Analysis of FDI impact on the economic development of Arab Gulf countries

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DOI: 10.29322/IJSRP.8.7.2018.p7951
http://dx.doi.org/10.29322/IJSRP.8.7.2018.p7951

Abstract- It is customary for each country to develop a plan of economic actions to improve the living standards and economic health of a particular area. Economic development can be called quantitative and qualitative changes in the economy. Such actions can include several areas including the development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, security, literacy and other initiatives. Economic development can also be considered as a static theory that at certain times documents the state of the economy. Local economic development can be defined as increasing the capacity of the local economy to generate wealth for its inhabitants. Economic development can occur through local job growth, causing unemployed workforce and land. However, economic development takes place by shifting the workforce and land to more productive ways, for example, better jobs. The local economic development is consciously influenced by all activities of local self-government. However, local economic development policies are usually defined more specifically as specific activities undertaken by public or private groups in order to promote economic development. The positive impact of FDIs on modernization and more efficient exploitation of oil due to the influx of new technologies, the discovery of new sites, due to advanced technologies, new management models are introduced. The negative impacts of the FDI are the outflow of profits in foreign countries, the lack of jobs for the domestic population, the lowering of the labor cost, and so on. The scientific aims of the research are the scientific description of the extent, origin and structure of FDI in the Arabian Gulf countries, and scientific explanation of the positive and negative impacts of FDI on the economic development of the countries of the Arabian Gulf.

Index Terms- unemployment, foreign direct investment, economic development

I. Introduction

The World Bank and UNCTAD distinguish developed and developing countries in relation to the economic situation. According to UNCTAD and the World Bank, all Arab countries are considered developing countries. The FDI inflows and outflows in the Arab world are also divided into three economic categories (GCC economies - Gulf Arab countries, least developed countries, and diversified economies). In this part of the paper will be defined the terms: developed and developing countries and Arab countries. The developed country is a country with a high degree of development in accordance with certain criteria. According to the International Monetary Fund, developed economies accounted for 65.8% of the global nominal GDP and 52.1% of the global PPP in 2010 (IMF, 2010). The country is classified as a developed country if it meets the following requirements:

1. per capita income: countries with high gross domestic product (GDP) per capita can be described as a developed country,
2. The second economic criterion is industrialization: countries in which tertiary quaternary sectors of industry dominate can be described as a developed country.
3. Human Development Index (HDI): combining economic measures, national income, life expectancy indices and education are highlighted. This criterion would define developed countries as those with a very high HDI rating (UNDP, 2016).

II. Economic development in Arab countries

Growth in Arab countries in 2014 was 3.2% compared to a growth of 2.2% in 2013 (IMF, 2014). The political and social unrest that followed after the Arab Spring in 2011 continues to reduce the economic prospects of all Arab countries. During the second quarter of 2013, tourism, investment, industrial production and confidence in the Egyptian economy collapsed, and after a political turmoil in which the Morsi government collapsed. The Syrian civil war seriously jeopardized the economic activity of the country, and riots spread to Jordan, Iraq and Lebanon. Oil exports from Arab oil exporting countries in 2013 have fallen due to infrastructure and security challenges with US sanctions against Iran. However, oil exporters in the Arabian countries, with the exception of Kuwait and Saudi Arabia, whose product was reduced, continued to export oil at the same pace as 2012. After many years of growth in oil exporting countries, it slowed down in 2013 due to interruptions in oil supplies caused by political turmoil, as well as lower global demand due to poor economic activity. Oil exports have fallen since 2009 due to disruptions in Iraq and Libya, sanctions imposed on Iran, and the marginal decline in production in Saudi Arabia. On the other hand, increased government spending with the recovery of private sector credit growth has supported the growth of the non-oil sector in most Arab countries. The labor market has been enhanced by increasing employment opportunities in the Arabian Gulf countries in line with growth in non-oil sectors. However, unemployment among domestic workers continues to be an important issue in the region, with

Saudi Arabia introducing more stringent labor policies, promoting "Saudization", which aims to provide more employment opportunities for its citizens in the private sector (currently the labor market is dominated by the right-wingers) . Inflation has increased in the Arabian countries at a time when commodity prices in the international markets remained relatively stable, due to the improvement in domestic demand. Fiscal policy continued to adjust to focus on capital expenditures and large infrastructure projects. The growth of oil exports in the Arabian Gulf countries has improved slightly mainly due to improvements in tourism and FDI. In order to improve their standard of living and generate employment opportunities, these countries should achieve higher economic growth rates. The aggravating factor is regional unrest and political uncertainty that permanently delay recovery in the whole region. The escalation of the Syrian conflict and the political events in Egypt and Tunisia have increased the chances of further destabilization in the region. Net oil GDP has remained high in most countries, fueled by high public spending and a recovery in private sector credit growth. In 2014, the increase was 3.4%, as oil production recovered, leading to higher demand as global economic activity increased despite the projected mild fall in oil prices (Oil and Gas Journal, 2017). Iran continued to face sanctions that led to a reduction in exports oil and capacity expansion operations in Iraq have slowed down due to the renewal of the infrastructure of the incidents of violence by terrorist groups of ISIL. Fiscal balances have deteriorated in most of the Arabian Gulf oil exporters, as they rely only on increasing oil prices. Growth in the non-oil sector is expected to continue to rise to 5% in 2018 due to an increase in public spending. Consumption has increased the higher demand in the retail and services sector, stimulated by employment opportunities and high salaries. It is expected that growth in the Gulf of Arabia will continue in 2018, as their economic diversification policies are aimed at reducing dependence on the oil production sector. The budgetary dependence on these revenues, together with the growth in consumption after the Arab Spring, made the economies of the Arabian Gulf vulnerable to sudden changes in oil prices.

III. Significance of the Arabian Gulf in the World Economy

The natural significance of the Arabian Gulf in the world economy in view of the geopolitical, geo-strategic, communication and cultural characteristics of that region imposes a greater influence of the region on the world decision-making system. Given the close connection between the new structure of the world order, the different levels of local, national, regional and international disparities, new regionalism in the Middle East can successfully exploit the potential of the Arab world. The countries of the Arabian Gulf as a climate where three major world religions were created, is an ancient center of science and learning and a region of distinct natural and human resources. In the era of globalization, using the rapid flow of goods, capital and services, this region can play an important role. On this path, the region can successfully seize all the potentials of the Arabian part of the world, which represents 23% of the world's population, owns over 30% of the world's natural resources, including 74% of the world's crude oil reserves, 50% of the uncovered natural gas quantities, 20% of the total 30% phosphate reserves, 10% uranium, 20% of the world's total cotton production, 17% of world rice production, and 17% of the world's global land area.

IV. Foreign Direct Investment in the Arab Countries

The inflow of foreign direct investment in the Arab countries notes the growing economic crisis, while the last two years begin to decline slightly. Based on UNCTAD data, the global inflow of the SDI into the Arab world increased and reached its peak in 2008 (UNCTAD, WIR, 2010). The Arabian Gulf countries are the largest recipient of foreign direct investment after the economic crisis. They rose from 54% to 60% in the period from 2006 to 2010, which shows economic stability and the development of the economic situation in the Arabian Gulf region. FDI inflows to Saudi Arabia in 2008 amounted to $ 38.15 billion from $ 96.76 billion of total FDI inflows in Arab countries, accounting for 39% of total FDI inflows in Arab countries. On the other hand, the decline in FDI inflows in the least developed countries can be explained by the weak economic infrastructure of these countries. Thus, the decline in FDI inflow dropped dramatically from 7% in 2006 to 2% in 2010. UNCTAD has proposed a plan for investment in the least developed countries. The emphasis of the plan is on the policy of access to investments, the development of technical capacities and businesses in the areas: development of public-private infrastructure; assistance for the development of production capacities; local business development and access to finance and regulatory and institutional reform. Saudi Arabia was the main recipient of the FDI in the Arabian Gulf countries and among the top ten in the world in 2009. The inflow of foreign direct investment in Saudi Arabia in 2010 began to decline by 11.4%, ie to $ 32.1 billion in 2009 to $ 28.1 billion in 2010, but Saudi Arabia remains attractive for FDI inflow Qatar had an FDI inflow of $ 5.5 billion in 2010 (UNCTAD, WIR, 2011). Despite the decline in inflows since the peak of the economic downturn in 2009 and 2010, the Arab League is, in its entirety, a less dramatic drop in FDI inflows compared to other developing countries. Total inflows were 13% lower in 2010 than in 2009. The share of FDI in GDP was lower than in previous years, due to a larger decline in inflows of foreign direct investments compared to GDP.

V. Foreign Direct Investment Impact on Economic Development of Arabian Gulf Region

The decline in foreign direct investment in the Arabian Gulf region can be explained by the fall in oil prices in the world market, the decline in profits in the oil sector, the sharp correction of prices in the real estate sector and political instability. Other reasons relate mainly to the slowdown in economic growth in developed countries, less available and more expensive financing, increased nervousness of large companies and banks in terms of investment in global companies and smaller cross-border mergers and acquisitions (M & A). Risk factors such as the unpredictability of global economic governance, the possible widening of the public debt crisis and the fiscal imbalance in the financial sector in some developed countries, as well as rising inflation can slow down the FDI recovery. It is very important to know that some of the Gulf Arab countries have a very weak financial system (for example, Oman), so FDI inflows and outflow data are not fully available. The FDI outbreak in the past two years reflects the impact of the global financial crisis, especially in Dubai. However, the Arab world accounts for more than 29% of the world's oil production, so it is important to know that increasing and / or decreasing the price of oil is very important for investors' decision whether to invest or not in the Arab world. The main interpretation of fluctuations in the inflow and outflow of FDI is their relation to the price of oil. The prospects for economic growth of oil exporting countries from the Arabian Gulf countries are projected to improve in 2018, according to a report by the PvC Economics Department for the Middle East. The report, like other similar studies, agrees that GDP growth in the region is lower than it was in 2017 despite efforts to increase the economic activity of the private and oil sector due to fiscal consolidation. Although 2017 showed signs of improvement in GDP growth compared to 2016, growth was lower than expected at the beginning of the year due to oil market prices. Crude (Brent) oil in 2017 averaged $ 52 a barrel, down from $ 58 per barrel as expected at the beginning of the year (Markets Insider, 2017), primarily due to inadequate alignment with the reduction in consumption, as well as due to the production of Libya, Nigeria and the American production of shale oil. Economic and fiscal sources for the first half of the year were less than expected. However, there are indications that a stronger economic growth could be restored in 2018, as oil prices are maintained or exceeded by current price levels. The International Monetary Fund (IMF), in its latest report, predicted stronger growth prospects in oil exporting countries, although continued low oil prices are expected to continue to affect the growth of the GDP of oil exporters. While the IMF has welcomed fiscal reforms in the Gulf countries, it is expected that the impact of low oil prices on the economic growth of the region will be longer. The prolonged decline in oil prices is a heavy blow to economic growth in the Arabian Gulf countries. Oil exporters are heavily affected by long-term implications for growth prospects. The latest IMF forecast for 2018 has shown that regional GDP growth has risen to 3.3 percent, largely due to turnarounds in key regional economies such as the UAE, Saudi Arabia and Kuwait (IMF, 2018). Real GDP growth in Saudi Arabia is projected at 0.1 percent, from 1.7 percent last year. The next year, Saudi GDP is likely to improve slightly, but largely due to the growth of the non-oil sector. The real GDP growth in Saudi Arabia is expected to be around zero (0.1 percent), as the share of oil-related GDP is reduced in line with Saudi Arabia's commitments under the OPEC framework. However, the IMF expects GDP to be strengthened in the medium term once structural reforms are implemented in the KSA. The growth of the oil derivatives sector in Saudi Arabia will increase to 1.7 percent in 2017, with additional growth in 2018, with a projected total GDP growth of 1.1 percent. It is expected that the economic growth of the United Arab Emirates, which faces a slowdown in growth from 2015, will rise in 2018, according to IMF forecasts (IMF, 2018).

VI. Conclusion

The Arabian Gulf countries are heavily dependent on exports of petroleum products. Large fluctuations in oil prices have a strong impact on the labor market because then the workers in the oil sector are dismissed. Arab Gulf countries should take measures to focus on private sector investment, facilitate the expansion of small and medium-sized enterprises, and improve the banking system in terms of liquidity and solvency. Growth of GDP in the Arabian Gulf countries influences the FDI inflow to a large extent (around 70%) as expected, as the economies are based on the oil sector that attracts significant FDIs. The correlation of these two sizes is directly proportional, so it is true that if the inflow of FDI is reduced, the GDP of the countries of the Arabian Gulf. This proves the first and second hypotheses that if the FDI in the Gulf countries grows then gross domestic product is increased and vice versa, and if the FDI in the Gulf Arab countries then raises the income of the local population, and vice versa. Industrial growth in the Arabian countries is directly dependent on FDI inflows as expected, as industrial activities in the Arabian Gulf countries are directly related to the oil sector that contributes most to industrial growth. Correlation of FDI and industrial growth is almost 50% of industrial production growth is based on the growth of foreign investments. Inflow of foreign direct investment into the countries of the Arabian Bay is directly proportional to the economic development of these countries, which implies not only the growth of gross domestic product, but also industrial growth. The year of 2017 was characterized by a lower growth rate compared to the previous period, an increase in deficits and large fiscal adjustments in a very rigid public spending environment. Higher levels of knowledge and skills are needed among employees. These elements are key preconditions for a successful transformation of the economies of the Arabian Gulf countries. Looking ahead, the Arabian Gulf countries should undertake a comprehensive transformation of the role of oil dependency reduction, shifting the focus of growth from public to private enterprises, creating an ideal environment for small and medium enterprises, and improving the liquidity and solvency of the banking system. Economic growth has increased over the past decade, but did not have all the desired outcomes. State spending is not sufficiently supportive growth rates in the non-oil economy and has not established an adequate or good infrastructure. Employment for the citizens of the Arabian Gulf countries is not enough, and economies remain largely dependent on oil. To a large extent, these disadvantages can affect the inadequate productivity growth and economic development that rely on the often low-skilled foreign workforce that has worked out salaries that were below what the citizens of the Gulf countries were willingly accepting. The challenge is to launch activities that have a higher added value in order to meet development goals, emphasis should be placed on improving productivity through strengthening education systems and increasing people's standards. The current higher oil price provides fiscal stability, so it is a good opportunity for the countries of the Arabian Gulf to face this fundamental challenge. All countries have articulated ambitious development plans. The realization of the planned goals, and in particular the creation of jobs for its citizens, is to make local workers more productive, thereby increasing their attractiveness as employees. However, in order to achieve this, it will take a while to pass. In the short and medium term, some active labor market interventions may still be needed. This will require careful balancing of regulations, such as employment quotas for citizens and the need for policies to build incentives for employment growth in the private sector without creating unnecessary disturbances. In this regard, the analysis of labor market policy policies could provide an analytical basis for future policy formulation. In order to encourage the employment of nationals of the countries of the Arabian Gulf, the areas for consideration would be providing incentives for them to acquire the skills necessary for employment in the private sector, and assessing the suitability and calibration of taxes for foreign workers (for example, extending plans to increase work-license fees) in a way that minimizes.

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