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Does Country Risk Affect FDI to GCC Countries?

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ABSTRACT

This paper examines the long-and short-term impacts of country risk on FDI using co-integration and error correction models in GCC countries for the period from 2002 to 2015. We use three proxies for country risk: corruption, regulatory quality and political stability and absence of violence. The evidence suggests a positive long-term impact of fighting corruption and improving political stability and absence of violence on the attractiveness of host countries to FDI. Surprisingly, quality of regulations variable negatively affects FDI. The results of our study suggest that policy makers could attract more FDI to GCC countries through directing efforts toward combatting corruption and enhancing political stability which may help GCC economies attract more FDI.

Keywords: Country risk, corruption, FDI, political stability, regulatory quality

INTRODUCTION

Many academics and politicians argue that Foreign Direct Investment (FDI) is beneficial to finance economic growth and create job opportunities in the host economies. The volume of FDI flow to host countries usually reflects the attractiveness of this country to foreign investors. FDI is considered more risky than short credits and portfolio investments because projects undertaken by Multinational Corporations (MNCs) are usually costly, irreversible and very difficult to sell. Hence, MNCs consider all types of risks when they decide to invest in a country and country risk is one of those crucial risks in developing countries.

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Country risk refers to political risks that affect MNCs at the project or corporate level but originate at the country level (Eiteman, Stonehill, & Moffett, 2010). As country risk increases, the uncertainty of investors and firm's mangers increases which consequently increases the return required by investors. This will consequently decrease managers' desire to carry out FDI. According to the International Country Risk Guide (ICRG) published by the Political Risk Services (PRS) Group, country risk includes political risk, financial risk, and economic risk.

On the theoretical side, several studies analyzed FDI by incorporating the concept of country risk into the model (Aizenman & Marion, 2004; Albuquerque, 2003; Broll & Zilcha, 1992; Marjit, Broll, & Mallick, 1995; Raff & Srinivasan, 1998; Schnitzer, 1999; Straub, 2008; Thomas & Worrall, 1994). They suggest that lower country risk should attract more FDI. However, the empirical investigation on the relationship between FDI and country risk (Abadie & Gardeazabal, 2008; Asiedu, Jin, & Nandwa, 2009; Bevan & Estrin, 2004; Carstensen & Toubal, 2004; Fosfuri, 2004; Janicki & Wunnava, 2004; Mancuso, Dirienzo, & Das, 2010; Mody & Srinivasan, 1998; Wheeler & Mody, 1992; Yang, 2008) has shown mixed and conflicting results.

There are two main strands in the literature that explains FDI location decision. The first strand is based on external factors while the other relates this decision to internal factors. Among the early attempt to link FDI location decision to external factors are classical and neo-classical economists who recognise immobility of assets and least cost theory as determinants of location attraction. Also, Industrial organizational theory focuses on environment and industry-based factors of attraction in explaining the strategic location decision of firms. However, the eclectic paradigm of Dunning (2001) states that firms have a triangle of interrelated advantages that determine the extent and pattern of international production at any one time. One of those advantages is the location attractiveness of an area for undertaking the value-adding activities of MNEs, such as the existence of raw materials and low wages. Agglomeration economics and cluster theory explains FDI location decision based on the unevenness of natural resources and, more generally, production factors across locations (Fujita & Thisse, 2002). In addition, factor endowments-based trade theory argues that FDI is attracted to countries with lower wages and more abundant natural resources. The new trade theory suggests that the main driving forces of FDI are economies of scale, and agglomeration effects often play a crucial role.

Center to this article is the role of host institutions in FDI location decision. The industrial organization theory argues that firms' FDI location choice is guided by not only industry and markets but also institutions. Hence, institutions influence the FDI location choices of MNEs in a number of ways. First, the institutional environment directly affects

the operating environment for business through barriers to market entry, regulatory conditions and taxation systems. Such factors will increase cost and inefficiencies and are likely to deter FDI (Habib & Zurawicki, 2002; Robertson & Watson, 2004). Second, unreliable institutional environment will increase uncertainty and reduce environment predictability (Buthe & Milner, 2008). However, institutions may play a supportive role in attracting FDI, by providing regulatory or financial incentives.

The empirical evidence on the impact of country risk on FDI, however, is mixed. Many articles suggest that country risk and its components have no impact on FDI. For example, Wheeler and Mody (1992) and Busse and Hefeker (2007) found that corruption was insignificant determinant of FDI. Noorbakhsh, Paloni, and Youssef (2001) found no significant effect of democracy and political risk on FDI. On the same vein, Asiedu (2002) found insignificant impact for political expropriation risk on FDI. Also, Kolstad and Tondel (2002) found that government stability, bureaucracy, external conflicts, legal order, and military power in politics did not affect FDI. Busse and Hefeker (2007) could not find significant impact of corruption on FDI. More recently, Iloie (2015) found no link between country risk, FDI and corruption for 14 countries in Central and Eastern Europe.

The overwhelming evidence, however, suggests that an aggregate measure of country risk and its components negatively affect FDI. For instance, Gastanaga, Nugent and Pashamova (1998) found that lower corruption levels and less expropriation risk significantly led to higher FDI. Moreover, Daude and Stein (2007) found positive and significant relationship between institutional quality and FDI. Busse and Hefeker (2007) found that government stability, internal and external conflicts, corruptions and ethnic tensions, law and order, democratic accountability of the government and the quality of the bureaucracy were very significant determiners of FDI. Furthermore, Hayakawa, Kimura, and Lee (2013) suggested that socio-economic conditions, investment profile and external conflict were the strongest determinants of FDI. Likewise, Baek and Qian (2011) found that high level of accountability and better investment profile positively affected FDI. Similarly, Sedik and Seody (2012) found that regulatory quality seemed to have positive and significant effects on FDI. Furthermore, Erkekoglu and Kilicarslan (2016) found that better regulatory quality significantly attracted more FDI.

Surprisingly, a number of articles document that higher country risk attracts more FDI. For example, Sedik and Seody (2012) found that higher level of political risk positively and significantly affect FDI. Moreover, the evidence from Subasat and Bellos (2013) suggested that poor regulations encouraged FDI as they showed that regulatory quality variable had a negative and marginally significant impact on FDI. Besides, Kolstad and Tondel (2002) documented a positive impact of corruption on FDI. Moreover, Erkekoglu

and Kilicarslan (2016) found that an increase in political stability and absence of violence and management effectiveness had reduced the FDI.

While the country risk impact on FDI flows to developing countries has been analyzed extensively, it is surprising that research on the long-term and short-term relationships between country risk and FDI has received rather limited attention. Hence, the contribution of this article is twofold. First, it uses co-integration and error correction models to test the long and short-term impacts of country risk on FDI. Second, previous studies use large sets of countries to examine the impact of country risk on FDI. This gives contradictory and difficult to interrupt results. Hence, we investigate the long and short-term impacts of country risk on FDI in a homogeneous set of oil producing countries of Gulf Cooperation Council (GCC) countries.

GCC countries share similar characteristics whether economically or politically. Economically, GCC countries have a great dependency on hydrocarbon exports which makes them exposed to their price shocks. Moreover, most of the inward FDI to them concentrates in the oil industry (Ramady, 2013). Those countries also share almost similar regulatory and law frameworks and governmental institutions. They are surrounding by unstable neighbors who largely affected by the Arab Spring started in 2011. Therefore, understanding the factors affecting FDI to GCC countries is very crucial for policymakers to ensure the welfare of GCC citizens and stability in the countries.

In the present paper, we use three proxies for country risk; corruption, regulatory quality measured by investment profile, and political stability and absence of violence measured by government stability, internal conflict, external conflict, ethnic tensions, in addition to a set of control variables. Using panel co-integration test, we find that a lower level of corruption and better quality of regulations increase FDI. Moreover, the increase in GDP growth leads to larger FDI. Surprisingly, political instability and violence attracts more FDI to GCC countries. This can be explained by the fact that foreign firms consider political instability and violence transitory and short lasting and MNEs react by increasing their FDI in GCC countries. Error correction model proves a short run positive impact of GDP growth on FDI flow to GCC countries.

The reminder of this paper is organized as follows. The following section describes the examined variables and methodological framework used to explore the impact of country risk on FDI. Next, we report and discuss our main empirical results. Then, we conclude and suggest some policy implications and venues for future research.

METHODOLOGY

This research examines the impact of Political Risk on FDI on GCC countries which includes United Arab Emirates, Saudi Arabia, Bahrain, Qatar, Kuwait, and Oman. The examined variables were collected from two sources: economic variables were collected from World Bank database while country risk variables collected form International Country Risk

Guide (ICRG) provided by Political Risk Services group (PRS) from 2002 until 2015. This paper used three indexes for country risk; corruption, regulatory quality and political stability and absence of violence. The scale of risk indexes range from 0 to 1, the lower value indicates higher risk and vice versa.

Figure 1 illustrates the level of FDI net inflows (FDI as % of GDP) to GCC countries during the period 2002 to 2015. It shows that Bahrain enjoys the highest average FDI as percentage of GDP with 4.925%. In contrast, Kuwait has the lowest average FDI inflows with 0.575% of its GDP. The remaining four countries record almost the same percentage of FDI to GDP.

We use panel data techniques to test the effect of political risk on FDI including the unit root test, co-integration test, and error correction model. The error correction model used in this research can be expressed in two equations; Equation [1] represents the long-term model while equation [2] tests the short-term model.

$$FDI_t = a_0 + \sum_{j=1}^{p_i} \varphi_1 FDI_{i,t-j} + \sum_{j=1}^{p_i} \varphi_2 CRI_{i,t-j} + \sum_{j=1}^{p_i} \varphi_3 G_{i,t-j} + \sum_{j=1}^{p_i} \varphi_5 ST_{i,t-j} + \sum_{j=1}^{p_i} \varphi_4 OP_{i,t-j} + \varepsilon_{i,t} \quad [1]$$

$$\Delta FDI_t = a_0 + \sum_{j=1}^{p_i} \beta_1 \Delta FDI_{i,t-j} + \sum_{j=1}^{p_i} \beta_2 \Delta CRI_{i,t-j} + \sum_{j=1}^{p_i} \beta_3 \Delta G_{i,t-j} + \sum_{j=1}^{p_i} \beta_4 \Delta ST_{i,t-j} + \sum_{j=1}^{p_i} \beta_5 \Delta OP_{i,t-j} + \lambda_1 ECT_{i,t-j} + \varepsilon_{i,t} \quad [2]$$

Where:

FDI: represents net inflows of foreign direct investment as proportion of gross domestic product,

CRI: country risk index (as measured by corruption index CC, regulatory quality RQ or political stability and absence of violence PV),

G: economic growth measured by annual percentage growth rate of GDP at market prices based on constant local currency,

OP: trade openness measured by the ratio of imports to GDP (% of GDP) and

ST: is the number of start-up procedures to register and start a business.

$\boldsymbol{\varphi_i}$ represents the coefficients on long-run for research variables, and the $\boldsymbol{\beta_i}$

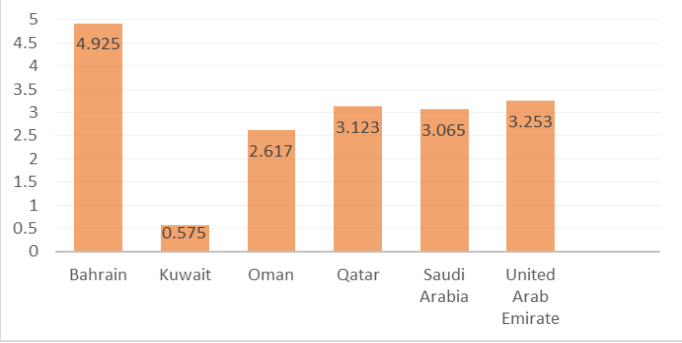

Figure 1. Average FDI (as % of GDP) to GCC countries

represent the coefficients on short- run. Where i=1,…..,N represents cross sectional panel members, over period t . p_i is the number of lag.

ECT is the error correction term lagged one period obtained from the long-run equation. It represents the adjustment coefficient, and must be significant, negative, less than one to prove the long-run relationship.

ε_t is serially uncorrelated disturbance with zero mean and a constant variance.

RESULTS AND DISCUSSION

Table 1 contains a summary of descriptive statistics for all research variables including the mean, median, standard deviation and Jarque-Bera test. It can be seen that Bahrain has recorded the highest average percentage for FDI to GDP (FDI) amongst GCC countries of 4.925%, followed by United Arab Emirates 3.253%, Qatar 3.123%, Saudi Arabia 3.065%, Oman 2.617%, Kuwait 0.575%.

Qatar has reached an extraordinary annual average economic growth of 11.542%, which is the highest among all GCC economies. United Arab Emirate and Oman have the lowest annual average economic growth with 4.558% and 3.211% respectively. United Arab Emirate outperforms the rest of GCC economies in terms of openness as measured by the percentage of imports to GDP with an annual average of 63.714 % followed by Bahrain 54.717%, Oman 38.079%, Saudi Arabia 30.657%, Qatar 29.613% and Kuwait 29.236%. Qatar has the lowest annual average value of regulatory quality index with 0.816 while Oman and United Arab Emirate have the highest annual average amongst GCC countries with 0.927 and 0.921 respectively.

We can note from Table 1 that all GCC countries have achieved high average values of the political stability and absence of violence index. The United Arab Emirates, Qatar and Oman have the highest values of 0.848, 0.845, and 0.821 respectively. Bahrain, Kuwait and Saudi Arabia have the lowest values of 0.768, 0.762, and 0.762 respectively. Likewise, the annual average of corruption index is nearly the same between GCC countries. Qatar, United Arab Emirates and Kuwait have the highest annual average with 0.448, 0.447 and 0.442 respectively. However, Oman, Bahrain and Saudi Arabia have the lowest annual average of 0.426, 0.383 and 0.380 respectively.

We apply normality test to all variables using Jarque-Bera test. The results show that the null hypothesis of normality cannot be rejected for all the variables across all GCC countries (except regulatory quality for Oman and Qatar, FDI for Bahrain, and corruption index in Oman). Therefore, we can conclude that almost all the variables in all the GCC countries follow the normal distribution.

Table 2 presents the correlation matrix between the tested variables. The correlation coefficients between regulator quality (RQ) and FDI is positive and significant at 10% which indicate a positive relationship between the variables. Similar positive relationship between political stability and

Table 1
Descriptive analysis for research variables

		RQ	PV	CC	FDI	ST	OP	G
	Mean	0.912	0.768	0.383	4.925%	7.000	54.717%	5.142%
	Median	0.950	0.780	0.330	3.006%	7.000	56.028%	5.412%
Bahrain	Std. Dev.	0.062	0.088	0.074	4.024%	0.000	7.244%	1.862%
	Jarque-Bera	3.265	0.683	2.030	7.062	NA	1.294	0.575
	Probability	0.195	0.711	0.362	0.029	NA	0.523	0.749
	Mean	0.858	0.762	0.442	0. 575%	12.69	29.236%	4.883%
	Median	0.910	0.740	0.500	0. 289%	13.000	28.317%	5.991%
Kuwait	Std. Dev.	0.106	0.073	0.072	0. 717%	0.480	3.669%	6.526%
	Jarque-Bera	1.719	1.185	1.717	2.024	2.427	0.949	0.100
	Probability	0.423	0.553	0.423	0.363	0.297	0.621	0.951
	Mean	0.927	0.821	0.426	2.617%	8.461	38.079%	3.211%
	Median	0.950	0.840	0.420	2.120%	8.000000	37.1806%	3.913%
Oman	Std. Dev.	0.050	0.027	0.022	2.318%	2.503	7.371%	3.335%
	Jarque-Bera	31.63	5.990	57.239	1.800	2.005	0.914	0.723
	Probability	0.000	0.050	0.000	0.406	0.366	0.632	0.696

Table 1 *(Continue)*

		RQ	PV	CC	FDI	ST	OP	G
Qatar	Mean	0.816	0.845	0.448	3.123%	7.500	29.613%	11.542%
	Median	0.820	0.850	0.420	3.250%	7.000	28.876%	9.725%
	Std. Dev.	0.013	0.0169	0.108	2.622%	0.650	3.718%	7.479%
	Jarque-Bera	73.90	4.100	2.846	0.682	1.813	0.948	1.197
	Probability	0.000	0.129	0.241	0.710	0.403	0.622	0.549
Saudi Arabia	Mean	0.893	0.762	0.380	3.065%	14.642	30.657%	5.430%
	Median	0.910	0.770	0.330	2.048%	13.000	30.499%	5.481%
	Std. Dev.	0.0297	0.036	0.065	2.955%	2.62	5.051%	2.894%
	Jarque-Bera	4.346	0.761	1.818	1.230	2.209	0.773	0.490
	Probability	0.113	0.683	0.402	0.540	0.331	0.679	0.783
United Arab Emirate	Mean	0.921	0.848	0.447	3.253%	8.385	63.714%	4.558%
	Median	0.950	0.860	0.420	2.709%	9.000	69.646%	4.570%
	Std. Dev.	0.048	0.026	0.130	2.147%	1.660	12.636%	3.977%
	Jarque-Bera	4.869	2.296	1.588	0.793	1.428	1.547	2.118
	Probability	0.087	0.317	0.451	0.672	0.489	0.461	0.347

Note: FDI is proxied by net inflows of foreign direct investment as proportion of gross domestic product. CC represents corruption index, RQ represents regulatory quality measured by Investment profile, PV presents political stability and absence of violence measured by government stability, internal conflict, external conflict, ethnic tensions, G presents economic growth measured by annual percentage growth rate of GDP at market prices based on constant local currency, OP presents trade openness measured by the ratio of imports to GDP (% of GDP) and ST presents number of start-up procedures to register and start a business.

Table 2
Correlation matrix between variables

Correlation	FDI	RQ	CC	PV	G	ST	OP
IFDI	1.000000						

RQ	0.188753	1.000000					
	0.0936	-----					
CC	-0.352105	-0.326802	1.000000				
	0.0014	0.0031	-----				
PV	0.154797	0.418406	-0.171197	1.000000			
	0.1704	0.0001	0.1289	-----			
G	0.268600	-0.116958	-0.213159	0.286562	1.000000		
	0.0160	0.3015	0.0576	0.0100	-----		
ST	-0.244656	0.082959	-0.234443	-0.268136	-0.119782	1.000000	
	0.0287	0.4644	0.0363	0.0162	0.2899	-----	
OP	0.283696	0.323690	0.123414	0.221283	-0.188461	-0.538608	1.000000
	0.0108	0.0034	0.2754	0.0485	0.0941	0.0000	-----

absence of violence and FDI is documented although it seems insignificant. Surprisingly, higher level of corruption fighting seems to discourage FDI. Moreover, higher levels of economic growth and openness increase FDI while more start-ups decrease the attractiveness of the host country to FDI. The correlation coefficients between the independent variables themselves are either low or insignificant which precludes the problem of multicollinearity.

Before proceeding to the co-integration test for the long-term relationships between country risk variables and FDI, we conduct unit root tests as a priori condition to run the co-integration test. Table 3 presents the results of unit root test that conducted through Phillips-Perron (PP) test to determine the integration level of the tested variables.

As shown from table 3, we can reject the null hypothesis of unit root test at first difference for all the research variables. Therefore, we can conclude that all research variables are integrated at the first difference. This means there is long run relationship between FDI, country risk variables and control variables. The Johansen co-

Table 3
Phillips-Perron panel unit root test results

Variable	Test	At level		At first difference	
		Statistic	Prob.	Statistic	Prob.
cc	PP - Fisher Chi-square	3.23153	0.9937	43.8219	0.0000
	PP - Choi Z-stat	2.93919	0.9984	-4.63372	0.0000
PV	PP - Fisher Chi-square	13.3313	0.3454	75.5749	0.0000
	PP - Choi Z-stat	-0.28999	0.3859	-6.55376	0.0000
RQ	PP - Fisher Chi-square	16.1777	0.1832	80.3401	0.0000
	PP - Choi Z-stat	-0.12657	0.4496	-6.79758	0.0000
FDI	PP - Fisher Chi-square	10.7501	0.5504	43.4288	0.0000
	PP - Choi Z-stat	-0.43021	0.3335	-4.50221	0.0000
G	PP - Fisher Chi-square	25.4086	0.0130	96.1931	0.0000
	PP - Choi Z-stat	-2.69685	0.0035	-8.25202	0.0000
ST	PP - Fisher Chi-square	4.27180	0.9343	44.0402	0.0000
	PP - Choi Z-stat	1.32817	0.9079	-4.59876	0.0000
OP	PP - Fisher Chi-square	12.8162	0.3825	43.8041	0.0000
	PP - Choi Z-stat	-0.30692	0.3795	-4.49338	0.0000

integration test is used to investigate the existence of long run relationship between FDI and country risk along with economic control variables in GCC countries.

Table 4 presents a test of the number of co-integration relationships between the tested variables. It can be clearly seen that the null hypothesis of the existence of no co-integration equation is rejected in favour of the alternative of one or more co-integration equation. However, the results of Trace test and maximum Eigen-test shown in table 4 indicate that there is only one co-integration relationship between FDI and country risk

Table 4
Test of number of co-integration equations

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	Max-Eigen Statistic
None *	0.693863	139.9621***	73.39083***
At most 1	0.417604	66.57124	33.51752
At most 2	0.221200	33.05372	15.50008
At most 3	0.144562	17.55364	9.680776
At most 4	0.088107	7.872865	5.718390
At most 5	0.034043	2.154474	2.147425
At most 6	0.000114	0.007049	0.007049

Note: *** indicates significance at 1% level, ** indicates significance at 5%

variables along with economic control variables.

This research uses the error correction model to detect the long run and short run effect of FDI and country risk variables along with economic control variables. The results of equations [1] and [2], of the long and short-term models are provided in Table 6.

Before proceeding to the error correction model, the lag order selection criteria has been applied to determine the optimal lag for the model. Table 5 presents the lag order selection criteria using Akaike information criterion (AIC), Schwarz information criterion (SC) & Hannan-Quinn information criterion (HQ) for the three models. The results from all lag order selection criteria show that only lag one is significant in all three models. Hence, the optimal lag that should be used in the research models is one.

Table 6 shows the results of error correction models for three country risk proxies: corruption, regulatory quality and political stability and absence of violence. The results from both the co-integration and error correction estimation in model 1 show that the regulatory quality index does not have significant impact on FDI whether on long or short run.

On the other hand, the results of co-integration estimation in model 2 illustrate that the long-run coefficient of FDI on corruption index is positive and statistically significant at 1% level. This indicates that a lower level of corruption increases FDI. This is consistent with Gastanaga et al. (1998), Busse and Hefeker (2007), Hayakawa et al. (2013), Sedik and Seody (2012), and Erkekoglu and Kilicarslan (2016). Moreover, the value of the error correction term, from the results of short-term estimation in model 2, of -0.494290 is less than one and significant at 1% level which proves the long-run relationship between FDI and country risk as measured

Table 5
Lag order selection criteria

Lag	Model 1			Model 2			Model 3		
	AIC	SC	HQ	AIC	SC	HQ	AIC	SC	HQ
0	21.35336	21.53420	21.42347	21.50690	21.68773	21.57701	21.16686	21.34769	21.23696
1	15.95503*	17.04004*	16.37569*	15.66830*	16.75331*	16.08895*	14.91364*	15.99865*	15.33429*
2	16.52036	18.50954	17.29156	16.21853	18.20771	16.98973	15.49415	17.48334	16.26536
3	16.84204	19.73540	17.96379	16.30905	19.20241	17.43080	15.78299	18.67635	16.90474
4	17.23987	21.03741	18.71217	16.71743	20.51496	18.18972	15.95375	19.75128	17.42604

by corruption index. The negative sign of error correction term indicates that the equilibrium relationship comes back on long run to the stable state if the system is ever shocked.

Furthermore, the results of co-integration estimation in model 3 show that the long-run elasticity of political stability and absence of violence index to FDI is positive and statistically significant at 1% level which is consistent with Busse and Hefeker (2007) but is inconsistent with Sedik and Seody (2012) and Erkekoglu and Kilicarslan (2016).

As noted from the results of error correction models, there is no significant impact of economic growth on FDI in GCC countries. This result indicates that economic growth does not play any role in promoting FDI in GCC countries. Moreover, the models results confirm that start-up activities and country openness do not have any positive and significant effect on attracting FDI in GCC courtiers either on long run or on short run. These results contradict Demirhan and Masca (2008), and Erkekoglu and Kilicarslan (2016).

CONCLUSIONS

This paper examines the long and short-term impact of three proxies of country risk in addition to control variables on FDI using co-integration and error correction models. It provides evidence supporting the positive impact of fighting corruption and improving political stability and absence of violence on the attractiveness of the host country to FDI. Surprisingly, regulatory quality index does

Table 6

Johansen panel co-integration and vector error correction estimates

		Model 1 CR measured by RQ	Model 2 CR measured by CC	Model 3 CR measured by PV
Co-integrating Equation Estimation	FDI(-1)	1	1	1
	RQ(-1)	-11.40405		
	CC(-1)		15.88451***	
	PV(-1)			57.57904***
	G(-1)	-1.042231***	-0.113909	-1.669213***
	ST(-1)	-0.221207	0.197822	-0.640413
	OP(-1)	0.003417	-0.054104	-0.254357**
	C	25.87697	-8.845593	-22.22340
Error Correction Estimation	CointEq1	-0.066219	-0.494290***	0.015876
	D(FDI(-1))	-0.085043	0.138787	-0.114644
	D(RQ(-1))	1.118617		
	D(CC(-1))		-1.232288	
	D(PV(-1))			5.120955
	D(G(-1))	0.029563	0.035822	0.067735
	D(ST(-1))	-0.221207	-0.246453	-0.181608
	D(OP(-1))	0.003417	-0.029516	-0.001755
	C	-0.065738	-0.04775	-0.033771
	R-squared	0.060005	0.233317	0.050001
	Adj. R-squared	-0.032453	0.157906	-0.043442
	F-statistic	0.648998	3.093927	0.535093

Note: *** *indicates significance at 1% level,*
** *indicates significance at 5%,*
* *indicates significance at 10%*

not affect FDI. This result may be explained by the high levels of regulatory quality and small variations in the variable in GCC countries. Furthermore, the findings of this research conclude that economic growth, startup activities and country openness do not have any effect on attracting the FDI in GCC countries. These findings could be due to the fact that most FDI in GCC countries goes toward hydrocarbon sector. These results have important implications for policy makers in GCC countries who should work together to develop and formulate policies to attract FDI to non-oil sector.

The results of our study may help policy makers attracting more FDI to GCC countries through concentrating on fighting corruption and enhancing political

stability. That is, efforts should be directed toward combatting corruption and violence, which may help GCC economies to receive more FDI. The insignificant coefficient on regulatory quality index does not hint that GCC countries should worsen their regulatory quality to attract more FDI but it means that those countries enjoy high scores in regulatory quality and that a very little can be done in this direction.

A future avenue for research would be to look at the reverse direction of the relationship that goes from FDI to country risk variables. Moreover, the unexpected sign for regulatory quality index on FDI could pose questions for further study. Furthermore, this study was limited by the availability of data from ICRG for GCC countries. Future studies should use other proxies for country risk, such as those produced by Roubini Global Economics (RGE) and suggested by (Brown, Cavusgil, & Lord, 2015), and could apply a longer time period and control for more variables including other political factors, currency and exchange rate risks.

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