]	[ 0.59301]	[ 0.37269]
		-0.044206	-0.090316	-0.028819	-0.010028
D(FDI(-1))		(0.07554)	(0.04765)	(0.05633)	(0.04401)
		[-0.58520]	[-1.89557]	[-0.51163]	[-0.22785]
		-0.029260	0.006867	0.023000	-0.005326
D(FDI(-2))		(0.06310)	(0.03980)	(0.04705)	(0.03677)
		[-0.46368]	[ 0.17252]	[ 0.48881]	[-0.14486]
		0.010993	-0.046975	0.115141	0.181678
D(KOFECGIDJ(-1))		(0.09921)	(0.06257)	(0.07397)	(0.05780)
		[ 0.11081]	[-0.75072]	[ 1.55651]	[ 3.14322]

D(KOFECGIDJ(-2))	-0.021126	0.016262	0.103420	0.221976
	(0.09945)	(0.06273)	(0.07415)	(0.05794)
	[-0.21243]	[ 0.25926]	[ 1.39466]	[ 3.83106]
D(KOFPOGIDJ(-1))	0.133126	0.127836	0.176917	-0.030581
	(0.08288)	(0.05228)	(0.06180)	(0.04829)
	[ 1.60616]	[ 2.44529]	[ 2.86257]	[-0.63327]
D(KOFPOGIDJ(-2))	-0.113376	0.055190	0.007764	0.039775
	(0.08361)	(0.05274)	(0.06234)	(0.04871)
	[-1.35603]	[ 1.04655]	[ 0.12453]	[ 0.81652]
D(KOFSOGIDJ(-1))	0.025319	0.000155	0.041235	-0.043961
	(0.10420)	(0.06573)	(0.07770)	(0.06071)
	[ 0.24298]	[ 0.00236]	[ 0.53069]	[-0.72410]
D(KOFSOGIDJ(-2))	-0.053561	-0.059794	0.068451	-0.044259
	(0.10465)	(0.06601)	(0.07803)	(0.06097)
	[-0.51180]	[-0.90585]	[ 0.87719]	[-0.72588]
C	0.044200	0.089312	0.807268	0.541119
	(0.25465)	(0.16062)	(0.18988)	(0.14837)
	[ 0.17357]	[ 0.55604]	[ 4.25137]	[ 3.64716]
R-squared	0.341630	0.063443	0.066032	0.097113
Adj. R-squared	0.318301	0.030258	0.032938	0.065121
Sum sq. resids	2609.538	1038.154	1450.905	885.8013
S.E. equation	3.205272	2.021688	2.390026	1.867460
F-statistic	14.64456	1.911807	1.995318	3.035528
Log likelihood	-677.0090	-555.3409	-599.5269	-534.3915
Akaike AIC	5.204614	4.282885	4.617628	4.124178
Schwarz SC	5.340067	4.418338	4.753081	4.259631
Mean dependent	0.044573	0.263789	1.162736	0.595977
S.D. dependent	3.882118	2.052986	2.430387	1.931406
Determinant resid covariance (of adj.)	822.0866			
Determinant resid covariance	704.4282			
Log-likelihood	-2363.974			
Akaike information criterion	18.24223			
Schwarz criterion	18.83822			
Number of coefficients	44			