

**Response to Referee Reports on
“Are the GCC FDI Location Determinants Favorable?”**

I am grateful to the two referees for their useful comments on the manuscript. Before I respond to these comments, I must clarify that this submitted manuscript is an earlier version of Mina (2007a), which already took account of some comments the referees make relating to variable omission, style, and discussion of results. By submitting an earlier version of Mina (2007a) as well as the underlying dataset, I meant to invite discussions and stimulate interested scholars to consider research on this interesting and largely unexplored region of the world.

Referee 1:

Referee 1 raises the issues of a) the policy conclusion on education policies in light of the surprising result of the negative influence of education on FDI, limited set of observations, and suspicious econometric results; b) model misspecification as a result of variable omission (especially oil); and c) potential endogeneity between FDI and trade. The referee also wonders about d) how this paper would really be different from Mina (2007a).

A. Policy Conclusion on Education

Let me first clarify that I meant that GCC policy makers, with technical assistance from international organizations, need to take another look at the effectiveness of education policies in building the necessary human capital. As a matter of fact, the quality of education and training and the degree of innovation are lagging in the GCC countries as reflected in the 2007 Global Competitiveness Index (GCI) and discussed in Mina (2007b; 2007c). In fact education quality and innovation affect the GCC countries abilities to do business. According to GCI, businesses in five GCC countries (Bahrain, Kuwait, Oman, Qatar, and UAE) have ranked the inadequately educated workforce and poor work ethic in the national workforce among the most problematic areas for doing business. So in light of this information the empirical results obtained in the paper are not a total surprise.

An alternative measure of human capital, the percentage of tertiary school enrollment, was used in robustness checks though unmentioned in the manuscript. The coefficient estimates were highly insignificant in the three models using the same and a number of other specifications that included variations of the dependent variable, such as FDI flows and stocks in absolute and relative terms, and different sets of explanatory variables.

B. Model Specification

I agree with the referee's comment and have already addressed it in Mina (2007a) where I include different specifications to account for oil potential, utilization, the relative degree of oil utilization, and oil prices.

C. FDI and Trade

Thanks for this point! I will take care of it in the future extension of the paper.

D. Difference between Mina (2007a) and Submitted Manuscript

I have responded to this point above.

Referee 2:

Referee 2 raises the issues of a) FDI aggregate data versus industry level data; b) variable omission; c) inclusion of market size of proximate countries; d) human capital surprising result unexplained and arbitrariness of policy implication; e) review of related literature; f) endogeneity of explanatory variables; and g) devoting more space for the discussion of the results and their robustness.

A. FDI Industry Level Data

I concur with the referee's point, but such data do not exist for the time being.

B. Variable Omission

I have already accounted for factor abundance and infrastructure in Mina (2007a). On the governance indicators, I have already experimented with bureaucratic quality,

corruption, in addition to democratic accountability, but the stepwise approach to model specification has dropped them. I would like also to point out that I have accounted more of the region's characteristics in Mina (2007a), and in Mina (2007b; 2007c).

C. Proximate Countries Market Size

This is another interesting point and the subject of future extension of this paper.

D. Human Capital Result and Policy Implication

Please see my response to these points above.

E. More Thorough Literature Review

I concur with the point if the data allow me to examine FDI at the industry level.

F. Endogeneity of Explanatory Variables

The suggested approach has been actually adopted in Mina (2007d) in which I examine the influence of bilateral investment treaties on FDI.

G. Discussion of Results and Robustness

I will take that into account in the future extension and development of the paper.

References

- Mina, W., 2007a. The location determinants of FDI in the GCC countries. *Journal of Multinational Financial Management* 17 (4), 336-348.
- Mina, W., 2007b. FDI performance and the influence of location factors in the GCC countries, in Eckart Woertz (ed.), *Gulf Geo-Economics*, Dubai: Gulf Research Center.
- Mina, W., 2007c. The success of Bahrain and Qatar in the FDI challenge of globalization, mimeo.
- Mina, W., 2007d. Bilateral investment treaties and FDI: the GCC experience. Paper presented at Singapore Economic Review Conference 2007, 2–4 August.